



De La Rue Annual Report 2003  
Secure transactions for a changing world

## Contents

### Reviews

- 1 De La Rue 2003
- 2 Our Business in 2002/2003
- 4 Review: Secure Transactions for a Changing World
- 12 Chairman's Statement
- 13 Chief Executive's Review
- 16 Operational Reviews
  - Security Paper and Print
  - Cash Systems
  - Global Services
- 21 Financial Review
- 23 Environment, Health and Safety
- 27 Directors and Secretary

### Financials

- 28 Directors' Report
- 32 Corporate Governance
- 37 Remuneration Report
- 43 Auditors' Report
- 44 Group Profit and Loss Account
- 45 Balance Sheets
- 46 Group Cash Flow Statement
- 47 Group Statement of Recognised Gains and Losses/Reconciliation of Movements in Shareholders' Funds
- 48 Accounting Policies
- 50 Notes to the Accounts
- 70 Principal Subsidiaries, Branches and Associated Companies
- 72 Five-Year Record Shareholders' Information

## Trading Summary

	2003	2002
Turnover – continuing operations	£582.7m	£641.7m
– discontinued operations	–	£9.5m
	£582.7m	£651.2m
Operating profit* – continuing operations	£38.0m	£77.6m
– discontinued operations	–	(£1.4m)
	£38.0m	£76.2m
Profit before tax* and exceptional items	£48.1m	£90.6m
Headline earnings per share	18.9p	34.4p
Dividend per share	13.6p	13.4p
Net funds	£8.2m	£50.0m

- Profit before taxation, exceptional items and goodwill amortisation of £48.1m\*, in line with February 2003 trading statement, but down from £90.6m\* last year.
- Free cash flow of £72.7m\*\* generated (2001/2002 £81.6m). The Group ended the year with net cash of £8.2m representing a net cash outflow of £41.8m.
- Final dividend maintained at 9.2p bringing full year dividend to 13.6p, an increase of 1.5 per cent on last year (2001/2002: 13.4p).
- Currency results down slightly on last year primarily due to the continuing weakness of the banknote paper market. Strong second half performance with closing order book slightly ahead of last year. Rationalisation of Security Products progressing to plan.
- Cash Systems' restructuring programme underway to reduce the cost base and underpin trading in current market conditions. Annualised cost savings of £7m are targeted from 300 redundancies at a cost of circa £8m.
- Global Services' new managing director, Peter Cosgrove appointed in March 2003 and strategic review of divisional business portfolio is now underway to determine the long-term attractiveness of each of its businesses.
- Total exceptional charge of £49.2m including cash costs of £24.0m (of which £12.7m is in 2003/2004). Non cash exceptional items of £25.2m includes £16.0m relating to the impairment of Currency Systems International acquisition and £1.3m in relation to the Group's investment in Valora.

\* Before exceptional charges of £49.2m (2001/2002 £13.1m gain) and goodwill amortisation of £3.6m (2001/2002 £2.8m)

\*\* Before dividends from associates, exceptional cash flows, capital expenditure, acquisitions, dividends and share buy back costs

# De La Rue 2003

De La Rue delivers cutting-edge expertise, founded on relevant experience, to help governments, banks and commercial organisations around the world create a more secure environment in which to operate when managing transactions of value.

With 6,600 people working in over 30 countries, we provide an unmatched spread of services.

Our focus is in three primary areas:

- **Securing monetary value.** We provide over 150 national currencies and other tokens of value such as travellers cheques and vouchers, making life easier for our customers and more difficult for the counterfeiter.
- **Enabling the efficiency and security of the money cycle.** Providing cash handling solutions enabling efficient processes and authentication.
- **Securing the identity of the individual.** More than ever, the world's governments need total security for their citizens. De La Rue has pioneered new technologies in the design, implementation and operation of high security national identity, driver's licence and passport issuing schemes. This enables both speed of movement and security for their citizens.

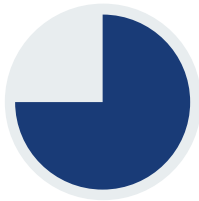
De La Rue is a unique business: the driving force behind many of the world's transactions and security solutions.



# Our Business in 2002/2003

## Products and Solutions: Sales Breakdowns by Business Stream

### Currency



- Banknote Printing 75%
- Banknote Paper 25%

### Cash Systems



- Financial Institutions 60%
- OEM 15%
- Currency Systems 15%
- Retail Payment Solutions 10%

The Customer Service business which services all business units represents c.30% of divisional sales

### Global Services



- Sequoia Voting Systems 42%
- Identity Systems 27%
- Holographics 20%
- Brand Protection 11%

## Divisions

### Security Paper and Print

#### Currency

De La Rue is the world's leading commercial producer of banknotes and aims to be the preferred partner of central banks for banknotes and banknote paper worldwide. We invest significantly to deliver the most appropriate and advanced security features, tailored to meet our customers' individual needs. The business offers banknotes, banknote paper, coins, currency management, anti-counterfeit consultancy and design and origination service.

#### Security Products

Provides a range of secure printed products, services and solutions to assist governments, banks and commercial organisations worldwide in their ongoing fight against organised counterfeit and fraud. Products include bonds and bearer securities, certificates of origin, cheques and drafts, holograms on cards, motor vehicle documentation, postage, revenue and fiscal stamps, secure substrates, security labels, signature panels, tax discs, traveller's cheques, vital records and vouchers.

### Cash Systems

De La Rue is a world leader in the provision of cash handling equipment, offering solutions to manage and support cash and other value transactions. The division offers a full set of solutions which incorporate hardware, application software and systems integration capabilities as well as services such as maintenance, facilities management and consultancy.

#### Financial Institutions

Offers self-service automation solutions, teller-assisted dispense and deposit systems, banknote and coin processing equipment, software for the back office and branch automation consultancy.

#### Retail Payment Solutions

Offers total solutions for managing cash, cheques, coupons and other payment media; from change dispensing and security at the point of sale, through to cash preparation and payment management in the cash office.

#### Currency Systems

Provides automated banknote handling, facilities management, cash handling consultancy, cash management application software and integrated cash management solutions and networking.

#### OEM

Provides note handling mechanisms – predominantly to automated teller machine (ATM) manufacturers.

The division is also supported by a Customer Service business which provides a consistent level of high quality service and support to our customers through our direct service operation and through indirect service.

### Global Services

Focuses on the markets of Identity Systems, Voting Systems and Brand Protection and brings together De La Rue's secure technologies expertise in print, high-security paper, holographics and tapes.

#### Identity Systems

Provides driver's licences and issuing systems, national identity cards and issuing systems, secure passports and issuing systems and visas.

#### Sequoia Voting Systems

With over 25,000 touch-screen and electronic voting machines in use across North America, Sequoia is one of the USA's leading suppliers of voting equipment, software, ballot printing and election services.

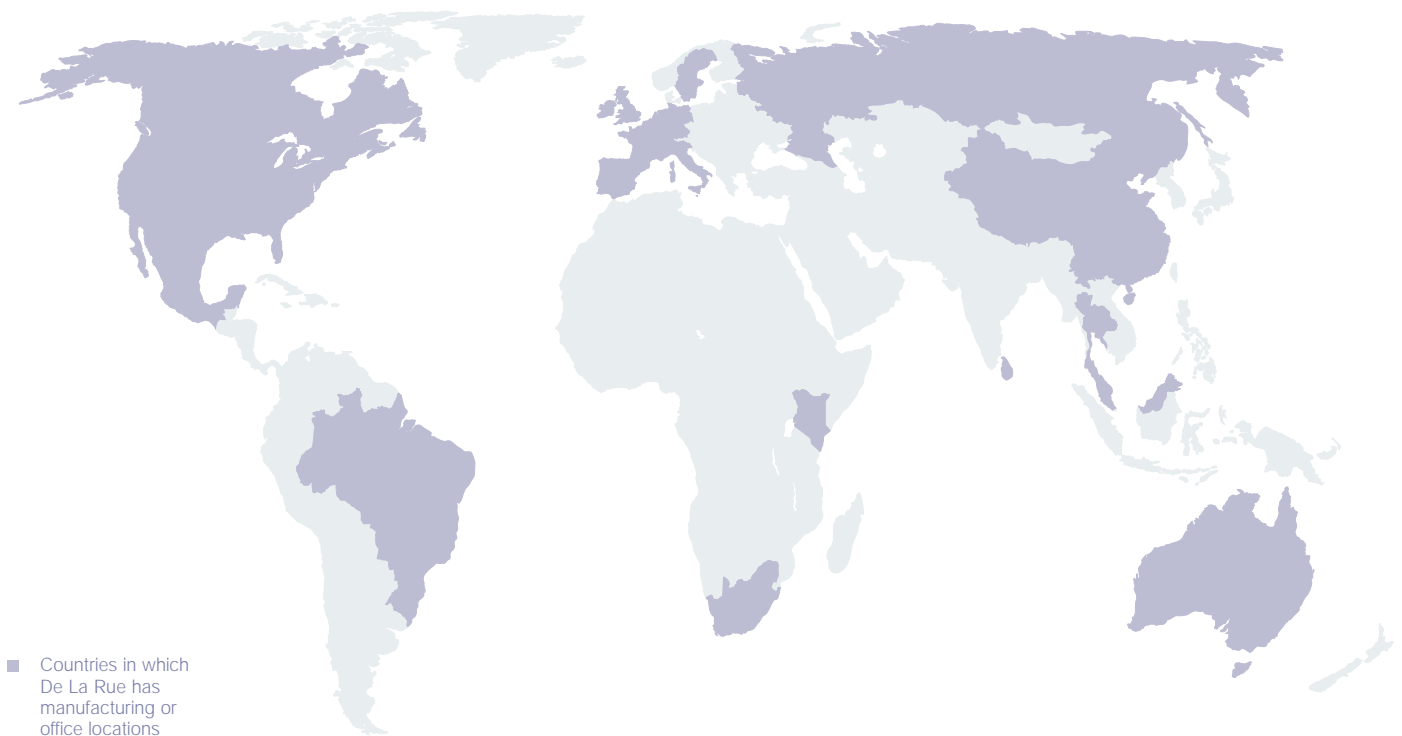
#### Holographics

Continues to supply security holograms to the manufacturers of euro banknotes. Its key markets are: holograms for high security banknotes, financial transaction cards, fiscal stamps and luxury brands.

#### Brand Protection

Provides anti-counterfeit and authentication, anti-tamper, brand enhancement, secure supply chain (anti-diversion), security shrink sleeves, speciality tear tapes and tamper evident holographic labels.

## Global Locations



### Security Paper and Print

#### Currency

Headquarters: Overton, UK.

Key Locations: Nairobi, Kenya; Zejtun, Malta; Malawana, Sri Lanka; Debden, UK; Gateshead, UK; Overton, UK.

#### Security Products

Headquarters: Basingstoke, UK.

Key Locations: Nairobi, Kenya; Lisburn, Northern Ireland; Bray, Republic of Ireland; Bathford, UK; Byfleet, UK; Dunstable, UK; High Wycombe, UK; Peterborough, UK; Westhoughton, UK; Dulles, USA.

### Cash Systems

Headquarters: Basingstoke, UK.

Key Manufacturing Hubs: Lisbon, Portugal; Flen, Sweden; Portsmouth, UK; Dallas, USA; Watertown, USA.

Key Sales & Service Centres: Sao Paulo, Brazil; Laval, Canada; Hong Kong, China; Paris, France; Frankfurt, Germany; Vianen, Netherlands; Madrid, Spain; Bern, Switzerland; Knutsford, UK; Chicago, USA; Dallas, USA. Also 40 local (sales and service) offices worldwide.

### Global Services

Headquarters: Basingstoke, UK.

Key Locations: Kuala Lumpur, Malaysia; Mexico City, Mexico; Basingstoke, UK; Albany, USA; Oakland, USA.

# Review




Secure transactions  
for a changing world



We live and work in a changing world. A global marketplace, always open for business in which technology is transforming our lives: from the work we do and the organisations we work for; to the way we communicate with each other and access goods and services.

De La Rue brings security to this marketplace, ensuring that individuals can have complete confidence in the tokens of monetary value they use to pay for goods and services, and in the documents that validate their personal identity. We provide the technology that enables banks to deliver the choice their customers demand – from 24-hour automated banking solutions to personal, face-to-face transactions in a secure environment.



## Secure currency for a world that never stops

At the mall, online or over the telephone – more people spend more money on a wider range of goods and services than ever before. The banknote remains their preferred method of payment, accounting for over 50 per cent of the world's transactions.

De La Rue helps keep this world moving. As the world's largest commercial security printer, we produce currency solutions for over 150 countries across all five continents. Our design and production facilities are impressive. Our market reputation is second to none: founded on strong relationships,

leading-edge technology and the flexibility needed to react to market trends.

Governments and central banks partner with De La Rue for many reasons: we understand our market and possess a wealth of technical expertise; we deliver solutions that work for them now and in the long term; we add value at every stage of the working relationship.

They trust our record in the development of anti-counterfeit measures. At a time when sophisticated colour copier, scanner and





Investment in foiling equipment allows De La Rue to offer high security holographic stripes on banknote paper.

printer technologies are widely available to would-be counterfeiters, De La Rue continues to invest in the latest anti-counterfeit features, from visible security features such as custom made watermarked papers, wide threads, fluorescing inks and holograms to covert and machine readable components detectable only by special equipment. The objective is always the same – to stay several steps ahead of the counterfeiter. >>>

## Review continued

De La Rue branded ATM systems make it possible for consumers to decide where, when and how they access cash and other related services.



Our teller automation solutions provide the security and reliability banks need for open-plan banking.



## Customer-friendly cash systems for a world that never sleeps

Predictions that e-commerce would erode the use of cash and replace traditional branch banking were exaggerated. Consumers still prefer to use cash, but demand greater choice in the way they access and spend it. Without effective management, however, cash is an expensive commodity for many organisations to process and authenticate. Retail banks in particular recognise that a multi-channel approach offers the best chance to earn customer loyalty and build market share.

De La Rue makes this multi-channel approach a reality – offering clients an unmatched range of cash handling solutions. Our point-of-sale teller solutions are currently being used by retail banks to support “dialogue” banking – a concept that removes traditional barriers to communication such as windows or grilles and brings customer and bank representative closer together. At the same time, De La Rue’s self-service branch banking facilities now make it possible for customers to complete a wide range of transactions in the lobby, 24-hours a day.

Automation and branch-based services are not incompatible. Far from it: they give consumers greater choice to decide where, when and how they access cash and other related services. As a market leader in point-of-sale solutions, a significant player in self-service banking, and the only cash systems business that works across the whole cash cycle, we have a major role to play in extending that choice. >>>



## State-of-the-art identity solutions for a world on the move

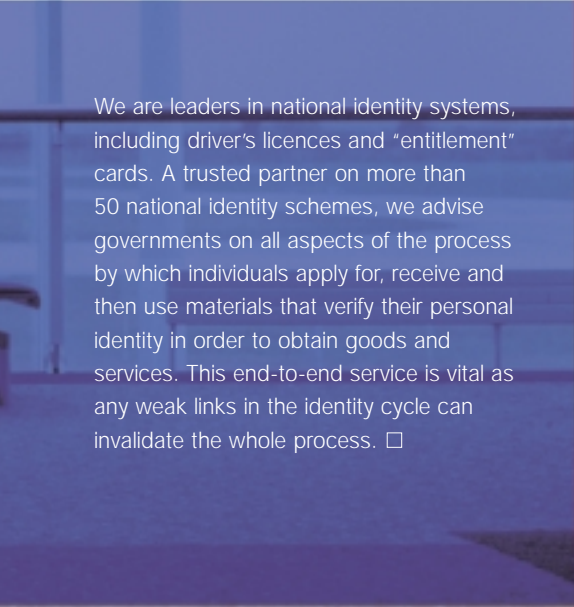
The events of "9/11" and the subsequent war against terrorism have pushed security up the agenda and into the public eye. At the same time, with greater volumes of goods and services on the move around the world than ever before, authentication is also a pressing issue.

For governments, De La Rue delivers a wide range of identity solutions – from secure passports to products such as excise and fiscal stamps, each playing

a vital role in preventing the loss of fiscal revenue from imported and exported goods through counterfeiting or smuggling. In this field, our record in the development of anti-counterfeit measures is second to none. The same innovation drives the development of voucher, cheque and traveller's cheque solutions for many of the world's leading retailers and financial institutions.



De La Rue's high security excise stamps bearing holographic and both overt and covert security features play a pivotal role in reducing counterfeiting and the movement of contraband goods.



We are leaders in national identity systems, including driver's licences and "entitlement" cards. A trusted partner on more than 50 national identity schemes, we advise governments on all aspects of the process by which individuals apply for, receive and then use materials that verify their personal identity in order to obtain goods and services. This end-to-end service is vital as any weak links in the identity cycle can invalidate the whole process. □



# Chairman's Statement



Sir Brandon Gough  
Chairman

## Group Results

Our results for the year to 29 March 2003 are a considerable disappointment, particularly in the light of our expectations at the beginning of the year. As 2002/2003 progressed, the extent to which a number of De La Rue's key markets had been affected by worsening economic conditions became progressively more apparent. In addition, market uncertainty introduced by the increased threat to global security during the latter part of the year further reduced already fragile confidence.

In the current difficult trading conditions the Board believes that the short-term emphasis in Cash Systems and Global Services should be on the restoration of profitability. This is being targeted through the implementation of the cost reduction programmes and more aggressive integration of recent acquisitions. This, together with the completion of a strategic review of Global Services' and Security Products operations, will be the focus for the current year.

## Dividend

Subject to shareholders' approval, the Board is recommending the maintenance of the final dividend at 9.2p per share, bringing the full year dividend to 13.6p per share, up 1.5 per cent on last year. The final dividend will be paid on 8 August 2003 to shareholders on the register on 11 July 2003. As previously outlined, the timing of payment of the interim dividend was brought forward from April to January in 2002/2003 to spread payments more equally over the year. As a result the Company made three dividend payments in the year ended 29 March 2003.

## Share Buy Back

As previously outlined, the Board has decided to use, where appropriate, the existing authorities granted to it to acquire shares for cancellation. During the year, the Company acquired and cancelled 13.9 million shares (7.1 per cent) under this programme and returned £38m to shareholders. The Board intends to seek shareholders' approval at the AGM on 17 July 2003 to renew its existing authority to repurchase shares to the upper limit of 14.99 per cent. The Board will continue to monitor the amount and timing of purchases in relation to market conditions and the Group's overall financial situation.

## Board Changes

In September 2002, we were pleased to announce the appointment of Stephen King as Finance Director. He was appointed as an executive Director of the Board with effect from 31 January 2003, joining De La Rue from Aquila Networks plc, formerly Midlands Electricity plc, where he was Group Finance Director since 1997. Prior to that he was Group Financial Controller of SEEBOARD plc and Group Chief Accountant at Lucas Industries plc. Stephen, 42, has a broad range of financial and commercial expertise and we look forward to his contribution to the Board.

## Outlook

Our expectations for 2003/2004 are unchanged and we expect underlying market conditions to remain at current levels throughout the year. In addition, 2003/2004 will be adversely affected by the anticipated increase in pension charges and unfavourable foreign exchange movements relating to manufacturing costs in Sweden. Despite this, underlying performance is expected to show some improvement in 2003/2004 as the benefits of the cost reduction programmes are delivered.

We continue to cut costs in our Cash Systems and Global Services division to underpin trading in the current market conditions. Currency's performance is expected to be broadly stable despite the adverse impact of the pension charge. The banknote paper business is expected to return to production levels closer to capacity, offset partly by reduced banknote volumes as anticipated overspill orders return to long-term average levels.

A handwritten signature in black ink, appearing to read 'Brandon Gough'. The signature is written in a cursive, slightly stylized font.

Sir Brandon Gough Chairman

# Chief Executive's Review



Ian Much  
Chief Executive

## Group Results

The Group's sales for 2002/2003 were £582.7m, £68.5m behind last year. Profit before tax, exceptional items and goodwill amortisation was also lower at £48.1m\*, down from £90.6m\* last year. As a result, headline earnings per share (excluding exceptional items) fell from 34.4p to 18.9p.

In the Security Paper and Print division, operating profits were down by £10.7m to £30.4m (before exceptional charges of £19.9m and goodwill amortisation credit of £0.2m). An expected weakening in the banknote paper market, together with a disappointing performance from the non-banknote Security Products business, impacted the full year result. Despite this, the underlying banknote business performed strongly and proved its resilience with another credible performance. In response to poor trading conditions in Security Products we announced our plans to rationalise its manufacturing operations. This programme, which involved closing our High Wycombe facility in the UK with the loss of about 350 jobs, has progressed in line with our expectations and as at 29 March 2003, 225 employees had left the business. We are on track to complete the closure of the site by the end of June 2003, and to have completed all associated work by September 2003.

The Group's financial performance was impacted by difficult trading conditions in the Cash Systems division where operating profits were sharply lower, down £24.4m to £11.6m (before exceptional charges of £26.5m and goodwill amortisation of £3.3m). Sales throughout Europe were poor, but particularly so in Germany and Spain where sharply worsening economic conditions further disrupted financial institutions' ordering patterns following the exceptional euro changeover business of 2001/2002. It is estimated that the euro changeover provided a benefit to the division in 2001/2002 of 8 per cent of sales. Sales in the US markets, however, were strong and increased 20 per cent on 2001/2002 levels. The Currency Systems business similarly experienced difficult trading conditions with sales of large sorters impacted by both adverse economic conditions in the eurozone and increased worldwide political uncertainty, particularly during the final quarter of the year.

The Global Services division continued to face difficult trading conditions and, in particular, was impacted by customer postponements of Identity Systems' projects and reduced banknote volumes in Holographics and a first year loss in Sequoia, our voting systems business acquired in May 2002. As a result, the division made an operating loss of £4.0m (before exceptional charges of £2.8m and goodwill amortisation of £0.5m). In March 2003, we appointed a new managing director of the division, Peter Cosgrove, who is undertaking a strategic review of the Global Services businesses together with the non-banknote security paper and print activities for which he has responsibility, with a view to determining the long-term attractiveness of each of these businesses.

Despite poor trading conditions, cash flow was a key strength of the Group during the year, with free cash flow of £72.7m\*\* generated (2001/2002 £81.6m\*\*). The Group ended the year with net cash on the balance sheet of £8.2m representing a net cash outflow of £41.8m. The performance was aided by a very strong reduction in working capital in the final quarter of the year.

## Restructuring Actions

In response to the difficult trading conditions this year and, in particular, the reduced profitability of the Cash Systems and Global Services divisions, we have announced several major programmes to improve cost effectiveness and efficiency of De La Rue's operations. By the end of 2003/2004, these programmes are targeted to achieve annualised savings of £18m. Specific restructuring actions are discussed in the Operating Reviews on pages 16 to 20.

\* Before exceptional charges of £49.2m (2001/2002 – £13.1m gain) and goodwill amortisation of £3.6m (2001/2002 – £2.8m)

\*\* Before dividends from associates, exceptional cash flows, capital expenditure, acquisitions, dividends and share buy back costs

# Chief Executive's Review continued

## Group Strategy

In the current difficult trading conditions the Board believes that the immediate emphasis in both Cash Systems and Global Services is on the restoration of profitability. This is being targeted through delivering the cost reduction programmes and more aggressively integrating recent acquisitions. In particular the acquisition of Currency Systems International, acquired in May 2001, has taken longer and been more difficult than expected. This, together with the completion of a review of Global Services' and Security Products operations, will be the focus for the current year.

The Group's longer-term strategy is to apply our knowledge and technologies in secure products, transactions and solutions to create sustainable value for the long term. We remain confident as to the strength of the currency printing and paper business and in our ability to develop increased value in the Cash Systems division both as market sophistication increases, and through an expansion of its geographical reach and product range. The acquisition of Papelaco (self-service banking automation) in May 2002 made a positive contribution in the full year and has enabled Cash Systems to occupy a unique position as the only cash handling business worldwide to operate across the whole of the cash-handling marketplace. This broad spectrum of solutions will enable De La Rue to advise its customers on the most effective cash handling solutions according to their requirements.

## Acquisitions

During the year Group expenditure on acquisitions was £33.4m.

In May 2002, Global Services acquired 85 per cent of Sequoia Voting Systems Inc. from Jefferson Smurfit Group plc. Sequoia is one of the largest providers of voting equipment and software, ballot printing and election services in the USA. The cash consideration was US\$23m (£15.2m) with a future payment of up to US\$12m (£8.0m) dependent on certain performance criteria, linked to sales growth, being met.

In June 2002, Cash Systems completed the acquisition of the banking automation business of Papelaco for €20.5m (£14.2m) having received the necessary regulatory approval from the Portuguese competition authorities. A future payment of up to €10.5m (£5.8m) is payable dependent on certain performance criteria, linked to sales and margin growth, being met.

In September 2002, Security Products acquired the entire share capital of House of Questa Ltd, a UK-based, high-security gravure printer, for a total consideration of £2.9m.

In February 2003 the Group acquired ERC, a software company based in the USA, for a total consideration of US\$1.4m (£0.9m).

## Associates

Profit from associates before interest and tax fell from £11.8m to £9.2m. The main associated company is Camelot, the UK lottery operator. Our share of Camelot's profit was expected to fall following the start of the second lottery licence in January 2002, and the decrease in De La Rue's effective shareholding from 26.67 per cent to 20 per cent. In addition, the new lottery licence has reduced shareholders' contribution from each 100p collected from around 1.0p to just under 0.5p. De La Rue's share of operating profits (before exceptional items) from Camelot was lower than last year at £8.6m (2001/2002 £11.7m).

Dividends received from associates of £9.0m were significantly lower than last year's income of £28.3m as last year Camelot paid out the remainder of retained profits which arose over the first licence period.

## Senior Management Changes

As previously announced, Pietro Armanini retired as Managing Director of Cash Systems on 31 March 2003 and was succeeded by Germain Roesch, 44, the previous Managing Director of Cash Systems' Financial Institutions (FI) business. Germain is an accomplished team-builder with a strong international



outlook and has an excellent understanding of Cash Systems' markets. The Board would like to take this opportunity to thank Pietro for his significant contribution to the division in his four years as Managing Director.

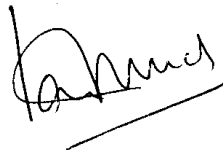
In March 2003, Peter Cosgrove was appointed as Managing Director of Global Services, following the resignation of Jon Marx. Peter, 39, joined De La Rue from Jefferson Smurfit Group plc, one of the largest European-based manufacturers of paper-based packaging products. He held a number of key management roles including personal assistant to the Chairman of Jefferson Smurfit Group. Since 1998, Peter was President of Smurfit Packaging Corporation, a group of several Smurfit owned, US-based subsidiaries with sales of \$220m and 550 employees.

### **People**

De La Rue's strength stems from the expertise, efforts and enthusiasm of its 6,600 employees operating in over 30 countries worldwide. A strong management team is a prerequisite to delivering on our goals. This year has seen the appointment of a number of key executives and senior managers, who have significantly strengthened the management team and provided a renewed impetus to drive the Group forward.

### **Environment, Health and Safety Report (EHS)**

I am delighted to present our second combined report on our EHS performance on pages 23 to 26. Last year's report introduced our EHS systems and structures. It also summarised our EHS performance and set some objectives and programmes for the future. This year we have been able to make a comparison with last year's data and make some assessment of our progress to date. We have also reported on progress against last year's objectives and stated our priorities and improvement plans for next year.

A handwritten signature in black ink, appearing to read 'Ian Much', with a horizontal line underneath it.

Ian Much **Chief Executive**

# Security Paper and Print



James Hussey  
Divisional Managing Director  
Currency

	2003 £m	2002 £m	change £m
<b>Sales</b>			
Continuing operations	211.0	226.8	
Acquisitions	2.8	-	
	<b>213.8</b>	<b>226.8</b>	<b>(13.0)</b>
<b>Operating profit*</b>			
Continuing operations	30.5	41.1	
Acquisitions	(0.1)	-	
	<b>30.4</b>	<b>41.1</b>	<b>(10.7)</b>

\*Before exceptional items of £19.9m (2001/2002 – £7.3m) and goodwill amortisation credit of £0.2m (2001/2002 – £Nil)

## Currency

As expected, operating profits in the Currency business were lower than last year. This reflected the one-off benefit of the euro work in 2001/2002 combined with an unusually large number of new designs in the banknote order book in the first half of 2002/2003, which took longer to prepare than normal repeat orders. This situation began to unwind in the second half and Currency finished the year strongly, backed by a solid banknote order book offsetting the continued weakness of the banknote paper market. Once again, cash generation has been a key strength of the business with operating cash flow ahead of operating profits for the second year running.

## Banknotes

The banknote printing business performed strongly after the slow start to the year and we have again concentrated on achieving a better quality mix of business at higher margins. With increasing proliferation of colour copying, scanning and printing technologies we continue to develop anti-counterfeit solutions such as wide threads and holographic devices for our customers to counter these threats.

We have also continued to focus on a rigorous approach to managing our cost base. The closure of our Singapore banknote printing factory, announced in March 2002, was completed in the second half as expected, resulting in the loss of 290 jobs. The consequent reorganisation of our remaining worldwide printing operations now means that we are producing the same volume of banknotes that was previously produced by five plants from our remaining four sites. The financial benefits of the move, the majority of which will come through in the 2003/2004 financial year, are estimated to have achieved an annualised benefit of £3m.

At the beginning of the current year we completed the acquisition of the Bank of England's banknote printing operations based at Debden, Essex, for a cash consideration, including acquisition expenses, of £10m. This followed a decision by the Bank in December 2002 to contract out its banknote printing operations. At the same time, De La Rue also signed a supply contract with the Bank to cover its requirement for banknotes for a period of seven years. We expect the transaction to be earnings enhancing over the seven year term of the contract.

The primary role of Debden will be to continue to supply the Bank of England with its requirements for banknotes, which last year amounted to about one billion banknotes. As a result, the business will continue to specialise in producing long-run work, although opportunities may exist for Debden to produce some export work. We will also continue to operate the Gateshead banknote printing factory in the UK as a separate facility, focused, as now, on specialist short-run export work.

### Papermaking

As previously announced, we expected the banknote papermaking market to return to historical ordering patterns and volumes. Consequently, we expected a much stronger year for the papermaking operations. However, the papermaking market remained weak during 2002/2003. The timing of the expected return to historical volumes remains difficult to predict. In March 2003, it was particularly pleasing for our papermaking facility at Overton in the UK, De La Rue's largest manufacturing facility, to achieve ISO 14001 environmental accreditation. This underlines the considerable progress we have made in improving our environmental management at the site.

### Security Products

Trading in the Security Products business continues to be weak, and in May 2002, following disappointing results in 2001/2002, we initiated a manufacturing review of the business with a view to delivering considerable operational improvements as well as improving the focus and competitiveness of the business going forward. In particular, the review identified surplus capacity and also significant duplication of manufacturing capabilities and technologies across its production facilities worldwide.

In response, in September 2002, we announced a reorganisation of the manufacturing base to create specialist production facilities worldwide. This involved grouping future production around our main product classes and their respective specialist production processes. To address the overcapacity problem we announced our intention to close our production facility in High Wycombe in the UK, with the loss of about 350 jobs. In November 2002, we reached agreement with union and employee groups over the closure of the site.

The reorganisation plan, including the closure of High Wycombe, is proceeding to plan and on track for completion in June 2003. The costs of these actions resulted in an exceptional charge taken in the year of £18.6m, £12.7m of which will be cash. We also announced in September 2002, that a combination of the reduced manufacturing capacity and associated reductions in overheads in the division should result in ongoing annual savings of approximately £5m. Since September, we have identified further overhead savings in Security Products and Global Services of £2m. Most of the £7m total savings will come through in the 2003/2004 financial year.

In September 2002, we announced the acquisition of the entire share capital of House of Questa Ltd, a UK-based, high-security gravure printer, for a total consideration including expenses of £2.9m. House of Questa employs 75 people and has a single site gravure printing facility based in Byfleet, UK, manufacturing postage stamps, fiscal stamps and motor vehicle tax discs. We acquired the business to consolidate our existing gravure printing operations, previously based at High Wycombe, to a single-purpose facility. The reorganisation plan is now largely complete with the transfer of capital equipment from High Wycombe to Byfleet completed in the second half.

# Cash Systems



Germain Roesch  
Divisional Managing Director  
Cash Systems

	2003 £m	2002 £m	change £m
<b>Sales</b>			
Continuing operations	292.8	370.5	
Acquisitions	18.1		
	310.9	370.5	(59.6)
<b>Operating profit*</b>			
Continuing operations	8.4	36.0	
Acquisitions	3.2		
	11.6	36.0	(24.4)

\* Before exceptional items of £10.5m (2001/2002 £3.8m) and goodwill amortisation of £19.3m (2001/2002 £2.2m)

Cash Systems' sales from continuing operations were down 21 per cent to £292.8m and operating profits before reorganisation costs of £10.5m and goodwill amortisation of £19.3m were down £27.6m to £8.4m (before acquisitions), impacted both by disruption to customer reordering cycles in the eurozone following the euro changeover and generally worsening economic conditions, particularly in Germany and Spain. Operating margins have also suffered as a result, but cash generation has continued to be a key strength of the business despite the poor result.

During February and March, Germain Roesch led an organisational review of the division in response to the poor performance of Cash Systems last year. As indicated in February 2003, we are taking action to reduce the division's cost base and expect about 300 redundancies at a number of key sites, mainly across Europe. The programme is now well underway and we anticipate that, subject to consultation with employee representatives, this exercise will be substantially completed by the end of the third quarter of 2003/2004.

The majority of the costs associated with these actions have been included in the exceptional charge taken in the 2002/2003 financial year of £10.5m, although some further charges will arise in 2003/2004. We expect that the benefits of these actions will be felt in the second half of 2003/2004 and will result in annualised cost savings of approximately £7m. The Board believes that in taking this action, Cash Systems will be better placed to benefit from improving economic conditions whenever they arise, while in the short term, underpinning trading in current market conditions.

Results in the current year are expected to be impacted by the substantial weakening of the US dollar against the Swedish krona, a region in which the division incurs significant manufacturing costs. During 2002/2003 this effect was largely mitigated by short-term foreign exchange currency hedging arrangements.

## Financial Institutions (FI)

In January 2003, Christof Domeisen was appointed to succeed Germain Roesch as Managing Director of the FI business. Christof was previously with Cap Gemini Ernst & Young, Central Europe, where he led their business in the Financial Services Industry sector in Europe, as well as being chief executive of the operation in Switzerland.

Poor economic conditions in the eurozone markets of the FI business during 2002/2003 had the following effects:

- Financial institutions held back on reordering following the euro changeover in 2002. Poor economic conditions in many eurozone economies exacerbated this situation, which particularly impacted first half revenues.

- Despite the expected return to normal ordering patterns by financial institutions in some parts of the eurozone in the second half, there was a sharp deterioration in the trading environments in Germany and Spain at the start of the 2003 calendar year. In these markets, customers delayed placing orders as well as acceptance of the delivery of orders as they looked to control costs within reduced budgets.
- Cost containment measures by financial institutions also delayed the expected evolution of certain key European markets from Teller Cash Dispensers to Teller Cash Recyclers.

The poor performance of FI in the eurozone was, however, partly offset by strong performances elsewhere. Revenues in the USA were up 20 per cent, with sales of Teller Cash Dispensers particularly strong.

In June 2002, Cash Systems completed the acquisition of the banking automation business of Papelaco, a leading manufacturer of self-service banking technology, based principally in Portugal and Spain. During the year, sales were in line with our expectations and the business made a positive contribution to operating profit.

#### **Currency Systems**

Currency Systems' performance was a considerable disappointment during 2002/2003 and we are taking action to bring the cost base into line with current market conditions. During the year the business suffered as a result of political and economic uncertainty in several key markets. In particular, the impact of 11 September and the uncertainty introduced by the threat of an Iraq war, caused additional delays in both expected customer orders and in customer acceptance of the delivery of fulfilled orders. Despite the tough market conditions, sales of the 6000 banknote sorter have been encouraging with several new installations completed this year.

During the year, we continued with the integration of the Currency Systems International (CSI) business, acquired in May 2001. During the second half, the poor performance of the business was exacerbated by a failure to control costs of manufacturing during the ongoing transfer of production from the UK to the USA and Russia, which eroded margins. This issue has now been resolved. However, the markets for CSI's products are likely to remain significantly worse than anticipated at the time of acquisition.

#### **Retail Payment Solutions**

In its first full year of trading, the Retail Payment Solutions business performed in line with our expectations and we are continuing to develop our approach to the market. Our initial focus has been on developing solutions for the UK and USA markets and we are currently running trials with several large retail customers. This is a necessarily slow process for a start-up business, but is progressing well and, once fully developed, the opportunity will be to roll out the solutions to a wider geographic market.

#### **OEM**

The Original Equipment Manufacture (OEM) business, which makes dispensing mechanisms for automated teller machines (ATMs), had a good year with performance in line with our expectations. Our joint venture with Itautec Philco had a strong first year of trading. Under the technology agreement De La Rue licenses technology to allow Itautec to manufacture De La Rue's NMD 100 cash dispenser platform in Brazil.

#### **Customer Service**

Despite a difficult year, elsewhere in the division Customer Service activities performed strongly with good underlying sales growth. We continue to see an increasing number of opportunities to expand our service operations further through bolt-on acquisitions and geographical expansion. During the year we acquired two small service-based businesses to support this strategy, namely Serbotech Inc. of Canada and Corpo BHX De Mexico S.A. De C.V. of Mexico.

# Global Services



Peter Cosgrove  
**Divisional Managing Director**  
**Global Services and**  
**Security Products**

	2003 £m	2002 £m	change £m
<b>Sales</b>			
Continuing operations	34.7	48.1	
Acquisitions	25.2	-	
	<b>59.9</b>	<b>48.1</b>	<b>11.8</b>
<b>Operating (loss)/profit*</b>			
Continuing operations	(1.4)	0.5	
Acquisitions	(2.6)	-	
	<b>(4.0)</b>	<b>0.5</b>	<b>(4.5)</b>

\*Before exceptional items of £2.8m (2001/2002 £Nil) and goodwill amortisation of £0.5m (2001/2002 £0.6m)

Excluding acquisitions, Global Services' revenues from continuing operations declined to £34.7m (2001/2002 £48.1m) and the division made an operating loss of £1.4m (2001/2002 £0.5m profit) before exceptional items of £2.8m, goodwill amortisation of £0.5m and acquisitions. In particular, timing delays on expected projects within the Identity Systems business have impacted revenues this year. However, good production volumes at our installed base of contracts including Chile, Mexico and New York have partly compensated for the lack of new system sales. De La Rue Holographics' banknote sector revenues were impacted in the first half by the knock-on effect from production delays caused by new designs in the Currency business' banknote order book.

The recent poor performance of several operations has highlighted the need to review the long-term attractiveness of each activity. This review has started.

In May 2002, we announced the acquisition of 85 per cent of the share capital of Sequoia Voting Systems Inc., one of the largest providers of voting equipment, software, ballot printing and election services in the USA. Sequoia offers hardware products in all major segments of the North American elections market, including direct recording equipment and optical scan systems. In October, as expected, the Help America Vote Act 2002 was signed by President Bush, releasing over US\$3.9bn of Federal funding (plus matching State funding) for the upgrading of election systems over the next four years. We believe that this will now accelerate the evolution of the market to adopting highly secure automated election systems.

In its first year, Sequoia performed in line with our expectations at the time of acquisition although it is currently experiencing intense margin competition in the US elections market. Despite this, there is currently a high level of enquiries for new election systems and the business has several quotations under consideration. As indicated in September 2002, it was not possible to convert these enquiries to shipments in the final quarter of the 2002/2003 financial year and consequently the business made a loss of £2.6m excluding exceptional charges of £2.8m. However, Sequoia has recently been successful with systems sales to two US counties since the start of the new financial year, although at lower than expected margins.

In March 2003, we announced our intention to outsource Sequoia's ballot printing operations to a third party and the closure of our Exeter, USA, production facility with the loss of about 60 jobs. This action was in line with our intentions at the time of acquisition. As the market increasingly moves to electronic voting systems, we believe it is more cost effective to outsource the production of paper ballots than to continue to sustain the high costs of production ourselves in a declining market. The costs of this action will result in an exceptional charge of £2.8m and is expected to be completed by the end of May 2003.

# Financial Review



Stephen King  
Finance Director

## Financial Results

In a challenging year, net profit before taxation, exceptional items and goodwill amortisation was £48.1m\*, down from £90.6m\* in the previous year. Despite difficult trading conditions, we maintained our strong cashflow performance, generating free cash flow of £72.7m\*\* (before dividends from associates, exceptional cashflows, capital expenditure, acquisitions and share buy back costs) closing the year with net cash of £8.2m.

## Exceptional Items

The net after tax exceptional loss was £39.2m (2002 gain of £15.1m). Exceptional pre-tax costs of £49.2m were charged to operating profits comprising cash costs of £24.0m and non-cash costs of £25.2m.

A summary of the main cash costs and non cash charges are tabulated below:

	Cash £m	Non cash £m	Total £m
<b>Reorganisation</b>			
Global Services (inc. Security Products)	(12.7)	(5.9)	(18.6)
Cash Systems	(8.5)	(2.0)	(10.5)
Sequoia	(2.8)	-	(2.8)
	(24.0)	(7.9)	(31.9)
CSI Goodwill write-off	-	(16.0)	(16.0)
Loss on impairment of investment in JV	-	(1.3)	(1.3)
<b>Exceptional pre-tax costs</b>	<b>(24.0)</b>	<b>(25.2)</b>	<b>(49.2)</b>

The cash component of the exceptional charge includes £12.7m which will be a cash outflow in 2003/2004. The non cash charges predominantly relate to the Board's view that the carrying value of goodwill in relation to the Currency Systems International acquisition (acquired in May 2001 for £27.0m) is impaired as a result of trading experienced since acquisition. An exceptional write down of £16.0m has been made at the year end, leaving a remaining carrying value of £8.2m which will now be written off over a reduced estimated life of ten years (eight years remaining). The Group's £1.3m investment in Valora (a 25 per cent associate) has also been impaired reflecting uncertainty over future cash flows.

## Cash Flow and Borrowings

Cash flow performance was again excellent. A strong fourth quarter performance led to a reduction of £14.7m in working capital for the year. Dividends from associates were lower at £9.0m compared with £28.3m last year which included a significant amount relating to retained surpluses from Camelot's first licence period. During the year the Group returned £71.3m to shareholders through the share buy back programme (£38m) and £33.3m on dividends, including an accelerated payment of our interim dividend for the current year which amounted to an additional £7.9m dividend payments. Despite this, De La Rue still closed the year with net cash of £8.2m.

## Interest Charge

The Group's net interest income was £0.9m (including interest received by associates of £0.4m). Excluding interest received by associates, the Group net interest credit of £0.5m was a £0.9m improvement on the previous year.

## Taxation

Excluding exceptional items, the underlying effective tax rate was 28.0 per cent (2001/2002 27.6 per cent). The effective tax rate of 28.0 per cent is currently lower than the standard UK corporate tax rate of 30.0 per cent but in future years is expected to rise as fewer of our Group activities are based in lower rate tax regimes. Tax payments at £3.7m were £7.5m down on 2001/2002, reflecting a combination of lower UK taxable profits and some prior period tax recoveries.

\* Before exceptional items of £49.2m (2001/2002 - £13.1m gain) and goodwill amortisation of £3.6m (2001/2002 - £2.8m)

\*\* Before dividends from associates, exceptional cash flows, capital expenditure, acquisitions, dividends and share buy back costs

## Financial Review continued

### FRS 17 – Pensions Accounting

The Company previously announced its intention to adopt FRS 17 for the current year. The Accounting Standards Board has announced subsequently that full implementation of the standard has been deferred in order for a consensus on pensions accounting to be reached with the International Accounting Standards Board. The Company consequently decided in September 2002 to defer full implementation, but will continue to comply with the transitional arrangements. The net charge to P&L under FRS 17 for the UK pension scheme would have been £2.4m in the full year compared to the actual charge on a SSAP 24 basis of £1.9m. The Company is presently amortising the pension scheme surplus identified at the last triennial actuarial valuation in April 2000. The impact of this amortisation in 2002/2003 was a credit to the profit and loss account of £6.1m. The next triennial valuation, which will be available later this year, is unlikely to show a surplus, and the amortisation credit will not, therefore, benefit the 2003/2004 results. In addition, it is likely that the underlying regular pension cost will also increase as a result of the current depressed levels in the world equity markets.

### Treasury Operations, Foreign Exchange and Borrowing Facilities

The Group Treasury department provides a central service to Group companies and conducts its operations in accordance with clearly defined guidelines and policies, which have been reviewed and approved by the Board. Treasury transactions are only undertaken as a consequence of underlying commercial transactions or exposures and do not seek to take active risk positions. When managing foreign exchange transactional risk, protection is taken in the foreign exchange markets wherever a business unit confirms a sale or purchase in non-domestic currency unless it is impractical or uneconomic to do so. Overseas earnings are not hedged. The main two foreign currencies in which the Group transacts are US dollars and euros. As at 29 March 2003 the Group had sold forward US\$56.9m at an average rate of \$1.49 and €80.1m at an average rate of €1.47. Principal exchange rates used in translating the Group's results are shown in the table below.

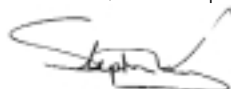
	2003 Average	2003 Year End	2002 Average	2002 Year End
US dollar	1.54	1.57	1.43	1.42
Euro	1.56	1.46	1.62	1.63
Swedish krona	14.26	13.43	15.04	14.75

The analysis of the Group's assets and related cash/debt by geographic location is tabulated below:

	2003 Group assets £m	2003 Cash/(debt) £m	2003 Net assets* £m	2002 Net assets* £m
UK	150.4	55.5	205.9	241.9
USA	41.7	(40.6)	1.1	7.1
Eurozone	28.9	(14.3)	14.6	32.5
Rest of World	14.7	7.6	22.3	31.3
Total	235.7	8.2	243.9	312.8

\*excluding minority interest

As at 29 March 2003, the Group had committed facilities of £207.0m, of which none expires within the next 12 months and the balance expires on various dates up to March 2007 and have an average remaining life of two years. Drawings under these facilities at 29 March 2003 totalled £42.7m. In addition, the Group has uncommitted facilities of £40.0m.



Stephen King **Finance Director**



# Environment, Health and Safety

## Progress Against 2002/2003 Objectives

- ✔ Completed
- ◆ Some progress made
- ✘ No progress
  
- ✔ Complete Phase 1 of ISO14001 implementation programme
- ◆ Introduce and develop intranet-based EHS information and management tool
- ◆ Develop corporate EHS procedures and formalised EHS training programmes at all levels
- ✔ Improve EHS benchmarking and self audit programme
- ✔ Strategic Review of H&S Management and Resourcing across all operations
- ✔ Host Interlock 2002/2003 EHS Conference
- ◆ Develop and implement Group supply chain management procedures
- ✔ Develop an EHS performance reporting system across the Group

## 2003/2004 Objectives

- Complete development and implementation of EHS procedures with intranet system
- Keep ISO14001 implementation programme on target
- Complete cycle of internal EHS audits
- Further develop EHS data assimilation process and set targets for 2004/2005
- Complete development and implementation of EHS training programmes
- Host Interlock 2003/2004 EHS Conference
- Review Occupational Health management

Improving Environment, Health and Safety (EHS) performance is vital to the success of our business. Last year's report introduced our EHS systems and structures. It also summarised our EHS performance and set some objectives and programmes for the future. This year we report significant progress against those objectives, introduce new objectives for the coming year and present a second year of EHS performance data.

## Environment, Health and Safety at De La Rue

We strive to minimise the effects on the environment of our operations and to safeguard the health and safety of those affected by them. We consider strong performance in these areas essential to overall business success and are committed to continuous improvement.

## Highlights and Challenges

This year we have made strong progress in bringing EHS to the forefront of business and operations management. This has been achieved by securing greater engagement in the EHS process by senior executives. A more comprehensive and transparent internal reporting process has been used to encourage greater ownership of EHS within the business units.

This year we also achieved certification to ISO14001 at our two paper mills, which have the greatest environmental impact of all our operations. We also placed greater focus on internationalising our EHS programme. This is evident in Phases 3 and 4 of our ISO14001 programme, with five of the eight sites in the programme located outside the UK. Other significant developments have been the investment in additional EHS professionals within each division and the move to standardisation and greater enforcement of Group policies and procedures.

Our key environmental challenges for next year will be the continued implementation of ISO14001 and the incorporation of corporate environmental guidance into a consolidated EHS manual. We also intend to complete the integration of environmental issues into the existing health and safety audit process and to establish fully data assimilation processes to enable quantitative performance improvement targets to be set in 2004/2005. The implementation of the improved self-assessment audit tool will also allow sites to prepare more focused and effective EHS improvement plans.

Health and safety improvements for next year are expected to come through continued development of our EHS management systems; extending our audit scope to take greater account of site specific management systems; ensuring every site prepares a suitable EHS plan; implementing formal training arrangements for all levels; and further expanding our EHS intranet facility.

## Managing Environment, Health and Safety

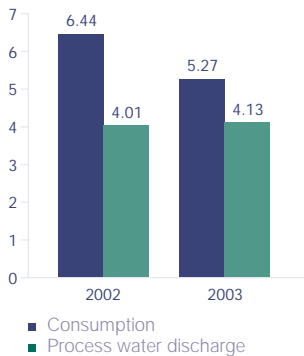
Effective management of EHS is based on a combination of risk identification, policy setting, assurance processes, implementation of management systems at operational sites and development of both employee awareness and a company culture that promotes desired EHS behaviours.

## Identification of EHS Risks and Effects

De La Rue operates a global business providing a diverse range of products and services to a broad range of customers. We therefore need to satisfy changing legislative requirements and customer expectations with regard to EHS performance. Operational risk and impact identification is the responsibility of site management supported by site and divisional EHS advisers. External and strategic risks are identified and managed through the function of the Group Risk Committee, details of which are set out on pages 33 and 34.

## Summary of Consumption and Emissions

### Water Consumption (million m<sup>3</sup>)



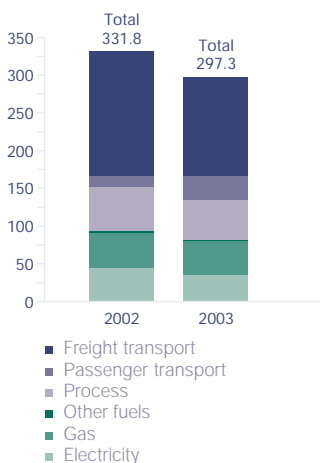
### Energy Consumption (GWh)

2002		
Electricity	102.7	29%
Gas	241.2	68%
Other Fuels	12.5	3%
<b>Total Energy</b>	<b>356.4</b>	<b>100%</b>

2003		
Electricity	124.2	34%
Gas	232.1	63%
Other Fuels	9.2	3%
<b>Total Energy</b>	<b>365.6</b>	<b>100%</b>

### Greenhouse Gas Emissions ('000 tonnes as CO<sub>2</sub>)



Although only a small number of our sites has the greatest EHS impact, we recognise that all of our operations have risks and effects that need to be managed. All sites consume natural resources, such as energy and produce some form of waste that needs to be minimised or safely managed, and each operation has associated health and safety hazards.

Our Cash Systems division is characterised by assembling cash handling machines and equipment and servicing these machines in customer locations. The environmental impact of this business is relatively low, consisting mainly of low volumes of waste generation and energy consumption. Health and safety risks are principally manual handling and ergonomics for the assembly of machines and the personal safety of field engineers when travelling to and servicing equipment.

Security Paper and Print operations potentially have higher EHS hazards, as they involve chemical handling and machinery hazards and present environmental impacts such as emissions to air and water that require treatment prior to release to the environment.

Global Services essentially consists of hi-tech coating processes and information management solutions. Whilst this still involves the use of chemicals and machinery the hazard potential is generally lower than our security printing operations. Environmental impacts are primarily waste generation and solvent and energy consumption.

### De La Rue's EHS Policies

We have EHS policies with which all of our operations must comply. The key features of these policies are:

- a commitment to preventing pollution and accidents or ill health and to continuous improvement;
- a commitment to identify, control, reduce or eliminate both health and safety risks and significant environmental impacts;
- to provide a clear definition of EHS responsibilities throughout the organisation;
- to train and inform all employees to ensure adequate knowledge and commitment of the entire workforce;
- an overriding commitment to comply with legislation;
- to conduct annual managerial reviews of our progress and review these policies based on findings;
- to make appropriate resources available in order to ensure compliance with our EHS policies.

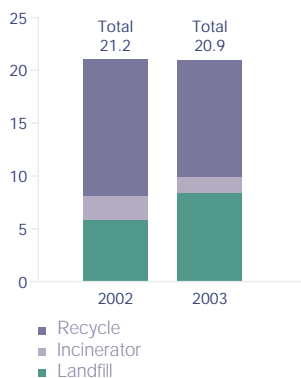
### Management Assurance

EHS assurance comprises the processes and mechanisms that provide the Board with confirmation that all sites and business units comply with Company policy and legislative requirements and are making progress with their improvement plans.

During the year 2002/2003 we reviewed our EHS assurance process and as a result introduced new levels of accountability and internal reporting. The Board is ultimately responsible for EHS matters and is committed to ensuring that the Group's policies are implemented. The Chief Executive is the Board member with designated responsibility for EHS and chairs the Environmental Steering Group while the Company Secretary chairs the Health and Safety Steering Group. These Groups are responsible for setting strategy, responding to legislative developments, developing new corporate procedures and disseminating information to appropriate sites and business units.

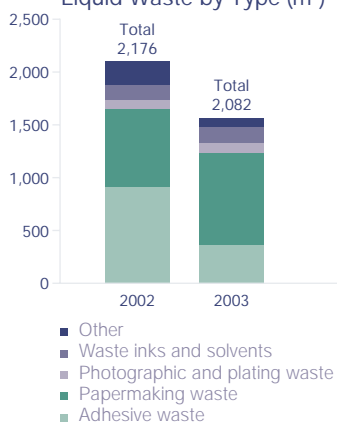
The Group Risk Committee prepares a quarterly EHS report for submission to the Board.

### Solid Waste Generation and Management ('000 tonnes)



Hazardous solid waste accounted for 68 tonnes in 2002 and reduced to 48 tonnes in 2003.

### Liquid Waste by Type (m<sup>3</sup>)



### Emissions to Air ('000 kg)

	2002	2003
Non-Chlorinated VOCs	128	153
Chlorinated VOCs	.2	.4

VOCs – Volatile Organic Compounds are organic materials containing carbon which evaporate to atmosphere. They are common solvents and are found in most paints and inks.

### Emissions to Water ('000 kg)

	2002	2003
COD	158	125
BOD	28	25
Suspended Solids	28	29

BOD – Biochemical Oxygen Demand  
 COD – Chemical Oxygen Demand  
 Suspended Solids – the filtered dry weight of solids suspended within the liquid effluent.

An audit schedule is used to ensure that all sites are audited on a periodic basis with higher risk sites audited more frequently. In 2003/2004 the audit programme will be extended to incorporate environmental issues and to assess site specific management systems. A self-assessment process that allows sites to measure how they are performing in respect of Company policies and expectations supports the audit programme. This system has been overhauled this year in response to feedback from the sites and in recognition that Company policy and legal requirements have changed and that improved forms of measurement were required.

### Management Systems

Robust management systems are critical in defining how we identify and control EHS risks, and who is responsible for doing so. We are continuing to implement an ISO14001 accredited Environmental Management System (EMS) at our key sites while further integrating our Group-wide procedures to provide an overall framework for EHS management.

In 2002, we undertook a strategic review of health and safety management across the Group. The review identified that more management system development was required at site and divisional level. We also identified that we needed to bolster our EHS resources across the Group. Another finding was the need for more standardisation across businesses and improved quality of direction setting from Group in the form of greater clarity of corporate goals and objectives.

Getting this right is the key challenge for our business. The diversity of the business means this is no simple task. However, we are already making inroads. Standard accident investigation procedures have been implemented and new EHS management structures have been developed for each division, with additional EHS professionals recruited at site and divisional level.

An intranet-based EHS information and management tool is available to all our sites. This has been integral to our drive for consistent Group-wide practices and to improve EHS communication across the Group.

### Awareness and Culture

Continually developing awareness and embedding EHS within the operating culture are critical to the success of improving EHS performance. In this last year we have worked hard on these areas. The new reporting systems that have been implemented for Board assurance purposes also have the effect of encouraging all managers to engage in the EHS process. To encourage further management engagement we have introduced a scheme whereby remuneration for members of the Operating Board considers EHS performance along with other business critical performance measures.

Each quarter we issue a business briefing. This is cascaded from the Board to divisions to site, with each successive level adding pertinent data. This year we added EHS to the briefing in order to make it clear to all employees that this is a core business value.

In 2002 we held a third EHS conference which was attended by senior managers, operational personnel and EHS and union representatives from worldwide operations. We use this conference to encourage sharing of best practice, to launch new corporate procedures and for operational personnel to exchange views with senior management. The conference was opened by the Chief Executive and chaired by the Company Secretary. Other forums where EHS is discussed include the European Employee Forum and the annual Senior Management Conference.

We assessed our EHS training needs at site and divisional level. Some management training has taken place and some sites have implemented site-wide training programmes for ISO14001 and other health and safety initiatives. However, we have not yet implemented formalised training programmes for all levels throughout the Group. We hope to complete this in 2003/2004.

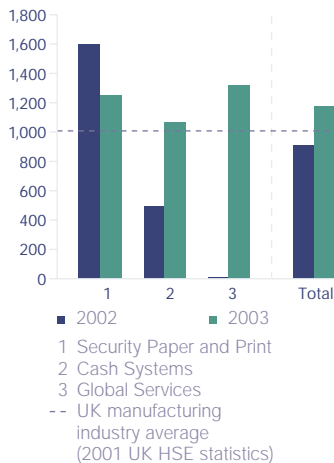
## Summary Safety Performance Data

	2002	2003
Over-3-Day Reportable Accidents	60	78
Other Recordable Accidents	390	499
Over-3-Day Incidence Rate per 100,000 employees	913	1,178
Days Lost due to Over-3-Day Accidents	1,009	1,988

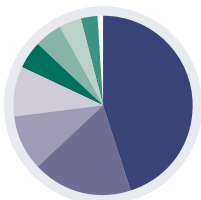
Reportable accidents are those that result in the injured person having more than three days off work. We also include road traffic accidents and other dangerous occurrences.

Recordable accidents are all other incidents where an employee or contractor was injured.

### Over-3-Day Injury Incidence Rate (per 100,000 employees)



### Over-3-Day Accident Breakdown by Type



- Manual handling injury 45%
- Slips, trips and falls 18%
- Contact with moving machinery or material 10%
- Hit by moving object 9%
- Other 5%
- Hit by vehicle 5%
- Fall from height 4%
- Hit something fixed or stationary 3%
- Contact with a harmful substance 1%

Our Overton paper mill provides a good example of the culture we are looking to develop. The site has gone through a major EHS change management programme complementing ISO14001 and the 'Making Paper Safely' initiatives. The programme has included investment in training and machinery guarding, and improving employee consultation and involvement of all levels in the health and safety process. A particular innovation was to place EHS as the first agenda item at all site meetings and to include employees in developing and delivering the site's EHS plan. The result has been a marked reduction in reportable accidents and consequently a movement up the Paper Federation's league table.

### Environment, Health and Safety Performance Indicators

We have introduced various monitoring systems which enable us to measure our EHS performance against specific indicators. This year we have expanded our measured data to include a breakdown of the principal contaminants within our air and effluent discharges, and we have expanded our health and safety data to include total days lost and the nature and cause of accidents and incidents. There were no fatalities and we have not been subject to any fines or prosecutions for any operation worldwide.

With only two years of data it is too early to establish performance trends – whether good or bad. Our reporting processes are also still evolving. In fact many of the changes in our performance data from last year are attributable to improved reporting processes including better data collection. This is certainly true of our accident reporting data where overall we experienced the expected increase in reportable and recordable accidents following the improvements to our reporting and investigation processes. Increased verification of data submissions from our sites has led to correction of reporting errors and misinterpretation of reporting requirements by sites. This verification process has also resulted in a restating of some data from last year.

There have also been real changes in our EHS performance. We believe that some of this is due to improvement initiatives and the continued implementation of ISO14001. Within the Security Paper and Print division the Currency business reduced the number of reportable accidents by over 40 per cent compared with 2001/2002 representing the excellent performance at Overton and the other banknote printing sites. However, it is also attributable to changes in production arrangements and annual fluctuations in production output. A transfer of production from our Singapore and High Wycombe operations and acquisition of the Byfleet facility have resulted in different production efficiencies and the generation of abnormal waste streams as plant is decommissioned. At Overton, our biggest facility, production fluctuations and other manufacturing measures have also resulted in lower consumption and environmental emissions.

We aim to establish our data reporting and management process further in this coming year. With greater data integrity we will then be in a position to begin meaningful trend analysis and introduce improvement targets and external benchmarking from next year.

Full copies of our EHS policies are available on our website, or from the Company Secretary, details of which are on the inside back cover.

By Order of the Board

Ian Much Chief Executive

## Directors and Secretary



**Sir Brandon Gough,** Non-executive Chairman #†‡ 65 was appointed to the Board in February 1994 and became chairman of the Company with effect from 23 July 1997. He is also chairman of the Nomination Committee of the Board. He is currently chairman of Montanaro UK Smaller Companies Investment Trust plc and Montanaro European Smaller Companies plc and a non-executive director of Singer & Friedlander Group plc. He was a non-executive director of Innogy Holdings plc before its takeover by RWE AG and was chairman of Coopers & Lybrand from 1983 until April 1994.

**Keith Hodgkinson FCMA,** Non-executive #‡ 59 was appointed to the Board on 19 April 2000. He is chairman of the Audit Committee of the Board. He is chief executive of Chloride Group plc, a post he has held since March 1992. His previous career was with GEC plc where he held a number of senior appointments.

**Ian Much,** Chief Executive † 58 joined the Group as chief executive on 1 September 1998. He was formerly with T&N plc for 10 years, 18 months of which he spent as chief executive. He is a non-executive director of Manchester United PLC and was previously a non-executive director of Admiral plc until its acquisition by CMG plc.

**Philip Nolan,** Non-executive #‡ 49 was appointed to the Board on 1 September 2001. He is chief executive of Eircom Ltd the Irish telecom group, a post he has held since January 2002. He was previously chief executive of Lattice Group plc which was demerged from BG Group plc in October 2000, where he held various senior management positions since 1996. He spent 15 years with BP in various operational and strategic roles.

**Stephen King,** Group Finance Director Ø 42 joined the De La Rue Board as group finance director on 31 January 2003. Prior to his appointment he was with Aquila Networks plc, formerly Midlands Electricity plc, where he was group finance director since 1997. He previously held the position of group financial controller at SEEBOARD plc and prior to that was group chief accountant at Lucas Industries plc. He is an FCA and qualified with Coopers & Lybrand in 1986.

**Michael Jeffries,** Non-executive #‡ 58 was appointed to the Board on 19 April 2000. He is chairman of WS Atkins plc, prior to which he was chief executive since 1995. He has held various senior management positions since joining that company in 1975 and has wide ranging business experience, running service operations across Europe, the Middle East, Asia Pacific and Africa. He was appointed chairman of Wembley National Stadium Ltd in April 2002.

**Nicholas Brookes,** Non-executive †‡ 55 was appointed to the Board in March 1997. He is chairman of the Remuneration Committee of the Board. He is chief executive of Spirent plc and a director of Corporacion Financiera Alba SA. He was vice president of Texas Instruments Incorporated and president of the Materials and Controls Group. He is the Company's senior independent non-executive director.

**Louise Fluker,** General Counsel and Company Secretary Ø 49 joined De La Rue in 1984 from the UK Civil Aviation Authority. She was appointed general counsel and company secretary in April 1999 and is also responsible for non-financial risk management.

# Member of the Audit Committee of the Board  
 † Member of the Nomination Committee of the Board  
 ‡ Member of the Remuneration Committee of the Board  
 Ø Member of the Risk Committee of the Board  
 Ages stated are those on 29 March 2003

# Directors' Report

The directors present their annual report together with the audited financial statements of the Group and the Company for the year ended 29 March 2003.

## Principal Activities and Business Review

De La Rue, a British company, is the world's largest commercial security printer and papermaker, involved in the production of over 150 national currencies and a wide range of security documents such as travellers cheques, stamps and vouchers. The Company is pioneering new technologies worldwide in government identity solutions for national identification, driver's licence, passport issuing and election systems. It is also a leading provider of cash handling equipment and software solutions to banks and retailers worldwide, helping them to reduce the cost of handling cash. A review of the business is discussed on pages 16 to 20.

## Results and Dividends

Profit before taxation, exceptional items and goodwill amortisation amounts to £48.1m. The loss attributable to shareholders for the year was £7.9m. The Directors are recommending a final ordinary dividend for the year of 9.2 pence. Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 8 August 2003 to ordinary shareholders on the register on 11 July 2003. An interim dividend of 4.4 pence per ordinary share was paid on 17 January 2003 making a total of 13.6 pence per share (2002 13.4 pence per share) for the year.

## Future Developments

Intended future developments in the Group's business are discussed in the Chief Executive's review on pages 13 to 15.

## Post Balance Sheet Events

The acquisition of the Bank of England's banknote printing operations, based at Debden, Essex, for a cash consideration including acquisition expenses of £10m was completed on 31 March 2003. The Company also signed a seven year contract with the Bank for the supply of banknotes.

## Share Capital

Details of shares issued during the year are provided in note 19 to the financial statements on pages 60 and 61.

The Companies Act 1985 requires that any shares issued wholly for cash must be offered to existing shareholders in proportion to their existing holdings unless authorised to the contrary by a resolution of the shareholders. Resolutions giving such authority were passed in 2002. Authorities to renew for one year the power of directors to allot shares pursuant to sections 89 and 95 of the Companies Act 1985 will be sought from the shareholders at the Annual General Meeting.

The Company was granted authority by its shareholders at the 2002 Annual General Meeting to purchase a maximum of 10 per cent of its own shares for cancellation. Pursuant to that authority the Company acquired for cancellation 11,038,000 ordinary shares representing 5.65 per cent of the issued share capital as at 28 May 2002. On 9 January 2003 at an Extraordinary General Meeting, shareholders approved increasing the existing authority to repurchase shares from an upper limit of 10 per cent to 14.99 per cent. As at 29 March 2003, the Company had repurchased and cancelled 13,863,000 ordinary shares of 25 pence each representing 7.10 per cent of the Company's issued share capital as at 28 May 2002. The aggregate consideration paid was £38.0m and the purpose of the share buyback programme was to enhance earnings per share. This authority will expire at the forthcoming Annual General Meeting and a resolution will be put to shareholders to renew the authority for a further period of one year.

Further details are contained in the Chairman's letter to shareholders dated 13 June 2003.

## Share Option Schemes

The Company currently operates a UK savings-related share option scheme and a US employee share purchase plan for all employees and an executive share option plan, a matching shares scheme and a phantom share option scheme for senior executives. Some senior managers also have options granted under the share price improvement plan and executive share option scheme. Directors are also authorised to establish a share incentive plan. Full details of share schemes can be found on pages 40 and 41.

## Substantial Shareholdings

As at 27 May 2003 the following persons on the share register had notified the Company of the following interests of 3 per cent or more in its issued ordinary share capital:

Person notifying	Number of ordinary shares held	Percentage of shares held
Schroders plc	28,894,403	15.89
Silchester International Investors	27,789,365	15.29
FMR Corp	18,698,960	10.29
Legal & General Group Plc	5,826,147	3.20
LFG Holdings Pty Limited	5,475,050	3.01

## Going Concern

Having made appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements.

## Directors' Responsibilities

The Companies Act 1985 requires the Directors to prepare financial statements for each financial year giving a true and fair view of the state of affairs of the Group and Company and of the profit or loss for that period. The Directors are responsible for ensuring that, in preparing the Group and Company financial statements, applicable accounting standards have been followed, appropriate accounting policies are consistently applied, are supported by reasonable and prudent judgements and estimates, and are prepared on the going concern basis unless they consider it inappropriate to do so. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the Group and Company and for preventing and detecting fraud and other material irregularities.

The Directors consider that in preparing the financial statements on pages 44 to 71 the Group and Company have consistently applied appropriate accounting policies, supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The Directors confirm that they have reviewed the effectiveness of the system of internal financial controls in operation throughout the financial year.

## Research and Development

Developing new products and protecting intellectual property (IP) are vital to De La Rue maintaining its position in the market. The research and development (R&D) function now operates in an 'internal market' performing projects on behalf of the Group's business units to managed cost and timeframes according to their market needs. This has resulted in greater focus and better use of diverse skills across the Group in order to deliver better solutions. In order to ensure that investment in new products and IP is more aligned with the Group's strategic direction, the Group's R&D and IP teams are now part of a combined Strategic Marketing and Technology function. This has enabled the number of centres and some duplication of tasks in Cash Systems R&D to be reduced whilst increasing investment in security features for currency and national identity systems.

## Corporate Governance

A report on corporate governance and compliance with the Combined Code appended to the Listing Rules of the Financial Services Authority is set out on pages 32 to 36.

## Directors

The names of the Directors at 29 March 2003 are given on page 27. A table giving details of their interests as at 29 March 2003 is shown on page 30.

All the Directors held office throughout the entire year except Stephen King who was appointed Finance Director and an executive Director of the Board on 31 January 2003, replacing Paul Hollingworth who resigned on 30 June 2002.

In accordance with the Company's Articles of Association, Stephen King offers himself for election at the Annual General Meeting. Nicholas Brookes and Michael Jeffries will retire by rotation and, both being eligible, will offer themselves for re-election at the Annual General Meeting.

# Directors' Report continued

The non-executive Directors hold letters of appointment which will be displayed at the Annual General Meeting, together with the executive Directors' service contracts. Ian Much and Stephen King have 12-month rolling contracts, details of which are set out in the Remuneration Report on pages 37 to 42.

Lord Wright, who retired as a director on 19 July 2000, has provided consultancy services since 20 July 2002 and will do so until 19 July 2004 pursuant to a recently renewed agreement with the Company, on an anticipated basis of not more than 20 days during each year.

## Directors' Interests

The interests of the Directors in the ordinary shares of the Company are set out below:

	29 March 2003	31 March 2002 or date of appointment
Sir Brandon Gough	8,714	8,714
Nicholas Brookes	13,950	13,950
Keith Hodgkinson	4,628	4,628
Michael Jeffries	10,000	10,000
Philip Nolan	10,000	–
Ian Much	46,750	38,250
Stephen King (appointed 31 January 2003)	48,000	–

There have been no changes in Directors' interests in ordinary shares since 29 March 2003. All interests of the Directors and their families are beneficial.

## Interest in Shares under Trust

As at 29 March 2003 executive Directors are deemed to have an interest as potential discretionary beneficiaries under the De La Rue Employee Share Ownership Trust (4.1 million ordinary shares) and the De La Rue Qualifying Employee Share Ownership Trust (1 million ordinary shares). The shares held in these Trusts will be used to satisfy existing options under the De La Rue Share Price Improvement Plan, the De La Rue Executive Share Option Scheme, the De La Rue Executive Share Option Plan and the De La Rue Sharesave Scheme.

## Qualifying Employee Share Ownership Trust (QUEST)

The QUEST was established to operate in conjunction with De La Rue in providing shares to employees under its Sharesave Scheme. The future operation of the QUEST is being reviewed following recent changes to legislation.

## Directors' Remuneration

Details of the remuneration and share options of each of the Directors are set out in the Remuneration Report on pages 37 to 42.

## Employees

The Group aims worldwide to employ people of high quality, to encourage creativity and initiative, to recognise individual and team contributions and to give all employees the chance to develop their potential. The Group promotes employee involvement through a policy of communication and consultation. The Company newsletter, the intranet communications channel and a more traditional house notice are further strengthened through quarterly briefings, a two-way communications programme designed to maximise dialogue. In addition, the sixth meeting of the De La Rue European Employee Forum took place in June 2002 for consultation and the exchange of information between senior management and elected employees. Innovation Awards, now in their fourth year, are presented annually to recognise and reward employees who have the best and most innovative ideas which will benefit the Company.

The Company offers equal opportunities in recruitment, training and promotion and in terms and conditions of employment, without discrimination on grounds of sex, age, colour, ethnic or racial origin, nationality or disability. If an employee becomes disabled when in the Group's employment, full support is given through the provision of special training, special equipment or other resources to facilitate continued employment wherever possible. All managers are required to ensure that all employees understand their responsibility for the active implementation of the Group's policies.

The Company sustains strategic management development initiatives to enhance the commercial awareness of its managers and to improve both customer and shareholder value.



### **Payments to Suppliers**

Given the international nature of the Group's operations, the Group does not operate a standard code in respect of payments to suppliers. Operating companies must agree terms and conditions of business with their suppliers including payment terms taking account of any applicable legal requirements. The Group's policy is for suppliers to be paid in accordance with these terms. Creditor days for the Group have been calculated at 39 days (2002 40 days).

### **Charitable and Political Donations**

Donations for charitable purposes amounting to £177,361 (2002 £127,650) were made during the year. The De La Rue Charitable Trust is a registered charity which aims to direct funds to causes around the world in countries where the Company operates, with the emphasis on educational projects which promote relevant skills, international understanding and relief from suffering.

During the same period Camelot Group plc, an associated company, paid £2m to the Camelot Foundation (£2m paid in 2002) and a further £0.7m (2002 £1m) to other community and charitable organisations. The Camelot Foundation is a registered charity set up to support organisations which help disabled and disadvantaged people play a fuller part in the workplace and in the community.

There were no political donations.

### **Auditors**

The Company's auditors, PricewaterhouseCoopers, resigned on 27 February 2003, having converted to a Limited Liability Partnership (LLP) on 1 January 2003. The Directors appointed their successors, PricewaterhouseCoopers LLP, to fill the casual vacancy created by the resignation. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

### **Annual General Meeting**

The Annual General Meeting will be held at 12 noon on Thursday 17 July 2003 at Winchester Guildhall, The Broadway, Winchester, Hampshire SO23 9LJ. The notice of the Annual General Meeting, including a letter from the Chairman, accompanies this annual report.

By order of the Board



Louise Fluker **Company Secretary**  
27 May 2003

# Corporate Governance

The Board is committed to complying with the highest standards of corporate governance.

The Board and all Directors recognise that they are accountable to shareholders and responsible for complying with their legal and fiduciary obligations.

The Board's objectives are: (1) delivering value to shareholders and other stakeholders; (2) maintaining the Company's reputation for integrity as the foundation of its relationship with stakeholders and (3) building long term success through innovation, quality and sound management.

The Company's corporate governance procedures which are approved by the Board define the matters reserved to the Board, the terms of reference of various committees of the Board and functions delegated to these Committees as well as defining the jobs of the Chairman, Chief Executive, Finance Director and non-executive Directors. The Company reviews and amends its corporate governance policies to reflect changes to the Combined Code, legislation or good practice. Revisions were last made in October 2002.

The Board also approves the Company's Business Code of Conduct which defines the Company's business principles.

This statement explains how the relevant principles and the provisions of the Combined Code on Corporate Governance are applied by the Company. This does not extend to associated companies, such as Camelot Group, where we do not have management control.

The Company's auditors, PricewaterhouseCoopers LLP, have reviewed whether the statement reflects compliance with the specified provisions of the Combined Code as required by the Financial Services Authority and their comments on this can be found in the Auditors' Report on page 43.

## Principles of Business Conduct

The Company's reputation is based on security, integrity and trust. All employees are required to comply with the Company's Business Code of Conduct. The Code defines the core values and principles governing how De La Rue does business. It covers areas such as complying with local laws and regulations (such as insider dealing or competition law), ethical dealings with governments, customers, suppliers and third parties, protecting the Group's assets, and avoiding conflicts of interest. More specific issues such as health and safety and the environment are also covered. There is a process whereby employees who have any concerns about the application of the Business Code or business practices within the Company may raise them ultimately with the Company Secretary.

All current and new employees are required to receive a personal copy of the Code. Policies and guidelines are also posted on the Company's intranet and managers must ensure that their staff are properly briefed. Training for relevant employees is also provided.

## Board of Directors

The main functions of the Board are to lead and control the Company ensuring a clear division between the management of the Board and the executive Directors' responsibility for managing the Company's business. The Board comprises the non-executive Chairman, the Chief Executive, the Finance Director and four non-executive Directors ensuring a balance exists so that no individual or small group can dominate decision taking. The roles of the Chairman and Chief Executive are separated and clearly defined. The Chairman is primarily responsible for the working of the Board. The Chief Executive is responsible for running the business and implementing Board strategy and policy and he is assisted by an Executive Committee and Operating Board comprising the key senior managers.

The Directors' biographies appear on page 27. Certain Directors are also Directors of other listed companies as set out in their respective biographies. It is the policy of the Board that the Chairman and executive Directors should accept appointments to the Boards of other companies only with the prior approval of the Board, and that non-executive Directors must seek the agreement of the Chairman and approval by the Board before accepting additional commitments that may affect the time they devote to their role.

The non-executive Directors, all of whom are considered by the Board to be independent, have an appropriate range of business, financial and global experience which is relevant to the Company's activities. Nicholas Brookes is the Company's senior independent non-executive Director. On appointment, non-executive Directors confirm that they are able to allocate sufficient time to enable them properly to discharge their duties. Any newly appointed Director who has not previously been a director of a listed company is required to attend an external course covering the duties and responsibilities of such Directors. In addition, all new Directors are provided with a full induction programme into the activities of the business and are provided with a comprehensive information pack on joining the Company. Directors are briefed, where appropriate by the Company's external advisers, on changes to legislation or regulation or market practice as well as receiving briefings from individual businesses throughout the year. Directors have the opportunity of attending appropriate training sessions. At least once a year the Board generally visits one site outside head office and directors are encouraged to visit other sites and staff.

All Directors are required to submit themselves for re-election at least every three years.

The Board generally meets 10 times a year. During 2002/2003 there were 15 meetings. The Board requires regular reports from management on key issues for which there is a prescribed timetable. Details are set out on pages 35 and 36.

The Board's core procedures are: (1) the terms of reference for the Board, its Committees and Directors; (2) the control of risk through agreed evaluation and control procedures revised annually and (3) monitoring the composition of the Board through the Nomination Committee.

The Board has also reserved certain matters to itself to reinforce its control of the Company. These include compliance with statutory and regulatory requirements and the approval of interim and final results. In addition, any matter which would have a material effect on the Company's financial position, liabilities, future strategy or reputation must be referred to the Board. Other matters are delegated to Board Committees, details of which are provided below.

Consistent with its responsibility for the overall direction of the Company, the Board has adopted procedures to review annually the effectiveness of its activities and the satisfactory performance of its functions. This has included reviewing the appropriateness of objectives set, the existence of robust core procedures and the outcome of the Board's activity. The process has involved the adoption by the Board of a report following one-on-one interviews by the Chairman and senior independent non-executive Director with each Director and the implementation of an action plan to deal with any issues identified.

Directors receive agendas and Board papers generally five days before each Board meeting; minutes are circulated as soon as possible thereafter. There is also a defined procedure for dealing with urgent matters between Board meetings.

All Directors can request additional information at any time. They are also entitled to independent professional advice, at the Company's expense, under an agreed procedure. No such advice was sought during the year. All Directors have direct access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed. The Board decides the appointment and removal of the Company Secretary.

### **Committees of the Board**

The Board has established Audit, Remuneration, Nomination, General Business and Risk Committees with appointed Chairmen and fixed terms of reference which are reviewed annually. Membership of these Committees is given in the Directors' biographies on page 27. Further details are given below.

#### **Audit Committee**

The Committee meets at least three times a year and receives regular reports from external auditors, reviews the interim and final financial statements and monitors the internal and external auditing process before submission to the Board. In addition, the Chief Executive, Finance Director, Financial Controller and representatives of the auditors, PricewaterhouseCoopers LLP, also attend. For part of the proceedings PricewaterhouseCoopers LLP attend alone with members of the Committee. It met three times during the year.

#### **Remuneration Committee**

The Committee met 11 times during the year. Details of the Committee and of the remuneration policy can be found in the Remuneration Report on pages 37 to 42.

#### **Nomination Committee**

The Committee meets when necessary and makes recommendations to the Board to fill vacancies for executive and non-executive Directors. The Committee reviews the composition of the Board and Committees and the time required of non-executive Directors at least once a year. The Board as a whole approves the appointment and removal of Directors. The Committee has the power to employ the services of such advisers as it deems necessary in order to carry out its responsibilities and will invariably retain appropriate executive search consultants having prepared a job specification of the role. The Committee met twice during the year.

#### **General Business Committee**

The Committee meets when necessary to deal with routine matters arising between scheduled Board meetings. Only non-executive Directors are able to make decisions on matters relating to the administration or the implementation of the Company's share schemes (other than for the purpose of allotting shares on exercise).

#### **Risk Committee**

The Committee chaired by the Company Secretary meets at least four times a year. Other members include the heads of key functions and representatives from each division. The core responsibilities are to:

- identify and evaluate key significant risks (excluding matters relating to financial reporting and systems which are the remit of the Audit Committee);
- assist the Board by providing a framework for managing risk throughout the Company;
- provide an appropriate level of reporting on the status of risk management within the Company to the Board;
- enable any corrective actions to be taken.

The Risk Committee is also responsible for promoting awareness of risk management. The Committee consolidates and prioritises for the Board the inputs received from the corporate functions managing risks, including insurance, health and safety, fire, environment, business continuity, security and legal (including compliance and regulatory). Key incidents and the management processes and systems introduced to monitor and manage these risks are reviewed by the Risk Committee. Quarterly reports are made to the Board which monitors progress in managing any issues identified.

# Corporate Governance continued

The Committee is assisted by various other Group-wide committees which deal with managing different areas of risk such as:

- Environmental Steering Group;
- Health & Safety Steering Group;
- Information Security Committee;
- Group Security Committee.

Business risks are categorised as external or strategic risks compared to risks which are more internal and operational in nature. The main general risks to which the Company is vulnerable are managing market expectations, damage to reputation, security, contingent liabilities and environment, health and safety. Strategic risks are managed by the Board with the assistance of the Committees of the Board, the main ones being the Audit and Risk Committees. This is supported by monthly finance, operational and development reports to the Board. The key elements of operational risk are rated according to exposure and are then benchmarked through a combination of self audit and surveys by external specialists. Insurance premiums are allocated according to the scores. Benchmarking thus enables closer monitoring of non-financial risk as well as providing an incentive to improve risk management.

Further details relating to environmental and health and safety issues are set out in the Environment, Health and Safety section of this annual report.

The Board has reviewed the risk management processes as identified by the Risk Committee and is satisfied that these are appropriate to the nature of the risks likely to affect the Group's businesses.

The number of full scheduled Board meetings and Committee meetings attended by each Director during the year was as follows:

	Scheduled Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
Sir Brandon Gough	15	3	11	2
Nicholas Brookes	13		10	2
Keith Hodgkinson	13	3	10	
Stephen King (appointed 31 January 2003)	3			
Ian Much	15			2
Michael Jeffries	13	2	9	
Philip Nolan	14	2	10	

## Relationship with Shareholders

The Company places a high priority on communications with and accountability to shareholders. A general interim statement and an audited annual report and accounts are sent to shareholders and posted on the Company's website as are presentations to institutional investors.

All shareholders are entitled to attend the Annual General Meeting and receive a Notice of Meeting which is posted at least 20 working days before the Annual General Meeting. Shareholders are able to vote electronically.

At the Annual General Meeting the Chairman announces details of proxy voting after each item of business. He also provides a trading update. The Chairmen of the Board Committees are also present. Shareholders may question the Board on these and other matters relating to the Group's business. Directors also have an opportunity to meet shareholders informally after the meeting.

The share register is actively monitored. During the year meetings take place with individual institutional shareholders and analysts and presentations are made at the time of major events. The Chairman is also available to meet such shareholders. The views of shareholders are reported to the Board and from time to time a survey of institutional shareholders' views is carried out by an external consultant.

## Relationship with Local Communities

Individual businesses are free to participate in their local communities by supporting local charities or good causes or encouraging their employees so to do.

## Independence of Auditors

Both the Audit Committee and the auditors themselves have safeguards in place to avoid the possibility of the auditors' objectivity and independence being compromised.

The Company has formalised its policy relating to:

- selecting the statutory auditors and approving the audit fee;
- commissioning non-audit work;
- circumstances in which it is appropriate or inappropriate for incumbent auditors to be allowed to or to be prohibited from performing non-audit work.

De La Rue's procedures for procuring audit and consulting services from external sources are:

- **Audit related services:** this covers regulatory and statutory reporting and formalities relating to shareholder and other circulars. In addition to the annual appointment of auditors by the shareholders, the Audit Committee reviews the auditors' performance on an ongoing basis, the extent to which the auditors keep the Audit Committee and management of the Company informed about material issues affecting the Company and any significant developments in accounting policies and standards which may have a material effect on the Company's financial position. The Audit Committee recommends to the Board the fee range appropriate to the audit for the next financial year and delegates authority to the Chairman of the Audit Committee to approve the final fee negotiated by the Finance Director.
- **Non-audit related services:** the Audit Committee regularly reviews the nature and extent of non-audit services seeking to balance the maintenance of objectivity and value for money. Incumbent auditors are prohibited from performing certain non-audit related services including remuneration consultancy and advice, the design, development or implementation of financial information or internal control systems. Certain non-audit services interrelate closely with the auditing work because of the significant knowledge the incumbent auditors may possess of the particular area of the business or issue. A total ban may lead to loss of business knowledge and may adversely affect audit quality. Whilst it may be cost effective for incumbent auditors to provide services, as a general principle all must be subject to competitive tender. The Finance Director determines where this shall apply. Such non-audit related services may include:
  - assistance to the internal audit team in auditing the Company's group-wide information systems to ensure compliance with best practice and that a consistent approach is applied across the Group;
  - work related to disposals undertaken by the external auditors due to their knowledge of the business concerned;
  - corporation tax compliance work assessed on a case by case basis, depending on who is best suited to perform the work.

There are some non-audit related services which are potentially acceptable for the incumbent auditors to perform but are subject to prior approval of the Chairman of the Audit Committee. These may include acquisition work where the selection criteria include detailed proposals, timescales, local resource and cost. The external auditors are not always used for this work.

In recognition of increasing public and investor concern over the potential effects of consulting services on auditors' independence, the external auditors have not performed any significant general consulting work in recent years. During 2002/2003 the amount of consulting related non-audit fees paid to PricewaterhouseCoopers LLP was less than 38 per cent of the audit fee and principally related to IT audits and tax advice.

The auditors report to the Audit Committee on the actions they take to comply with the professional and regulatory requirements and best practice designed to ensure their independence as external auditors. This includes, for example, the rotation of key members of the PricewaterhouseCoopers LLP audit team and ensuring, where appropriate, that complete confidentiality is maintained between different parts of the firm which may be providing services to De La Rue.

### **Compliance with Section 1 of the Combined Code on Corporate Governance**

As required by the Listing Rules of the Financial Services Authority, the Company has complied throughout 2002/2003 with Section 1 of the Combined Code provisions on internal control by establishing the procedures necessary to implement the guidance issued by the Internal Control Working Party of the Institute of Chartered Accountants in England and Wales issued in September 1999 (the Turnbull Committee report) and reporting in accordance with that guidance.

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Through the Risk and Audit Committees (details of which are set out on pages 33 and 34), there is an established process for identifying, evaluating and managing any significant risks which are faced by the Company. This process has been in place throughout the year and up to the date of approval by the Board of the Annual Report and Accounts, and is regularly reviewed by the Board. The Board has conducted a review of the effectiveness of the Group's system of internal controls in the year. The review process used by the Board includes:

- discussions with management on risk areas identified by management and/or the audit process and any changes from the previous review;
- the review of internal and external audit plans;
- the review of significant issues identified by internal and external audits; and
- the review of significant Group risks reported by the Risk Committee.

# Corporate Governance continued

The procedures for internal control and internal financial control are set out on the Company's intranet. Divisional managing directors, to whom general managers of each business report, are responsible for establishing and maintaining these procedures. A summary of the key policies and procedures is provided to senior managers.

In addition, the Board received during the year other reports on such matters as security, health and safety, environmental issues and fire risks.

The Directors acknowledge their responsibility for the Group's system of internal financial control, including taking reasonable steps to ensure that the systems are being maintained. Internal control systems are designed to meet the particular needs of the Group, and the risks to which it is exposed, with procedures intended to provide effective internal financial control. The controls by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The key features of these procedures are outlined below. The Group treasury department acts as a service centre to manage the Group's cash and borrowings, including interest rate and currency exposures, operating within clearly defined guidelines approved by the Board. Financial instruments used by the department are also subject to Board approval.

The financial control framework includes the following key features:

- an annual strategic planning process;
- an annual budget;
- a system of monthly reporting by each operating subsidiary, which involves comparison of actual results with the original budget;
- monthly reporting of performance to the Board.

The main control procedures which address the financial implications of the major business risks are centred on strict approval procedures, which apply to all subsidiaries. These include:

- executive Directors' approval of all major non-routine revenue expenditure;
- Board approval of all major capital expenditure;
- Board approval of all acquisitions and disposals;
- a system of authorisation limits which cascades throughout the Group;
- Board consideration of any matter having a material effect on the Group.

The Directors also monitor the internal financial control systems using reports received from management during the year. There is a system of internal control reviews which includes a self-assessment programme covering both financial and IT controls. The internal audit programme is centrally co-ordinated. These are set and reviewed by the Audit Committee, together with reports from the external auditors on internal control matters noted as part of their audit work.

The Board considers that it has complied throughout the financial year with the Code provisions set out in Section 1 of the Combined Code.

By order of the Board



Louise Fluker **Company Secretary**

27 May 2003

# Remuneration Report

The following is a report from the Remuneration Committee which has been approved and adopted by the Board and prepared in accordance with the requirements introduced by the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority.

## Membership and Responsibilities

The Remuneration Committee consists exclusively of independent non-executive Directors. The members are: Nicholas Brookes (Chairman), Sir Brandon Gough, Keith Hodgkinson, Michael Jeffries and Philip Nolan. Their biographical details appear on page 27. Ian Much, Chief Executive, Graham Maundrell, Group Director of Human Resources and Peter Hawker, Group Director of Compensation and Benefits are requested to attend meetings on an ad-hoc basis to provide assistance and advice to the Committee. The Secretary of the Committee is Louise Fluker, General Counsel and Company Secretary, who provides professional assistance to the Committee on governance issues.

The Committee is authorised to and uses independent consultants to provide advice on remuneration levels amongst comparator companies, design of bonus incentive schemes and share option schemes and performance monitoring. Watson Wyatt LLP has provided advice on remuneration levels whilst New Bridge Street Consultants has advised on the achievement of performance targets in share option schemes.

The Chief Executive is consulted on the remuneration of his direct reports and other senior executives and will seek to ensure a consistent approach across the Group. No executive Director or employee is present when his or her remuneration is being discussed.

The Committee is required by its terms of reference to determine Company policy for executive remuneration for approval by the Board. The remuneration policy is kept under regular review to ensure that it remains aligned with the Company's strategy and changes taking place in the market.

## Remuneration for Non-Executive Directors

The Board determines the fees paid to the Chairman and other non-executive Directors taking into account market norms, comparisons with companies of equivalent size and the duties required of non-executive Directors. The Board was advised by Watson Wyatt LLP during 2002/2003. Details of fees to the Chairman and other non-executive Directors are set out on page 39. The Chairmen of the Audit and Remuneration Committees each receive an additional fee of £5,000 for this responsibility. Non-executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's bonus or share option schemes.

## Remuneration Policy for Executive Directors and Senior Executives

De La Rue's remuneration policy is designed to support the Company in achieving its key business strategies by enabling it to attract and retain employees who have the necessary skills and commitment and to motivate such employees by providing outstanding reward opportunities linked to the achievement of outstanding results. The reward package for executive Directors and senior executives comprises:

- basic salary, set at competitive levels relative to the external market and individual contribution;
- an annual incentive award, providing substantial total earnings opportunity, to reward achievement of short-term results and specific personal objectives;
- a long-term incentive for senior management comprising discretionary executive share option awards, with stretching performance targets;
- share ownership guidelines to promote retention and longer term ownership by senior executives with a share matching plan;
- pension and other benefits in line with competitive practice.

The performance related elements of remuneration form a significant proportion of the total remuneration package. In particular, the combined potential earnings from the annual and long-term incentives outweigh the other elements.

The Company intends to continue this approach to the structure of remuneration for the foreseeable future (subject to any changes in legislation).

The Committee approves:

- all elements of the Company's executive Directors' and senior executives' remuneration, including base salaries, benefits, pensions, incentive measures and targets;
- all contracts with executive Directors and any compensation arrangements arising from the early termination of these contracts;
- all grants of shares and options under the Company's share schemes, any changes to existing schemes and the introduction of any new schemes;
- the design of bonus schemes for divisions of the Company.

The Committee regularly benchmarks key jobs and obtains detailed information from external and internal sources about current practices in a selected comparator group of companies in order to achieve its policy. The objective is to ensure that total remuneration packages are fair and competitive and provide simplicity and transparency. The Committee also seeks to ensure that the interests of the executives are aligned with those of the shareholders.

# Remuneration Report continued

The Board adopted the Committee's recommendations without substantial amendment during the last year. A resolution will be put to shareholders to approve the Remuneration Report at the forthcoming Annual General Meeting.

## Salaries for Executive Directors and Senior Executives

Details of each individual executive Director's remuneration are set out on page 39.

Basic salaries reflect the responsibilities, market value and sustained performance level of executive Directors and senior executives. Salaries are based on the rate for similar posts in companies of a comparable size and complexity, although individual salaries may be above or below this level, reflecting performance and seniority in the position, whilst sensitive to employees' pay and conditions elsewhere in the Group. Basic salaries are normally reviewed annually by the Remuneration Committee.

## Annual Incentive Award

Performance-related elements of remuneration form a significant proportion of total remuneration packages.

Executive Directors and senior executives are eligible to receive an annual incentive award which is paid as a percentage of basic salary and is based on achieving targets for the year set by the Remuneration Committee. For the financial year 2002/2003 the maximum incentive award achievable was 80 per cent of basic salary for Ian Much and up to 60 per cent of basic salary for his direct reports. The Committee considers each year what are appropriate performance measures to align the reward strategy with the business strategy and these will vary according to division in the case of divisional schemes or executive in the case of executive Directors and senior executives. Typical measures will include headline earnings per share, operating cashflow and operating profit together with specific personal objectives set for each individual. The incentive plan is structured so that there is no payment unless a minimum performance threshold has been achieved and that the maximum payout will only be made if stretching and challenging targets are met.

The Committee has used a combination of these measures for the past four years and for the annual bonus scheme of 2003/2004. Once the design of the bonus scheme has been approved by the Committee it is then introduced throughout the business to eligible employees where participation is calculated by a percentage of their annual salary determined by their seniority.

Executive Directors and certain key executives may, at the discretion of the Remuneration Committee, apply up to 50 per cent of their pre-tax annual incentive award to acquire qualifying shares under the matching shares scheme.

## Service Contracts

Non-executive Directors have letters of appointment specifying fixed terms of office of three years, renewable for a further three years subject to satisfactory performance. They do not have service contracts. The Board may invite non-executive Directors to serve an additional third three-year term after a detailed review. The executive Directors have service contracts with a 12-month notice period and provision for compensation on termination not exceeding 12 months' remuneration.

If Ian Much's service contract is terminated by reason of a change of control (other than for the purpose of amalgamation or reconstruction) the Company is liable to pay the higher of (a) twice basic salary at termination plus compensation equivalent to the average annual compensation under the bonus scheme based on awards made in respect of the two final years preceding the date of termination or (b) 30 months' basic salary. The compensation payable will now be reduced proportionately following Ian Much's 58th birthday.

If Stephen King's employment is terminated by reason of a change of control (other than for the purpose of amalgamation or reconstruction) within 24 months from the date of commencement of his employment, and termination occurs within three months of the date on which the change of control takes effect, the Company is liable to pay annual gross salary at the rate current on the date of termination multiplied by 1.25. Such sum will be reduced by 1/12th in respect of each month (pro rata in the case of part month) of any notice of termination given by the Company.

Paul Hollingworth was not eligible for compensation upon his resignation from the Company on 30 June 2002.

The Remuneration Committee considers the appropriateness of the principle of mitigation of damages on early termination of a service contract.

## Benefits

Executive Directors and senior employees are eligible for a range of taxable benefits which include the provision of a company car, or a cash alternative, and payment of its operating expenses, including fuel, membership of private medical and permanent health insurance schemes, life assurance and reimbursement of the annual subscription to an appropriate professional body. Details of the emoluments of the executive Directors during the year can be found on page 39.



## Directors' Emoluments

	Salary and fees 2003 £'000	Benefits 2003 £'000	Bonus 2003 £'000	Total 2003 £'000	Total 2002 £'000
<b>Executive Directors</b>					
Ian Much (highest paid director)	405	39	65	509	627
Paul Hollingworth (resigned 30 June 2002)	63	6	–	69	373
Stephen King (appointed 31 January 2003)	40	3	25	68	–
	<b>508</b>	<b>48</b>	<b>90</b>	<b>646</b>	<b>1,000</b>
<b>Non-executive Chairman</b>					
Sir Brandon Gough	115	–	–	115	111
<b>Non-executive Directors</b>					
Nicholas Brookes	31	–	–	31	30
Keith Hodgkinson	31	–	–	31	30
Michael Jeffries	26	–	–	26	25
Philip Nolan	26	6*	–	32	15
	<b>229</b>	<b>6</b>	<b>–</b>	<b>235</b>	<b>211</b>
<b>Aggregate emoluments</b>	<b>737</b>	<b>54</b>	<b>90</b>	<b>881</b>	<b>1,211</b>

\*Relates to reimbursement of travelling expenses from Ireland to attend Board meetings.

## Pension

All executive Directors and senior executives in the UK may join the senior section of the De La Rue Pension Scheme. The Scheme has an employee contribution rate of five per cent of basic salary for all salary levels. Where required by Inland Revenue rules, basic salary is capped (£97,200 for 2002/03). Members are provided with a pension of up to two thirds of pensionable salary on retirement. The actual level of pension depends upon the number of years' service with the Group. The normal retirement age is 62 (except for Ian Much whose normal retirement age is 60) although accrued pensions may be drawn in full from age 60. The Scheme also provides a lump sum death in service benefit and pensions for dependants of members on their death. Executive Directors and certain senior executives for whom a personal pension arrangement is more appropriate, as an alternative to joining the Company scheme, can receive a Company contribution subject to Inland Revenue rules. In addition they may receive a payment into a Funded Unapproved Retirement Benefit Scheme (FURBS).

Details of each executive Director's pension arrangements are as follows:

Ian Much is eligible for a target pension of 20 per cent of basic salary payable from age 60. This is provided through a combination of a FURBS and membership of the senior section of the De La Rue Pension Scheme. He is required to make a contribution of five per cent of basic capped salary to his pension arrangement and is covered for a lump sum on death in service based on four times basic salary, with a widow's pension of 40 per cent of basic salary in the event of death in service. The Company's external actuary assesses the Company's contributions to the Scheme.

Stephen King is eligible for a target pension from all sources of two thirds of basic salary at the age of 62. Part of this benefit arises from previous employment. His target pension is provided through a combination of a FURBS and membership of the senior section of the De La Rue Pension Scheme. He is required to make a contribution of five per cent of basic capped salary to his pension arrangement and is covered for a lump sum on death in service based on four times basic salary, with a widow's pension of 60 per cent of basic salary in the event of death in service. The Company's external actuary assesses the Company's contributions to the Scheme.

Paul Hollingworth was a member of the senior section of the De La Rue Pension Scheme and contributions were paid on his behalf to this and a FURBS up to 30 June 2002. He has been granted a deferred pension in the senior section of the De La Rue Pension Scheme based on his service with the Company and in accordance with the Rules of the Scheme. The proceeds of the FURBS will be held in trust and may be taken at any time after the age of 50.

# Remuneration Report continued

## Directors' Pension Entitlements

	Defined benefit scheme (£'000)					Defined contribution schemes (£'000)		
	Additional pension accrued during the year ended 29 March 2003	Accrued pension entitlement at 29 March 2003	Transfer value of accrued pension at 31 March 2002	Transfer value of accrued pension at 29 March 2003	Contributions from Director	Increase in transfer value of accrued pension during year (net of contributions by Director)	Contributions over year to 29 March 2003	Contributions over year to 30 March 2002
Ian Much	1	7	87	119	5	27	194	174
Paul Hollingworth (resigned 30 June 2002)	2	10	48	45	1	(4)	14	53
Stephen King (appointed 31 January 2003)	1	1	–	2	1	1	10	–
	4	18	135	166	7	24	218	227

### Note

The Listing Rules of the Financial Services Authority are different from the Directors' Remuneration Regulations 2002 and require the following disclosures for defined benefit plans which are calculated on an alternative basis than disclosed above.

- Additional annual pension accrued during the year ending 29 March 2003 (excluding inflation): Ian Much £1,631; Paul Hollingworth £1,868; Stephen King £540.
- Transfer values of increase in accrued pension (excluding inflation and contributions by Director) during the year ending 29 March 2003: Ian Much £26,183; Paul Hollingworth £8,848; Stephen King £2,457.

## Share Schemes

At the Annual General Meeting in 2002, shareholders' approved establishing a new executive share option plan to replace the Share Price Improvement Plan and Executive Share Option Scheme; modifying the Phantom Share Option Scheme; renewing the Savings-related Share Option Scheme, and introducing a Matching Shares Scheme and a new US Employee Share Purchase Plan. Shareholders also authorised the Directors to establish a Share Incentive Plan.

The Remuneration Committee believes that its policy for executives is currently best represented by the use of share option grants. The Committee determines all awards to executives and Directors under the executive plans. Awards are discretionary and subject to the limits approved by the Board whilst reflecting good corporate governance practice and institutional guidelines. The performance conditions attached to share options apply to all executive Directors. Details of all current schemes are described below.

### Sharesave Scheme

All UK employees of the Company may join its Inland Revenue approved SAYE Scheme. Options are granted over De La Rue plc shares, at the prevailing market price at the time of grant (with a discretionary discount to the market price), to employees who agree to save between £5 and £250 per month over a period of three or five years. A grant was made in January 2003 at a price of 244.50 pence which was a 10 per cent discount, and 32 per cent of eligible employees participated.

### US Employee Share Purchase Plan

The Company introduced a US Employee Share Purchase Plan under section 423 of the US Internal Revenue Code in January 2003. This provides a competitive incentive for US employees to invest up to 10 per cent of basic salary each year in the Company, subject to the statutory limit (currently US\$25,000 worth of shares). The purchase price is 85 per cent of the lower market value of a De La Rue share at the beginning (235 pence) or end of the Offering Period on 31 December 2003. 20 per cent of eligible employees participated.

### Executive Share Option Plan

The new Executive Share Option Plan was established in July 2002 and provides for the grant of options at a price equal to the average market value of a De La Rue plc ordinary share over the three dealing days immediately preceding the date of grant with a performance condition based on the achievement of an earnings per share growth target. Options were granted to senior executives in August 2002 at an option price of 319.17 pence, subsequent to achieving the performance condition over three years of three per cent per annum earnings per share growth over the rate of increase in the retail prices index. If this condition is not met at the end of the performance period, retesting of the performance target will be allowed twice, on the fourth and fifth anniversaries of the grant date.

The Remuneration Committee considered using a performance measure based on a comparison of the Company's Total Shareholder Return with those of other companies, but given the difficulty in finding a suitable group of comparator companies, the current market conditions and at the current stage of the Group's development, the Committee's view was that a performance measure based on growth in earnings per share was more appropriate.

The Option Plan is in two parts. Part A is approved by the Inland Revenue and so confers tax relief on UK resident employees on any gains arising on exercise. Part B is unapproved to enable the grant of options to an individual where the cumulative value of the employee's subsisting options at the date of grant exceeds £30,000. Options are granted for nil payment and may normally only be granted within 42 days of any announcement of results. The Remuneration Committee also has the power to approve the grant of options at other times in exceptional circumstances such as the need to attract a Director or senior executive to join the Company.

A Phantom Share Option Scheme is operated under similar rules to provide an equivalent cash incentive to senior executives in jurisdictions where the tax or securities laws make it impracticable to operate a share option scheme.

The Remuneration Committee will regularly review the performance target and may increase but not relax it to ensure the performance target remains a challenging and stretching test of performance.

### **Matching Shares Scheme**

One of the principles of remuneration policy is that certain key executives should be encouraged to acquire and retain a personal shareholding in the Company. The Company has now introduced a policy requiring such executives to build up a holding of shares in the Company equivalent to one times salary over a period of five years.

In order to encourage key executives to build up their personal shareholding, qualifying shares newly acquired by key executives will, if lodged with a nominee or trustee for a two-year period and subject to a performance target, qualify for an additional free (or 'matching') share for every two qualifying shares lodged. The performance target which must be satisfied is an increase in the growth of the Company's earnings per share over the latest two financial years which is at least three per cent per annum on average greater than the rate of increase in the retail prices index. The Remuneration Committee will keep the performance target under review and may increase but not relax it from time to time as it considers appropriate. The first acquisition of qualifying shares will not be earlier than June 2003 when any bonuses for the year ended 29 March 2003 become payable. Ian Much is ineligible to participate.

### **Executive Share Option Scheme**

The Company operates an Executive Share Option Scheme with an Inland Revenue approved section and an unapproved section. It will expire in 2004. Options granted under the Scheme since July 1996 can only be exercised if performance targets are met. The performance condition that has been applied to the 1997 grant and to all subsequent grants of options up to and including 2001 is that options can only be exercised if the total return of a share over a consecutive three year period exceeds the total return of the median ranked company in the FTSE Mid-250 Index over the same period. Options granted in 1996 are normally exercisable only if the total return of a share over a rolling three-year period exceeds the average total return of the FTSE All Share Index. A Phantom Share Option Scheme has been operated and the performance targets for grants prior to 2002 match those of the Executive Share Option Scheme.

### **Share Price Improvement Plan**

The Company established the Share Price Improvement Plan in July 1999. The objective of the Plan has been to achieve improvement in the Company's value by aligning shareholders' interests with those of senior key employees. Currently 24 employees have received options under the Plan. The performance targets are challenging and measure the Company's progress over a number of specified periods. Options are exercisable on a sliding scale related to the Company's share price improvement over the performance period. The first grant of options failed to meet the minimum target price of 322.95 pence on the third anniversary in 2002 and consequently all those options lapsed. No options under the second and final grants of the Plan become exercisable unless the share price achieves a minimum target price of 392.22 and 557.06 pence respectively. In addition, even if the minimum target price has been achieved, options may only be exercised if the Company's percentage increase in share price has equalled or exceeded the percentage increase in the FTSE 250 Index (excluding investment companies) over the same performance period. If the share price performance permits options to be exercised, they must be exercised within twelve months of vesting and optionholders must retain a proportion of shares for a minimum period of three years. There will be no further grants of options under the Plan.

# Remuneration Report continued

## Directors' Share Options

	Date of grant	31 March 2002 or date of appointment	Number of options			29 March 2003	Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date
			Exercised during year	Granted during year	Lapsed during year					
<b>Ian Much</b>										
Executive Share Options	Sep '98	301,600	-	-	-	301,600	218.333	-	Sep '01	Sep '08
	Nov '99	204,002	-	-	-	204,002	333.330	-	Nov '02	Nov '09
<b>Share Price Improvement Plan</b>										
	Nov '99	315,800	-	-	315,800	-	215.300	-	Nov '02	Nov '03
	Jul '00	105,600	-	-	-	105,600*	340.900	-	Jul '03	Jul '04
	Jun '01	76,000	-	-	-	76,000*	506.420	-	Jun '04	Jun '05
		1,003,002		-	315,800	687,202				
<b>Paul Hollingworth</b>										
Executive Share Options	Nov '99	120,001	-	-	120,001	-	333.330	-	Nov '02	Nov '09
(resigned 30 June 2002)	Jul '00	60,200	-	-	60,200	-	348.330	-	Jul '03	Jul '10
	Jul '01	43,000	-	-	43,000	-	522.300	-	Jul '04	Jul '11
		223,201	-	-	223,201	-				
<b>Stephen King</b>										
Executive Share Options	Mar '03	-	-	100,000	-	100,000	200.500	-	Mar '06	Mar '13
		-	-	100,000	-	100,000				

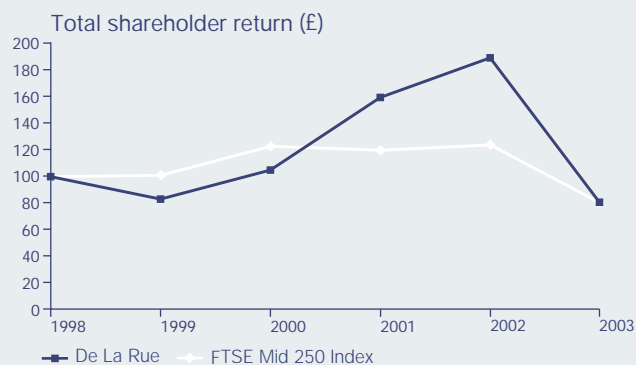
\*subject to minimum target price per share being achieved

The market price of the ordinary shares at 29 March 2003 was 185 pence and the price range during the year was 182.5 pence to 520 pence.

During 2002/2003 no executive Director exercised any share options although options granted in September 1998 and November 1999 have vested as the performance targets under the Executive Share Option Scheme were met.

### Shareholder Return

The performance chart opposite shows the value by 29 March 2003 of £100 invested in the Company on 31 March 1998 compared with the value of £100 invested in the FTSE Mid 250 Index. The Remuneration Committee considers this to be the most appropriate basis for comparison as the Company has been a constituent of the 250 Index throughout the period.



### Information Subject to Audit

Under Part 3 of Schedule 7A of the Companies Act 1985 the following tables and related footnotes are subject to audit: 'Directors' Emoluments', 'Directors' Pension Entitlements', 'Directors' Share Options' and the share option performance criteria outlined under the paragraphs 'Executive Share Option Plan', 'Executive Share Option Scheme' and 'Share Price Improvement Plan' on pages 39 to 42. The other parts of the Remuneration Report including the performance graph opposite are not subject to audit.

By order of the Board

Nicholas Brookes **Chairman of the Remuneration Committee**  
27 May 2003

# Auditors' Report

## Independent Auditors' Report to the Members of De La Rue plc

We have audited the financial statements which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the Statement of Accounting Policies. We have also audited the disclosures required by Part 3 of Schedule 7A of the Companies Act 1985 contained in the Remuneration Report ('the auditable part').

## Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the Remuneration Report in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review, the Operational Reviews (Cash Systems, Security Paper and Print and Global Services), the Financial Review, the Environment, Health and Safety Report, the Directors' Report, the unaudited part of the Remuneration Report, the Corporate Governance Statement, the Principal Subsidiaries, Branches and Associated Companies and the Five Year Record.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

## Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the Remuneration Report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 29 March 2003 and of the profit and cashflows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
27 May 2003

## Notes

The maintenance and integrity of the De La Rue plc website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Group Profit and Loss Account

For the year ended 29 March 2003

	Notes	2003 £m Before exceptionals	2003 £m Exceptional items	2003 £m Total	2002 £m Before exceptionals	2002 £m Exceptional items	2002 £m Total
<b>Turnover</b>							
Continuing operations		536.6		536.6	641.7		641.7
Acquisitions		46.1		46.1	–		–
		582.7		582.7	641.7		641.7
Discontinued operations		–		–	9.5		9.5
	1	582.7		582.7	651.2		651.2
<b>Operating profit</b>							
Continuing operations		37.5		37.5	77.6		77.6
Reorganisation costs			(28.9)	(28.9)		(7.3)	(7.3)
Loss on impairment of investments			(1.3)	(1.3)		–	–
		37.5	(30.2)	7.3	77.6	(7.3)	70.3
Acquisitions		0.5		0.5	–		–
Reorganisation costs			(3.0)	(3.0)		(3.8)	(3.8)
		0.5	(3.0)	(2.5)	–	(3.8)	(3.8)
		38.0	(33.2)	4.8	77.6	(11.1)	66.5
Discontinued operations		–		–	(1.4)		(1.4)
Operating profit/(loss) before goodwill amortisation		38.0	(33.2)	4.8	76.2	(11.1)	65.1
Goodwill amortisation		(3.6)	(16.0)	(19.6)	(2.8)		(2.8)
<b>Group operating profit/(loss)</b>	1, 2, 3	34.4	(49.2)	(14.8)	73.4	(11.1)	62.3
Share of operating profits of associated companies	1	9.2		9.2	11.8		11.8
<b>Total operating profit/(loss)</b>		43.6	(49.2)	(5.6)	85.2	(11.1)	74.1
Profit on the disposal of discontinued operations	4		–	–		1.5	1.5
Profit on sale of investments	4		–	–		22.7	22.7
Non-operating items			–	–		24.2	24.2
<b>Profit/(loss) on ordinary activities before interest</b>		43.6	(49.2)	(5.6)	85.2	13.1	98.3
Net interest: Group	5	0.5		0.5	(0.4)		(0.4)
Associates		0.4		0.4	3.0		3.0
		0.9		0.9	2.6		2.6
<b>Profit/(loss) on ordinary activities before taxation</b>		44.5	(49.2)	(4.7)	87.8	13.1	100.9
Tax on profit/(loss) on ordinary activities	6	(12.5)	10.0	(2.5)	(24.2)	2.0	(22.2)
<b>Profit/(loss) on ordinary activities after taxation</b>		32.0	(39.2)	(7.2)	63.6	15.1	78.7
Equity minority interests		(1.0)	0.3	(0.7)	(1.5)		(1.5)
<b>Profit/(loss) for the financial year</b>		31.0	(38.9)	(7.9)	62.1	15.1	77.2
Dividends	8	(24.6)		(24.6)	(25.5)		(25.5)
<b>Transferred to/(from) reserves</b>	18	6.4	(38.9)	(32.5)	36.6	15.1	51.7
<b>Earnings per ordinary share</b>	7	16.9p	(21.2)p	(4.3)p	32.7p	8.0p	40.7p
<b>Diluted earnings per ordinary share</b>		16.8p	(21.1)p	(4.3)p	32.2p	7.8p	40.0p
<b>Headline earnings per ordinary share</b>	7	18.9p	(11.9)p	7.0p	34.4p	(5.0)p	29.4p
<b>Dividends per ordinary share</b>	8	13.6p		13.6p	13.4p		13.4p

A reconciliation between earnings per share, as calculated according to Financial Reporting Standard No. 14 'Earnings per Share' (FRS 14) issued by the Accounting Standards Board, and headline earnings per share, as calculated according to the definition of headline earnings in Statement of Investment Practice No. 1 'The Definition of Headline Earnings' issued by the Institute of Investment Management and Research, is shown in note 7 of the Notes to the Accounts.

# Balance Sheets

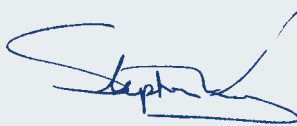
At 29 March 2003

	Notes	2003 Group £m	2002 Group £m	2003 Company £m	2002 Company £m
<b>Fixed assets</b>					
Intangible assets	9	54.6	45.7	–	–
Tangible assets	10	163.4	167.7	–	–
Investments: Associates	11	13.5	17.6	–	–
Other investments	11	0.2	2.4	151.6	151.6
Own shares	11	19.1	19.8	19.1	19.8
		<b>250.8</b>	<b>253.2</b>	<b>170.7</b>	<b>171.4</b>
<b>Current assets</b>					
Stocks	12	99.2	97.3	–	–
Debtors	13	119.1	138.6	50.6	151.9
Deferred taxation	14	37.2	30.5	–	–
Cash at bank and in hand		51.4	87.2	55.1	48.3
		<b>306.9</b>	<b>353.6</b>	<b>105.7</b>	<b>200.2</b>
<b>Creditors: amounts falling due within one year</b>					
Short-term borrowings	15	(0.5)	(12.4)	(92.8)	(82.8)
Other creditors	15	(208.3)	(203.4)	(17.0)	(27.1)
		<b>(208.8)</b>	<b>(215.8)</b>	<b>(109.8)</b>	<b>(109.9)</b>
<b>Net current assets/(liabilities)</b>					
		<b>98.1</b>	<b>137.8</b>	<b>(4.1)</b>	<b>90.3</b>
<b>Total assets less current liabilities</b>					
		<b>348.9</b>	<b>391.0</b>	<b>166.6</b>	<b>261.7</b>
<b>Creditors: amounts falling due after more than one year</b>					
Long-term borrowings	16	(42.7)	(24.8)	(15.9)	–
Other creditors	16	(4.9)	(2.7)	(0.9)	(49.3)
		<b>(47.6)</b>	<b>(27.5)</b>	<b>(16.8)</b>	<b>(49.3)</b>
<b>Provisions for liabilities and charges</b>					
	17	(53.2)	(47.6)	–	–
		<b>248.1</b>	<b>315.9</b>	<b>149.8</b>	<b>212.4</b>
<b>Capital and reserves</b>					
Called up share capital	18	45.4	48.8	45.4	48.8
Share premium	18	12.5	11.5	12.5	11.5
Revaluation reserve	18	1.8	1.8	–	–
Capital redemption reserve	18	3.5	–	3.5	–
Other reserve	18	(83.8)	(83.8)	–	–
Profit and loss account	18	264.5	334.5	88.4	152.1
<b>Shareholders' funds</b>		<b>243.9</b>	<b>312.8</b>	<b>149.8</b>	<b>212.4</b>
<b>Equity minority interests</b>		<b>4.2</b>	<b>3.1</b>	<b>–</b>	<b>–</b>
		<b>248.1</b>	<b>315.9</b>	<b>149.8</b>	<b>212.4</b>

Approved by the Board on 27 May 2003



Sir Brandon Gough Chairman



Stephen King Finance Director

# Group Cash Flow Statement

For the year ended 29 March 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	20a	59.1	88.3
Dividends received from associated companies		9.0	28.3
Returns on investments and servicing of finance	20b	(1.1)	(1.0)
Taxation		(3.7)	(11.2)
Capital expenditure and financial investment	20c	(3.7)	(22.0)
Acquisitions and disposals	20d	(33.4)	(38.0)
Equity dividends paid		(33.3)	(24.1)
<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>		<b>(7.1)</b>	<b>20.3</b>
Management of liquid resources	20e	28.2	8.7
Financing	20f	(25.5)	(23.9)
<b>(Decrease)/increase in cash in the period</b>		<b>(4.4)</b>	<b>5.1</b>
<b>Reconciliation of net cashflow to movement in net funds</b>	20g		
(Decrease)/increase in cash in the period		(4.4)	5.1
Cash inflow from decrease in liquid resources		(28.2)	(8.7)
Cash (outflow)/inflow from (decrease)/increase in funds		(11.4)	30.3
(Decrease)/increase in funds resulting from cash flows		(44.0)	26.7
Loans and finance leases acquired with subsidiary		-	(12.8)
Translation difference		2.2	-
<b>Movement in net funds in the period</b>		<b>(41.8)</b>	<b>13.9</b>
Net funds at start of period		50.0	36.1
<b>Net funds at end of period</b>		<b>8.2</b>	<b>50.0</b>
<b>Analysis of net funds</b>			
Cash		24.2	31.8
Liquid resources		27.2	55.4
Overdrafts		(0.5)	(4.8)
Other debt due within one year		-	(7.6)
Other debt due after one year		(42.7)	(24.8)
<b>Net funds at end of period</b>		<b>8.2</b>	<b>50.0</b>



# Group Statement of Total Recognised Gains and Losses

For the year ended 29 March 2003

	2003 £m	2002 £m
(Loss)/profit for the financial year: Group	(14.8)	66.7
Associates	6.9	10.5
	(7.9)	77.2
Currency translation differences on foreign currency net investments	0.5	(0.2)
<b>Total recognised (losses)/gains for the year</b>	<b>(7.4)</b>	<b>77.0</b>
Prior year adjustment	-	43.9
<b>Total (losses)/gains recognised since last annual report</b>	<b>(7.4)</b>	<b>120.9</b>

There is no material difference between the reported profit shown in the Group Profit and Loss Account and the profit for the relevant periods restated on an historical cost basis.

## Reconciliation of Movements in Shareholders' Funds

For the year ended 29 March 2003

	2003 £m	2002 £m
(Loss)/profit for the financial year	(7.9)	77.2
Dividends	(24.6)	(25.5)
	(32.5)	51.7
Share capital issued	1.1	8.8
Transfer to share premium	-	(2.4)
Shares repurchased	(38.0)	-
Currency translation differences on foreign currency net investments	0.5	(0.2)
Net (decrease)/increase in shareholders' funds	(68.9)	57.9
Opening shareholders' funds	312.8	254.9
<b>Closing shareholders' funds</b>	<b>243.9</b>	<b>312.8</b>

# Accounting Policies

For the year ended 29 March 2003

## Basis of Preparation

The consolidated accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with applicable UK accounting standards.

The consolidated accounts have been prepared as at 29 March 2003. The comparatives for the 2002 financial year are for the year ended 30 March 2002.

## Basis of Consolidation

The results of all of the subsidiaries of the Company have been fully consolidated. All of these subsidiaries and the material associated companies prepare their annual financial statements to 29 March except for certain associated companies whose year end is 31 December. The results of businesses acquired are included from the effective date of acquisition and the results of businesses sold are included up to the date of disposal.

## Associated Companies

An associated company is one in which the Group has a long term investment and is in a position to exercise significant influence over the company in which the investment is made.

The Group's share of the profits less losses of associated companies is included in the Group Profit and Loss Account. Its interest in their net assets is included as an investment in the Group Balance Sheet at the Group's share of the net assets at acquisition plus the Group's share of retained profits.

## Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the quoted rates of exchange at the year end. The profits and losses of overseas subsidiaries and associated companies are translated into sterling at average rates for the year.

Differences arising from the restatement of the opening balance sheets of overseas subsidiaries and associates at closing rates, together with the year end adjustment to closing rates of profit and loss accounts translated at average rates, are taken to reserves.

Differences arising on foreign currency borrowings are taken to reserves to the extent that they are offset by the exchange differences arising from the restatement of the opening balance sheets of overseas subsidiaries and associates.

When currencies are sold or bought in relation to a trading transaction, the transaction is accounted for at the contracted rate of exchange.

All other exchange differences are included in the profit and loss account.

## Turnover

Group turnover represents sales to external customers of manufactured products and services which fall within the Group's ordinary trading activities. This excludes VAT and other sales taxes.

Revenue is recognised in the profit and loss account when goods or services are supplied to external customers in accordance with the terms of sale.

## Goodwill Amortisation

Upon the acquisition of a business, fair values that reflect the conditions at the date of acquisition are attributed to the identifiable net assets acquired. Where the consideration paid for a business exceeds such net assets, the difference is treated as goodwill and is capitalised and amortised over an appropriate period not exceeding 20 years. For acquisitions prior to 1 April 1998 all goodwill is eliminated in the Group balance sheet against reserves. On disposal of a business, the profit or loss on disposal is determined after including the attributable amount of purchased goodwill to the extent that this has not been amortised through the profit and loss account.

Where the fair value of the identifiable net assets exceeds the fair value of the consideration for an acquired undertaking, the difference is treated as negative goodwill and is capitalised and amortised through the profit and loss account in the period in which the non-monetary assets acquired are recovered.

## Other Intangible Assets

Development costs and distribution rights are amortised over their useful economic lives as determined by the life of the products to which they relate.

### **Tangible Fixed Assets and Depreciation**

Fixed assets are stated at cost or at valuation, less depreciation. No depreciation is provided on freehold land. Freehold and long leasehold buildings are depreciated at a rate of two per cent per annum. Other leasehold interests are depreciated over the unexpired period of the lease. A long leasehold is defined as one in which the remaining term of the lease is more than 50 years.

The Group's policy is to write off the cost or valuation of all other plant and equipment evenly over their estimated remaining useful life at rates which vary between eight per cent and 50 per cent per annum. The principal annual rates of depreciation used are ten per cent on plant and machinery, ten per cent on fixtures and fittings, and 33 per cent on tooling and computer equipment. No depreciation is provided for assets in the course of construction.

The Directors have not adopted a policy of revaluing tangible fixed assets as permitted by FRS 15.

### **Leasing**

Operating lease rentals are charged to the profit and loss account as incurred.

Tangible fixed assets acquired under finance leases are included in the balance sheet at their equivalent capital value and are depreciated over their estimated remaining useful lives. The corresponding liabilities are recorded as a creditor and the interest elements of the finance lease rentals are charged to the profit and loss account.

### **Research and Development**

Product research and development expenditure is written off in the year in which it is incurred.

### **Taxation**

The charge for taxation is based on the profit for the year. Deferred taxation is accounted for in accordance with FRS 19 'Deferred Tax' which requires the recognition of deferred tax assets and liabilities on the balance sheet to the extent that they will more likely than not materialise.

Where advance corporation tax cannot be offset with reasonable certainty against current, future or deferred UK taxation liabilities, taking into account expected results and dividends, it is written off in the profit and loss account.

### **Stocks**

Stocks and work in progress are valued at the lower of cost, including relevant production overheads, and net realisable value.

### **Pensions**

The costs of the Group's defined benefit pension schemes are charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees. The pension costs are assessed in accordance with the advice of qualified actuaries. Actuarial surpluses and deficits are spread forward over the average remaining service lives of employees. The Group's post-retirement benefit schemes are accounted for in a similar manner to the pension schemes, as described above.

The costs of the Group's defined contribution pension schemes are charged to the profit and loss account as the contributions are incurred.

### **Cash Flow Statement**

The Group Cash Flow Statement and notes thereto are prepared in accordance with Financial Reporting Standard 1 (Revised). Liquid resources comprise short-term bank deposits, except those available on demand.

### **Share Option Schemes**

Own shares held to satisfy potential obligations under the various share option schemes are carried at cost as part of fixed asset investments. Any differences between the cost of the shares and the anticipated proceeds are written off to the profit and loss account over the period to which the underlying options relate in accordance with UITF 17.

# Notes to the Accounts

1 Segmental analysis	2003 Turnover £m	2003 Profit before tax £m	2003 Net assets £m	2002 Turnover £m	2002 Profit before tax £m	2002 Net assets £m
<b>Class of business</b>						
Continuing operations						
Cash Systems	292.8	8.4	72.1	370.5	36.0	107.5
Reorganisation		(10.3)			(3.8)	
	292.8	(1.9)	72.1	370.5	32.2	107.5
Acquisitions	18.1	3.2	15.0			
Reorganisation		(0.2)				
	18.1	3.0	15.0	-	-	-
Security Paper and Print	310.9	1.1	87.1	370.5	32.2	107.5
Reorganisation	211.0	30.5	83.6	226.8	41.1	93.2
Loss on impairment of investment		(18.6)			(7.3)	
	211.0	10.6	83.6	226.8	33.8	93.2
Acquisitions	2.8	(0.1)	1.4			
Global Services	213.8	10.5	85.0	226.8	33.8	93.2
Acquisitions	34.7	(1.4)	17.5	48.1	0.5	21.0
Reorganisation	25.2	(2.6)	10.1			
	59.9	(6.8)	27.6	48.1	0.5	21.0
Less inter-segment sales	(1.9)			(3.7)		
Discontinued operations	582.7	4.8	199.7	641.7	66.5	221.7
Global Services	-	-	-	9.5	(1.4)	
Goodwill amortisation	-	-	-	9.5	(1.4)	
Cash Systems		(19.3)			(2.2)	
Security Paper and Print		0.2			-	
Global Services		(0.5)			(0.6)	
		(19.6)			(2.8)	
Associated companies (analysed below)	582.7	(14.8)	199.7	651.2	62.3	221.7
Non-operating items (note 4)		9.2	13.5		11.8	17.6
Net interest including associates		-			24.2	
(Loss)/profit before taxation		0.9			2.6	
Unallocated net assets		(4.7)			100.9	
Capital employed			26.7			26.6
Net funds			239.9			265.9
Net assets			8.2			50.0
			248.1			315.9
<b>Geographical area by operation</b>						
United Kingdom and Ireland	320.0	(17.2)	80.9	350.5	14.7	92.0
Rest of Europe	216.5	14.5	67.0	251.5	41.9	60.2
The Americas	136.2	(15.6)	40.7	134.5	6.9	49.0
Rest of World	42.8	3.5	11.1	52.6	(1.2)	20.5
Less inter-area sales	(132.8)			(137.9)		
	582.7	(14.8)	199.7	651.2	62.3	221.7

The loss before tax in 2003 is shown after reorganisation costs of £31.9m (2002 £11.1m) comprising UK and Ireland £22.8m (2002 £2.7m), Rest of Europe £5.2m (2002 £0.2m), Americas £3.9m (2002 £0.9m), Rest of World ENil (2002 £7.3m). Inter-area sales of £132.8m (2002 £137.9m) comprise: UK and Ireland £51.4m (2002 £62.4m); Rest of Europe £53.3m (2002 £37.0m); Americas £6.0m (2002 £9.9m); Rest of World £22.1m (2002 £28.6m).

## 1 Segmental analysis continued

	2003 Turnover £m	2003 Profit before tax £m	2003 Net assets £m	2002 Turnover £m	2002 Profit before tax £m	2002 Net assets £m
<b>Geographical area by destination</b>						
United Kingdom and Ireland	68.8			79.1		
Rest of Europe	174.7			277.9		
The Americas	173.0			162.6		
Rest of World	166.2			131.6		
	<b>582.7</b>			<b>651.2</b>		
<b>Associated companies are analysed as follows:</b>						
Security Paper and Print		-	0.2		0.1	1.6
Cash Systems		0.6	-		-	-
UK Lottery		8.6	13.3		11.7	16.0
		<b>9.2</b>	<b>13.5</b>		<b>11.8</b>	<b>17.6</b>
<b>Geographical area by operation</b>						
United Kingdom and Ireland		8.6	13.3		11.7	15.9
Rest of Europe		0.6	-		0.1	1.4
Rest of World		-	0.2		-	0.3
		<b>9.2</b>	<b>13.5</b>		<b>11.8</b>	<b>17.6</b>

The Group's cash and borrowings are managed centrally and therefore interest is not attributable to individual classes of business or geographical segments.

Unallocated net assets and liabilities, which consist of assets and liabilities relating to non-divisional operations, are controlled centrally and cannot be allocated meaningfully to individual classes of business or geographical segments.

## 2 Operating costs (excluding amortisation of goodwill)

	2003 £m	2002 £m
Cost of sales		
Continuing operations	357.7	423.4
Reorganisation costs	28.9	11.1
	<b>386.6</b>	<b>434.5</b>
Acquisitions	29.7	
Reorganisation costs	3.0	-
	<b>32.7</b>	<b>-</b>
Discontinued operations	-	7.7
	<b>419.3</b>	<b>442.2</b>
Distribution costs		
Continuing operations	20.1	22.9
Acquisitions	0.1	
	<b>20.2</b>	<b>22.9</b>
Administration and other expenses		
Continuing operations	121.3	117.9
Loss on impairment of investments	1.3	-
Acquisitions	15.8	
	<b>138.4</b>	<b>117.9</b>
Discontinued operations	-	3.1
	<b>138.4</b>	<b>121.0</b>
	<b>577.9</b>	<b>586.1</b>

# Notes to the Accounts continued

<b>3 Operating profit</b>	<b>2003</b>	<b>2002</b>
	<b>£m</b>	<b>£m</b>
<b>Operating profit is stated after charging/(crediting) the following:</b>		
Employee costs (note 24)	210.9	203.7
Depreciation of tangible fixed assets		
– purchased	28.6	25.5
– leased	–	0.1
Amortisation of goodwill and other intangible assets		
– exceptional	16.0	–
– non exceptional	4.8	3.5
Operating leases		
– hire of plant and machinery	1.0	1.5
– other	8.5	5.7
Auditors' remuneration		
– audit fees	0.8	0.7
– UK non audit-related fees	0.2	0.2
– overseas non audit-related fees	0.1	–
Research and development	25.7	24.5
Loss on impairment of investment	1.3	–
Reorganisation costs	31.9	11.1
Net loss/(profit) on disposal of fixed assets/assets held for resale	0.3	(0.1)

The loss on impairment of investment of £1.3m reflects full provision against the Group's investment in Valora-Servicos de Apoio a Emissao Monetaria S.A. The amount represented full impairment of the Group's 25 per cent holding in the Company and was appropriate due to uncertainty over future cash flows.

In 2003, reorganisation costs of £10.5m were in respect of Cash Systems restructuring; £18.6m was for the closure of High Wycombe, due for completion in June 2003; £2.8m was in respect of the closure of Sequoia's Exeter printing facility.

£14.0m of reorganisation costs are carried forward within provisions for liabilities and charges.

In 2002, reorganisation costs of £3.8m were in respect of the CSI acquisition. Reorganisation costs of £7.3m were for the closure of the banknote printing factory in Singapore, which was completed in December 2002.

<b>4 Non-operating items</b>	<b>2003</b>	<b>2002</b>
	<b>£m</b>	<b>£m</b>
Profit on the disposal of discontinued operations	–	1.5
Profit on sale of investments	–	22.7
	–	24.2

In 2002, the profit on disposal of discontinued operations of £1.5m arose from the disposal of the Transaction Services business to alphyra group plc on 19 October 2001.

The profit on sale of investments of £22.7m comprised:

- The disposal of the Group's 50 per cent holding in De La Rue Giori SA, a security printing machinery manufacturer, incorporated in Switzerland. The £9.0m profit on sale is after deducting £5.9m net costs in respect of settling the arbitration claim brought by our joint venture partner in the business.
- £9.5m for the disposal of the Group's total holding in the ordinary share capital of Koenig and Bauer AG, an engineering company incorporated in Germany and quoted on the Frankfurt Stock Exchange.
- £4.2m for the disposal of 6.67 per cent of the Group's 26.67 per cent holding in the ordinary share capital of Camelot Group plc, a lottery operator incorporated in the UK, to Consignia Enterprises Limited.

5 Net interest receivable/(payable)	2003 £m	2002 £m
Interest payable on bank loans and overdrafts, and on other loans repayable within five years	(2.0)	(3.7)
Interest receivable	2.5	3.3
	0.5	(0.4)

6 Taxation	2003 £m	2002 £m
<b>Tax on profit on ordinary activities</b>		
<b>Current tax</b>		
UK Corporation tax at 30 per cent (2002 30 per cent)	6.6	2.2
Adjustments in respect of prior years	(0.8)	(7.8)
	5.8	(5.6)
Double taxation relief	(0.7)	–
	5.1	(5.6)
<b>Overseas tax</b>	6.5	7.0
Adjustments in respect of prior years	(0.6)	1.0
	5.9	8.0
Tax on share of associates' profits	1.9	4.7
	12.9	7.1
<b>Deferred tax</b>		
Origination and reversal of timing differences	(0.4)	13.3
Adjustments in respect of prior years	(0.8)	4.2
Tax on share of associates' profits	0.8	(0.4)
	(0.4)	17.1
Total tax charge excluding exceptionals	12.5	24.2
<b>Exceptional items</b>	(10.0)	(2.0)
<b>Total tax charge after exceptionals</b>	2.5	22.2

The effective rate remains below the UK nominal rate of 30 per cent. A summary reconciliation is shown below.

	2003 £m	2002 £m
Profit before tax on ordinary activities before exceptional items	44.5	87.8
Expected tax charge at 30 per cent	13.3	26.3
Rate adjustments relating to overseas profits	(2.8)	(1.9)
Overseas dividends	0.2	1.5
Disallowables and other items	3.6	(12.0)
Adjustments in respect of prior years	(1.4)	(6.8)
Current tax charge (excluding exceptional items)	12.9	7.1

# Notes to the Accounts continued

<b>7 Earnings per share</b>	2003	2002
Basic	<b>(4.3)p</b>	40.7p
Fully diluted	<b>(4.3)p</b>	40.0p

Earnings per share are based on the loss for the year attributable to ordinary shareholders of £7.9m (2002 profit of £77.2m) as shown in the Group Profit and Loss Account. The weighted average number of ordinary shares used in the calculations is 183,656,364 (2002 189,886,749) for basic earnings per share and 184,714,858 (2002 193,267,705) for diluted earnings per share after adjusting for dilutive share options.

<b>Reconciliation of earnings per share</b>	pence per share	pence per share
<b>As calculated under FRS 14</b>	<b>(4.3)</b>	40.7
Profit on the disposal of discontinued operations	–	(0.7)
Profit on sale of investments	–	(12.0)
Loss on impairment of investment	<b>0.7</b>	–
Loss/(profit) on the disposal of fixed assets and assets held for resale	<b>0.2</b>	(0.1)
Amortisation of goodwill	<b>10.4</b>	1.5
<b>Headline earnings per share as defined by the IIMR</b>	<b>7.0</b>	29.4
Reorganisation costs	<b>11.9</b>	5.0
<b>Headline earnings per share before items shown above</b>	<b>18.9</b>	34.4

The Institute of Investment Management and Research (IIMR) has published Statement of Investment Practice No. 1 entitled "The Definition of Headline Earnings". The headline earnings per share shown above have been calculated according to the definition set out in the IIMR's statement. The reconciling items between earnings per share as calculated according to FRS 14 and as calculated according to the definition of the IIMR's headline earnings include the underlying tax effects.

The Directors are of the opinion that the publication of the IIMR's headline earnings figure is useful to readers of interim statements and annual accounts.

<b>8 Dividends</b>	2003 £m	2002 £m
<b>Ordinary shares</b>		
Interim	<b>7.9</b>	8.0
Final proposed	<b>16.7</b>	17.5
	<b>24.6</b>	25.5
<b>Net dividend per ordinary share</b>	pence	pence
Interim	<b>4.4</b>	4.2
Final proposed	<b>9.2</b>	9.2
	<b>13.6</b>	13.4



## 9 Intangible assets

Group	Goodwill £m	Negative goodwill £m	Distribution rights £m	Total £m
<b>Cost or valuation</b>				
At 31 March 2002	47.5	–	3.0	50.5
Exchange adjustments	(0.4)	–	(0.1)	(0.5)
Acquisitions	29.8	(1.7)	–	28.1
Additions	1.8	–	–	1.8
<b>At 29 March 2003</b>	<b>78.7</b>	<b>(1.7)</b>	<b>2.9</b>	<b>79.9</b>
<b>Amortisation</b>				
At 31 March 2002	3.3	–	1.5	4.8
Exchange adjustments	(0.3)	–	–	(0.3)
Provision for the year	19.9	(0.3)	1.2	20.8
<b>At 29 March 2003</b>	<b>22.9</b>	<b>(0.3)</b>	<b>2.7</b>	<b>25.3</b>
<b>Net book value</b>				
At 31 March 2002	44.2	–	1.5	45.7
<b>At 29 March 2003</b>	<b>55.8</b>	<b>(1.4)</b>	<b>0.2</b>	<b>54.6</b>

Details of goodwill in respect of acquisitions are included in note 22. Goodwill amortisation all relates to continuing businesses. As a result of trading experienced since the acquisition of CSI, the carrying value of goodwill in CSI has been impaired by £16.0m by an exceptional write-down. The remaining carrying value of £8.2m will now be written-off over a reduced estimated life of ten years (eight years remaining).

Goodwill additions include £0.6m for stock and £0.6m for debtors relating to the CSI acquisition which have been identified since the previous year end.

## 10 Tangible assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	In course of construction £m	Total £m
<b>Cost or valuation</b>					
At 31 March 2002	78.5	214.0	51.8	2.5	346.8
Exchange adjustments	0.6	0.7	0.6	–	1.9
Acquisitions	1.4	3.4	1.0	–	5.8
Additions	0.6	6.9	4.7	8.7	20.9
Transfers from assets in the course of construction	0.1	5.8	1.3	(7.2)	–
Disposals	–	(18.1)	(2.7)	–	(20.8)
<b>At 29 March 2003</b>	<b>81.2</b>	<b>212.7</b>	<b>56.7</b>	<b>4.0</b>	<b>354.6</b>
<b>Representing</b>					
Valuation in 1988/89	3.7	–	–	–	3.7
Cost	77.5	212.7	56.7	4.0	350.9
	81.2	212.7	56.7	4.0	354.6
<b>Accumulated depreciation</b>					
At 31 March 2002	19.2	122.6	37.3	–	179.1
Exchange adjustments	0.3	1.6	0.4	–	2.3
Provision for the year	1.6	20.5	6.5	–	28.6
Disposals	–	(16.6)	(2.2)	–	(18.8)
<b>At 29 March 2003</b>	<b>21.1</b>	<b>128.1</b>	<b>42.0</b>	<b>–</b>	<b>191.2</b>
<b>Net book value</b>					
At 31 March 2002	59.3	91.4	14.5	2.5	167.7
<b>At 29 March 2003</b>	<b>60.1</b>	<b>84.6</b>	<b>14.7</b>	<b>4.0</b>	<b>163.4</b>

Included in the above are leased assets as follows:

Plant and machinery	cost	£2.3m (2002 £4.5m)
	net book value	£Nil (2002 £0.3m)
Fixtures and fittings	cost	£Nil (2002 £0.2m)
	net book value	£Nil (2002 £Nil)

# Notes to the Accounts continued

## 10 Tangible assets continued

Included in the cost or valuation of land and buildings is an amount of £2.4m of capitalised interest (2002 £2.4m).

As stated in the accounting policies, it is not Group policy to revalue fixed assets and, as such, the transitional provisions of FRS 15 are being applied. There have been no subsequent valuations since 1988/89.

### Land and buildings comprise

	2003 Group £m	2002 Group £m
<b>Net book value</b>		
Freehold	43.2	42.6
Long leasehold	15.6	16.0
Short leasehold	1.3	0.7
	<b>60.1</b>	<b>59.3</b>
<b>Historical cost of land and buildings</b>		
Cost	79.1	76.4
Accumulated depreciation	(20.8)	(18.9)
	<b>58.3</b>	<b>57.5</b>

## 11 Investments

	2003 Group £m	2002 Group £m	2003 Company £m	2002 Company £m
<b>Investments comprise</b>				
Investment in associated companies	13.5	17.6	–	–
Cost of shares in Group companies	–	–	151.6	151.6
Other investments	0.2	2.4	–	–
Purchase of own shares	19.1	19.8	19.1	19.8
	<b>32.8</b>	<b>39.8</b>	<b>170.7</b>	<b>171.4</b>

Associates are analysed in further detail below.

During the year, a provision of £1.3m was made against the Group's investment in Valora-Servicos de Apoio a Emissao Monetaria SA. The provision represented full impairment of the Group's 25 per cent holding in the company and was appropriate due to uncertainty over future cashflows.

During the year, the Group disposed of its 3.4 per cent holding in the ordinary share capital of alphyra group plc, a computer services company incorporated in Eire and quoted on the Dublin and London stock exchanges, for £1.5m.

In prior years, 5.1m own shares with a nominal value of £1.3m were purchased at an average price of 414 pence to satisfy potential obligations under various share option schemes for executive Directors and senior employees and for sharesave schemes for all employees. In the year, £0.7m was amortised to the profit and loss account in respect of these shares, representing the estimated difference between the cost of the shares and the anticipated proceeds in accordance with UITF 17.

The market value of own shares at 29 March 2003 was £9.4m (2002 £23.6m).

### Associates

	Cost of shares £m	Share of retained profit £m	Total £m
At 31 March 2002	13.1	4.5	17.6
Exchange adjustments	–	(0.1)	(0.1)
Disposals	–	(0.6)	(0.6)
Provisions	(2.0)	0.7	(1.3)
Share of associated companies' profit after taxation	–	6.9	6.9
Less share of associated companies' dividends	–	(9.0)	(9.0)
<b>At 29 March 2003</b>	<b>11.1</b>	<b>2.4</b>	<b>13.5</b>

## 11 Investments continued

### Group's share of aggregate associates and Camelot Group plc

	Total associates 2003 £m	Camelot Group 2003 £m	Total associates 2002 £m	Camelot Group 2002 £m
Turnover	916.7	915.3	1,248.2	1,233.7
Profit before tax	9.6	9.0	14.8	14.7
Taxation	(2.7)	(2.7)	(4.3)	(4.3)
Profit after tax	6.9	6.3	10.5	10.4
Fixed assets	43.6	24.1	38.1	16.6
Current assets	53.9	46.0	66.4	57.9
Liabilities due within one year	(71.4)	(56.3)	(79.4)	(63.6)
Liabilities due after one year or more	(3.5)	(3.5)	(4.5)	(0.9)
Net assets	22.6	10.3	20.6	10.0

The above figures are not proportionately consolidated within the Group's accounts.

## 12 Stocks

	2003 Group £m	2002 Group £m
Raw materials	26.3	23.6
Work in progress	25.7	24.8
Finished goods	47.2	48.9
	99.2	97.3

The replacement cost of stocks is not materially different from original cost.

## 13 Debtors

	2003 Group £m	2002 Group £m	2003 Company £m	2002 Company £m
<b>Amounts due within one year</b>				
Trade debtors	97.8	100.9	–	–
Amounts owed by Group undertakings	–	–	50.6	151.9
Amounts due from associated companies	0.3	–	–	–
Other debtors	11.2	29.2	–	–
Prepayments and accrued income	9.2	7.8	–	–
	118.5	137.9	50.6	151.9
<b>Amounts due after more than one year</b>				
Other debtors	0.5	0.5	–	–
Prepayments and accrued income	0.1	0.2	–	–
	0.6	0.7	–	–
	119.1	138.6	50.6	151.9

# Notes to the Accounts continued

14 Deferred taxation	2003 Group £m	2002 Group £m
<b>Provided</b>		
Timing differences between capital allowances and depreciation	1.1	7.5
Miscellaneous timing differences	(36.5)	(34.1)
<b>At 29 March 2003</b>	<b>(35.4)</b>	<b>(26.6)</b>
<b>Comprising:</b>		
Assets	(37.2)	(30.5)
Liabilities	1.8	3.9
<b>At 29 March 2003</b>	<b>(35.4)</b>	<b>(26.6)</b>

Where there is no intention at the balance sheet date to distribute the profits of overseas subsidiary and associated companies, no deferred tax is provided for liabilities which might arise on distributions by those companies.

Deferred taxation has not been recognised on tax losses of £5.4m (2002 £1.8m) because there is insufficient evidence to suggest that they will be recoverable.

As at 31 March 2002 and 29 March 2003, there were no unprovided deferred tax liabilities.

15 Creditors	2003 Group £m	2002 Group £m	2003 Company £m	2002 Company £m
<b>Amounts falling due within one year</b>				
Bank loans	–	7.0	–	6.6
Obligations under finance leases	–	0.6	–	–
	–	7.6	–	6.6
Overdrafts	0.5	4.8	92.8	76.2
<b>Short term borrowings</b>	<b>0.5</b>	<b>12.4</b>	<b>92.8</b>	<b>82.8</b>
Payments received on account	16.6	28.3	–	–
Trade creditors	39.2	39.5	–	–
Amounts owed to associated companies	0.4	0.6	–	–
Other short-term creditors	22.1	12.9	–	1.4
Proposed dividends	17.7	26.3	17.0	25.7
Taxation	22.4	21.0	–	–
Social security and other taxation	8.9	9.1	–	–
Accruals and deferred income	81.0	65.7	–	–
<b>Other creditors</b>	<b>208.3</b>	<b>203.4</b>	<b>17.0</b>	<b>27.1</b>

16 Creditors	2003 Group £m	2002 Group £m	2003 Company £m	2002 Company £m
<b>Amounts falling due after more than one year</b>				
Bank loans repayable otherwise than by instalments				
Between one and two years	15.9	24.7	15.9	–
Between two and five years	26.8	–	–	–
Obligations under finance leases				
Between one and five years	–	0.1	–	–
<b>Long-term borrowings</b>	<b>42.7</b>	<b>24.8</b>	<b>15.9</b>	<b>–</b>
Amounts owed to Group companies	–	–	–	49.3
Other long-term creditors	3.5	1.1	0.9	–
Taxation	1.4	1.5	–	–
Accruals and deferred income	–	0.1	–	–
Other creditors	4.9	2.7	0.9	49.3

As at 29 March 2003, the total of undrawn committed borrowing facilities maturing in more than two years was £44.2m.

17 Provisions for liabilities and charges	Pensions and similar obligations £m	Deferred taxation £m	Other £m	Total £m
<b>Group</b>				
At 31 March 2002	22.4	3.9	21.3	47.6
Exchange adjustment	(0.1)	–	0.3	0.2
Provided in year	2.3	1.1	34.9	38.3
Utilised in year	(1.9)	(1.5)	(25.9)	(29.3)
Released in year	(1.3)	(1.7)	(0.6)	(3.6)
<b>At 29 March 2003</b>	<b>21.4</b>	<b>1.8</b>	<b>30.0</b>	<b>53.2</b>

As at 29 March 2003 other provisions principally comprise:

- Acquisition and disposal provisions of £5.5m (2002 £5.7m) none of which are individually material. During the year £0.1m of these provisions were utilised.
- A provision of £2.0m (2002 £2.4m), retained to cover the cost of Delarunarians (those employees and ex-employees who have achieved 37 years' service and qualify for free medical cover, plus a monthly allowance). £0.4m of this provision was utilised in the year.
- Reorganisation provisions of £14.0m (2002 £5.2m). £23.3m were utilised in the year (including a balance from prior years). Cash Systems provided a further £10.5m in the year in respect of reorganisations, of which £3.6m was utilised, leaving a balance of £6.9m carried forward within accruals (£0.1m) and within other provisions for liabilities and charges (£6.8m). The Security Paper and Print division provided £18.6m for the closure of the High Wycombe factory, of which £15.5m has been utilised, leaving £3.1m carried forward within other provisions for liabilities and charges.  
The Global Services division provided £2.8m for the closure of the Exeter print facility, none of which has been utilised during the year.

There are no other individually material provisions within other provisions for liabilities and charges.

# Notes to the Accounts continued

## 18 Share capital and reserves

	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Other reserve £m	Profit and loss account £m	Total £m
<b>Group</b>							
At 31 March 2002	48.8	11.5	1.8	–	(83.8)	334.5	312.8
Share capital issued	0.1	1.0	–	–	–	–	1.1
Shares repurchased (note 19)	(3.5)	–	–	3.5	–	(38.0)	(38.0)
Currency translation	–	–	–	–	–	0.5	0.5
Loss for the financial year	–	–	–	–	–	(32.5)	(32.5)
<b>At 29 March 2003</b>	<b>45.4</b>	<b>12.5</b>	<b>1.8</b>	<b>3.5</b>	<b>(83.8)</b>	<b>264.5</b>	<b>243.9</b>
<b>Company</b>							
At 31 March 2002	48.8	11.5	–	–	–	152.1	212.4
Share capital issued	0.1	1.0	–	–	–	–	1.1
Shares repurchased (note 19)	(3.5)	–	–	3.5	–	(38.0)	(38.0)
Loss for the financial year before dividends	–	–	–	–	–	(1.1)	(1.1)
Dividends proposed	–	–	–	–	–	(24.6)	(24.6)
<b>At 29 March 2003</b>	<b>45.4</b>	<b>12.5</b>	<b>–</b>	<b>3.5</b>	<b>–</b>	<b>88.4</b>	<b>149.8</b>

Reserves are wholly attributable to equity shareholders.

As permitted by Section 230 of the Companies Act 1985, De La Rue plc has not presented its own profit and loss account. The amount of the Group profit for the financial year dealt with in the accounts of the Company was a loss of £1.1m.

As at 29 March 2003, £740.4m (2002 £740.4m) of goodwill has been eliminated against reserves in respect of acquisitions made prior to 31 March 1998.

## 19 Share capital

	2003 £m	2002 £m
<b>Authorised</b>		
265,625,900 ordinary shares of 25p each	66.4	66.4
<b>Allotted, called up and fully paid</b>		
181,766,898 (2002 195,243,610) ordinary shares of 25p each	45.4	48.8
<b>Allotments during the year</b>		
	2003 '000	2002 '000
Ordinary shares in issue at 31 March 2002	195,243	192,793
Issued under savings-related share option scheme	118	938
Issued under executive share option schemes	269	1,512
Shares bought back for cancellation	(13,863)	–
<b>Ordinary shares in issue at 29 March 2003</b>	<b>181,767</b>	<b>195,243</b>
<b>Contingent rights to the allotment of shares</b>		
	2003 '000	2002 '000
<b>Savings-related share option scheme</b>		
Options over ordinary shares outstanding at 31 March 2002	3,175	3,761
New options granted during year	903	600
Options exercised during the year	(118)	(938)
Options lapsed during the year	(667)	(248)
<b>Savings-related share options outstanding at 29 March 2003</b>	<b>3,293</b>	<b>3,175</b>

At 29 March 2003 there was a total of 1,508 participants holding options under the savings related share option scheme which are exercisable at various dates up to March 2007 at prices ranging between 150p and 571p.

## 19 Share capital continued

<b>Executive Share Option Scheme</b>	2003 '000	2002 '000
Options over ordinary shares outstanding at 31 March 2002	4,707	4,814
New options granted during year	–	1,664
Options exercised during year	(256)	(1,512)
Options lapsed during year	(439)	(259)
<b>Executive share options outstanding at 29 March 2003</b>	<b>4,012</b>	<b>4,707</b>

At 29 March 2003 there was a total of 234 participants holding options under the Executive Share Option Scheme which are exercisable at various dates up to December 2011 at prices ranging between 187.84p and 1005.00p.

<b>Share Price Improvement Plan</b>	2003 '000	2002 '000
Options over ordinary shares outstanding at 31 March 2002	3,418	2,978
New options granted during year	–	531
Options lapsed during year	(2,207)	(91)
<b>Share Price Improvement Plan options outstanding at 29 March 2003</b>	<b>1,211</b>	<b>3,418</b>

At 29 March 2003 there were 24 senior key employees holding options under the Share Price Improvement Plan which are exercisable at various dates up to 25 June 2005 at prices ranging between 340.90p and 506.42p

<b>Executive Share Option Plan</b>	2003 '000	2002 '000
Options over ordinary shares outstanding at 31 March 2002	–	–
New options granted during year	1,393	–
Options lapsed during year	(75)	–
<b>Executive Share Option Plan options outstanding at 29 March 2003</b>	<b>1,318</b>	<b>–</b>

At 29 March 2003 there was a total of 101 participants holding options under the Executive Share Option Plan which are exercisable at various dates up to 19 March 2013 at prices ranging between 200.50p and 319.17p.

### Market Share Purchase of Shares by Trustees

#### (a) De La Rue Employee Share Ownership Trust

The De La Rue Employee Share Ownership Trust was established to administer shares granted under the various De La Rue Executive Share Option Schemes (ESOS), the De La Rue Share Price Improvement Plan (SPIP) and the De La Rue Executive Share Option Plan (ESOP) to executive Directors and senior employees. Bachmann Trust Company Limited is Trustee. The Trustee currently holds 4.1 million shares until due for release to participants of the Schemes and the Plans. The Trustee has agreed to waive dividends on these shares except for 0.0001 per cent per share and accordingly such shareholding is not included in the Company's EPS calculation referred to in note 7. The difference between the cost of the shares and the exercise price of the options is being charged to the profit and loss account over the performance period. At 29 March 2003 no shares have been transferred to option holders under the SPIP, ESOP or ESOS. The circumstances under which the shares are released in relation to the SPIP are set out in the Remuneration Report of the Board.

#### (b) De La Rue Qualifying Employee Share Ownership Trust (the "QUEST")

The QUEST was established on 30 March 2000 to administer shares granted under the De La Rue Sharesave Scheme (the Scheme) to employees and Directors of the Company and its subsidiaries. The QUEST currently holds one million shares to be distributed on maturity of savings-related share option schemes. The QUEST has waived all rights to receive dividends payable on its registered shareholding except for 0.0001 pence per share and accordingly such shareholding is not included in the Company's EPS calculation referred to in note 7. The future operation of the QUEST is being reviewed following recent changes to legislation.

### Share buy back programme

A total of 13.9 million shares in De La Rue plc with a nominal value of £3.5m were purchased and subsequently cancelled by the Company under the share buy back programme, which was authorised at the last AGM and at the subsequent EGM. The shares were purchased at an average price, including expenses, of 274.40 pence and at a total cost of £38.0m. The number of shares cancelled represented 7.1 per cent of issued share capital.

# Notes to the Accounts continued

20 Notes to Group Cash Flow Statement	2003 £m	2002 £m
<b>a Reconciliation of operating (loss)/profit to net cash inflow from operating activities</b>		
Operating (loss)/profit	(14.8)	62.3
Depreciation and amortisation	49.4	29.1
Decrease/(increase) in stocks	8.6	(8.4)
Decrease/(increase) in debtors	15.9	(6.5)
(Decrease)/increase in creditors	(9.8)	7.8
Increase in reorganisation provisions	7.4	3.4
Other items	2.4	0.6
<b>Net cash inflow from operating activities</b>	<b>59.1</b>	<b>88.3</b>
<b>b Returns on investments and servicing of finance</b>		
Interest received	4.2	3.4
Interest paid	(3.8)	(3.5)
Dividends paid to minority shareholders	(1.5)	(0.9)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(1.1)</b>	<b>(1.0)</b>
<b>c Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(20.7)	(21.6)
Purchase of intangible fixed assets	(0.6)	(0.4)
Sale of tangible fixed assets	1.7	1.6
Sale of investments	15.9	13.3
Purchase of own shares	-	(14.9)
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(3.7)</b>	<b>(22.0)</b>
<b>d Acquisitions and disposals</b>		
Purchase of subsidiary undertakings	(33.6)	(44.8)
Net cash acquired with subsidiary undertakings (note 22)	0.2	0.7
Sale of subsidiary undertakings (note 22)	-	2.8
Net cash sold with subsidiary undertakings (note 22)	-	(0.8)
Sale of assets held for disposal	-	4.1
<b>Net cash outflow from acquisitions and disposals</b>	<b>(33.4)</b>	<b>(38.0)</b>
<b>e Management of liquid resources</b>		
Net decrease in short-term deposits	28.2	8.7
<b>f Financing</b>		
Debt due within one year:		
Loans repaid	(7.0)	(16.9)
Debt due beyond one year:		
Loans raised	24.1	24.6
Loans repaid	(5.0)	(37.4)
Capital element of finance lease rental repayments	(0.7)	(0.6)
Share repurchase	(38.0)	-
Share capital issued	1.1	6.4
<b>Net cash outflow from financing</b>	<b>(25.5)</b>	<b>(23.9)</b>



## 20 Notes to Group Cash Flow Statement *continued*

### g Analysis of net funds

	At 31 March 2002 £m	Cash flow £m	Exchange movement £m	At 29 March 2003 £m
Cash at bank and in hand	87.2	(36.9)	1.1	51.4
Less liquid resources	(55.4)	28.2	–	(27.2)
Overdrafts	(4.8)	4.3	–	(0.5)
Cash – Group Cash Flow Statement	27.0	(4.4)	1.1	23.7
Liquid resources	55.4	(28.2)	–	27.2
Debt due within one year, excluding bank overdrafts	(7.6)	7.6	–	–
Debt due after one year	(24.8)	(19.0)	1.1	(42.7)
	(32.4)	(11.4)	1.1	(42.7)
<b>Net funds</b>	<b>50.0</b>	<b>(44.0)</b>	<b>2.2</b>	<b>8.2</b>

### 21 Group operating leases

	2003 Land and buildings £m	2002 Land and buildings £m	2003 Other £m	2002 Other £m
Annual commitments expiring				
Within one year	1.7	1.2	1.5	1.2
Between one and two years	1.1	1.1	1.2	1.1
Between two and five years	2.2	2.4	2.0	2.3
Over five years	2.2	2.2	–	–
<b>Payments to be made during next year</b>	<b>7.2</b>	<b>6.9</b>	<b>4.7</b>	<b>4.6</b>

### 22 Acquisitions

On 29 May 2002 the Group acquired Sequoia Voting Systems Inc., one of the largest providers of voting equipment, software, ballot printing and election services in the USA, for a consideration including expenses of £15.4m. There is an additional potential future payment of up to US\$12.0m (£8.0m) dependent on certain performance criteria, linked to sales growth, being met. The business has been integrated into the continuing operations of the Group.

On 27 June 2002 the Group acquired the banking automation business of Papelaco, a leading manufacturer of self-service banking technology based principally in Portugal and Spain, for a consideration including expenses of £20.0m. This includes a future payment of up to €10.5m (£5.7m) payable dependent on certain performance criteria, linked to sales and margin growth, being met. The business has been integrated into the continuing operations of the Group.

On 23 September 2002 the Group acquired House of Questa Ltd, a UK-based high security gravure printer, manufacturing postage stamps, fiscal stamps and motor vehicle tax discs, for a consideration including expenses of £2.9m. The business has been integrated into the continuing operations of the Group.

During the year the Group also acquired the assets of Serbotech Inc. (19 June 2002), Corpo BHX De Mexico S.A. De C.V. (17 March 2003) and ERC (February 2003), all of which have been integrated into the continuing operations of the Group.

# Notes to the Accounts continued

## 22 Acquisitions continued

The provisional fair values attributed to these businesses on the dates of acquisition were as follows:

	Papelaco		Sequoia	House of Questa			Other	Total	
	Book value prior to acquisition £m	Fair value adjustments £m	Fair value to the Group £m	Book value prior to acquisition & fair value to the Group £m	Book value prior to acquisition £m	Fair value adjustments £m	Fair value to the Group £m	Book value prior to acquisition & fair value to the Group £m	Fair value to the Group £m
Tangible fixed assets	3.4	(0.6)	2.8	1.1	5.7	(3.9)	1.8	0.1	5.8
Stock	4.5	(0.3)	4.2	4.0	0.9	-	0.9	0.1	9.2
Trade debtors	-	-	-	8.0	0.8	-	0.8	0.1	8.9
Trade creditors	-	-	-	(4.6)	(1.2)	-	(1.2)	-	(5.8)
Other current assets and liabilities	(1.7)	(0.8)	(2.5)	(6.0)	0.2	-	0.2	(0.1)	(8.4)
Cash	-	-	-	0.2	-	-	-	-	0.2
Deferred tax assets	-	-	-	-	-	2.1	2.1	-	2.1
<b>Net assets</b>	<b>6.2</b>	<b>(1.7)</b>	<b>4.5</b>	<b>2.7</b>	<b>6.4</b>	<b>(1.8)</b>	<b>4.6</b>	<b>0.2</b>	<b>12.0</b>
Less minority interests	-	-	-	(0.4)	-	-	-	-	(0.4)
<b>Net assets acquired</b>	<b>6.2</b>	<b>(1.7)</b>	<b>4.5</b>	<b>2.3</b>	<b>6.4</b>	<b>(1.8)</b>	<b>4.6</b>	<b>0.2</b>	<b>11.6</b>
<b>Consideration</b>									
Purchase price paid			13.9	14.9			2.7	1.1	32.6
Purchase price accrued			5.7	-			-	0.2	5.9
Purchase price payable			19.6	14.9			2.7	1.3	38.5
Acquisition costs paid			0.3	0.5			0.2	-	1.0
Acquisition costs accrued			0.1	-			-	-	0.1
			20.0	15.4			2.9	1.3	39.6
Loan acquired			-	-			-	0.1	0.1
Total consideration			20.0	15.4			2.9	1.4	39.7
Fair value of net assets acquired (as above)			(4.5)	(2.3)			(4.6)	(0.2)	(11.6)
<b>Goodwill</b>			<b>15.5</b>	<b>13.1</b>			<b>(1.7)</b>	<b>1.2</b>	<b>28.1</b>

All businesses purchased have been accounted for using the acquisition method. Goodwill arising has been capitalised and will be amortised over 20 years, being the estimated useful economic life. Negative goodwill arising has been capitalised and will be amortised over the period in which the non-monetary assets acquired are recovered, which is estimated to be three years.

### Papelaco

Fair value adjustments reflect bringing stock provisioning in line with Group policy, accelerating depreciation on the leasehold premises and introducing warranty and holiday pay accruals.

### House of Questa Ltd

Fair value adjustments reflect a provision to cover the cost of finishing an environmental project to cut emissions into the atmosphere (project started pre-acquisition), and deferred tax benefits that were acquired as part of the consideration.

It is not practical to identify operating cashflows in respect of the businesses acquired during the year as they have been fully integrated.

### Disposals

There were no disposals during the year.

### 23 Pensions and other post-retirement benefits

The Group operates pension plans throughout the world covering the majority of employees. These plans are devised in accordance with local conditions and practices in the country concerned. The assets of the Group's plans are generally held in separately administered trusts or are insured.

A provision of £21.4m (2002 £22.4m) is included in provisions for liabilities and charges, to cover the excess of the accumulated pension costs (£18.6m) and other post-retirement benefits (£2.8m) over the amounts funded.

The total pension cost for the Group was £4.2m (2002 £4.2m), of which £3.3m relates to plans in the United Kingdom and the United States which cover 72 per cent of employees within schemes. Included within the total pension cost is £1.1m for defined contribution arrangements in the USA.

An actuarial valuation of the UK scheme was carried out as at 6 April 2000. The results are reflected in this Annual Report. The scheme is valued formally every three years, the next valuation being as at April 2003. The results of this are expected later in the year.

Information on the defined benefit scheme operated in the UK is as follows:

Last valuation date	6 April 2000
<b>Main assumptions</b>	
Investment return p.a.	8%
Dividend growth p.a.	4.75%
Salary increases p.a.	5.5%
Pension increases p.a.	3.75%
Market valuation of investments at last valuation date	£493.0m
Level of funding, being the actuarial value of assets expressed as a percentage of the accrued service liabilities	113%
Regular pension cost	£8.0m
Variation from regular cost	£(6.1)m
Net pension cost for 2003	£1.9m

The contributions to the UK plan are assessed in accordance with advice from Aon Consulting, independent consulting actuaries, using the Defined Accrued Benefits Method. This method aims for a stable and regular pension cost for current and expected future employees over their anticipated period of employment. The surplus of assets over liabilities is spread over the average expected remaining service lives of current employees, assessed as 13 years, using the level percentage of salary method.

Other post-retirement benefits of £0.2m were utilised in the year (2002 £0.4m). These benefits relate mainly to healthcare and life assurance for beneficiaries in the United States. The benefits are covered by an unfunded defined benefit scheme and a provision is carried in the balance sheet for the accumulated liabilities. These were assessed in accordance with independent actuarial advice as at 31 March 1997 using the projected unit credit method. The assumed discount rate was 7.25 per cent p.a. and annual healthcare costs were assumed to increase by 7.0 per cent p.a.

The Group continues to report pension costs in accordance with SSAP 24. However, the Group is following the extended transitional arrangements under which additional disclosure on retirement benefits is required in the notes to the financial statements under FRS 17. The standard requires pension deficits and surpluses, to the extent that these are considered recoverable, to be recognised in full. Annual service costs and net financial income or expense on the assets and liabilities of the schemes will be recognised through the profit and loss account. Other fluctuations in the value of the surplus will be recognised in the Statement of Recognised Gains and Losses.

The Group operates a defined benefit pension scheme in the UK. A full actuarial valuation was carried out at 6 April 2000 by a qualified independent actuary, and the valuation results have been updated to 29 March 2003 in accordance with the FRS. The Group also operates a number of minor defined contribution programmes in the UK and overseas.

Details of post-retirement benefit scheme assets and liabilities of the Group at 29 March 2003, valued in accordance with FRS 17, are set out below.

The financial assumptions used are:

	UK %	USA %	2003 Other %	UK %	USA %	2002 Other %
Discount rate	5.6	7.0	6.8	6.2	7.0	6.8
Inflation rate	2.6	-	0.8	2.9	-	2.8
Rate of increase in pension payment	3.0	-	-	3.2	-	-
Rate of increase in salaries	3.9	-	4.5	4.2	-	4.5

# Notes to the Accounts continued

## 23 Pensions and other post-retirement benefits continued

The assets in the scheme, and the expected rates of return were:

Long-term rate of return expected at 29 March 2003	Expected return on assets at 29 March 2003		Expected return on assets at 30 March 2002	
	UK %	USA %	UK %	USA %
Equities	8.9	–	7.7	–
Bonds	4.6	–	5.3	–
Other	2.6	7.0	2.9	7.0

	Value at 29 March 2003				Value at 30 March 2002			
	UK £m	USA £m	Other £m	Total £m	UK £m	USA £m	Other £m	Total £m
Equities	223.4	–	–	223.4	321.6	–	–	321.6
Bonds	124.9	–	–	124.9	129.4	–	–	129.4
Other	5.7	1.4	0.4	7.5	3.0	1.6	–	4.6
	354.0	1.4	0.4	355.8	454.0	1.6	–	455.6

The following amounts at 29 March 2003 and 30 March 2002 were measured in accordance with the requirements of FRS 17:

	29 March 2003				30 March 2002			
	UK £m	USA £m	Other £m	Total £m	UK £m	USA £m	Other £m	Total £m
Total market value of assets	354.0	1.4	0.4	355.8	454.0	1.6	–	455.6
Present value of liabilities	(441.9)	(2.0)	(2.5)	(446.4)	(389.9)	(1.4)	(0.7)	(392.0)
(Deficit)/surplus	(87.9)	(0.6)	(2.1)	(90.6)	64.1	0.2	(0.7)	63.6
Related deferred tax asset/(liability)	26.4	0.2	0.7	27.3	(19.2)	(0.1)	0.1	(19.2)
Net pension (liability)/asset	(61.5)	(0.4)	(1.4)	(63.3)	44.9	0.1	(0.6)	44.4

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 29 March 2003 would be as follows:

	29 March 2003 Group £m	30 March 2002 Group £m
<b>Net assets</b>		
Net assets excluding SSAP 24 pension (liability)/asset	248.1	315.9
SSAP 24 provision (net of deferred tax)	15.8	16.4
Pension (liability)/asset under FRS 17	(63.3)	44.4
Net assets including FRS 17 pension (liability)/asset	200.6	376.7
<b>Reserves</b>		
Profit and loss reserve excluding SSAP 24 pension (liability)/asset	264.5	334.5
SSAP 24 provision (net of deferred tax)	15.8	16.4
Pension (liability)/asset under FRS 17	(63.3)	44.4
Profit and loss reserve including FRS 17 pension (liability)/asset	217.0	395.3

### 23 Pensions and other post-retirement benefits *continued*

The following amounts would have been recognised in the performance statements in the year to 29 March 2003 under the requirements of FRS 17:

<b>Analysis of amount charged to operating profit</b>		Group £m
Operating cost		
Current service cost		(10.9)
Losses due to settlements/curtailments		(0.2)
Financing cost		
Expected return on assets		32.1
Interest on liabilities		(23.9)
<b>Net charge</b>		<b>(2.9)</b>
<b>Analysis of amount recognised in statement of total recognised gains and losses (STRGL)</b>		Group £m
Actual return less expected return on pension scheme assets		(115.1)
Experience gains/(losses) arising on pension scheme liabilities		(24.9)
Changes in financial assumptions underlying pension scheme liabilities		(14.6)
<b>Actuarial loss recognised in STRGL</b>		<b>(154.6)</b>
<b>Movement in surplus during the year</b>		Group £m
Surplus in the schemes at the beginning of the year		63.6
Movement in the year:		
Current service cost		(10.9)
Employer contributions		3.3
Other finance income		8.2
Settlements/curtailments		(0.2)
Actuarial loss recognised in STRGL		(154.6)
<b>Deficit in the schemes at the end of the year</b>		<b>(90.6)</b>

<b>24 Employees</b>	2003	2002
<b>Average number of employees</b>		
United Kingdom and Ireland	2,736	3,112
Rest of Europe	2,278	1,784
The Americas	1,134	1,031
Rest of World	641	700
	<b>6,789</b>	<b>6,627</b>
	2003 £m	2002 £m
<b>Employee costs (including Directors' emoluments)</b>		
Wages and salaries	189.4	182.4
Social security costs	17.3	17.1
Pension costs	4.2	4.2
	<b>210.9</b>	<b>203.7</b>

Details of Directors' emoluments are set out in the Remuneration Report on pages 37 to 42.

# Notes to the Accounts continued

## 25 Capital commitments

	2003 Group £m	2002 Group £m
The following commitments existed at the balance sheet date:		
Contracted but not provided for in the accounts	6.3	4.1
Authorised but not contracted	1.0	1.5
	<b>7.3</b>	<b>5.6</b>

## 26 Contingent liabilities

There are contingent liabilities, arising in the ordinary course of business, in respect of litigation and guarantees in various countries, for which the Directors believe adequate provisions have been made in the accounts. Pursuant to the provisions of Section 17 Companies (Amendment) Act 1986 of the Republic of Ireland, the Company has guaranteed the liabilities of certain of its Irish subsidiaries and as a result such subsidiaries have been exempted from the provisions of Section 17 Companies (Amendment) Act 1986 of the Republic of Ireland.

## 27 Related party transactions

During the year the Group traded with the following associated companies:

Fidink (33.3 per cent), Arbok Zoa (50 per cent – accounted for as an associated company until 31 December 2002), Valora-Servicos de Apoio a Emissao Monetaria SA (25 per cent), and Nigerian Security Printing and Minting Company (25 per cent).

The Group's trading activities with these companies include £5.9m for the purchase of ink and other consumables; £0.2m for management services, £0.8m for the sale of printing machine spares and consumables; £1.7m for the sale of paper; £24.2m for the sale of banknotes; £1.9m for the sale of machinery and consumables and £1.3m for the purchase of banknote sorting equipment. At the balance sheet date there were £0.4m creditor and £0.3m debtor balances with these companies.

## 28 Derivatives and other financial instruments

The narrative disclosures required by FRS 13, Derivatives and Financial Instruments, are set out in this section; and in the Accounting Policies; in the Treasury operations, Interest charge and Exchange paragraphs of the Financial Review on pages 21 and 22. Numerical disclosures are set out below. The use of financial instruments to manage interest rate and currency risk is subject to Board approval and will not create additional financial exposures over and above those arising from our normal activity.

Short term debtors and creditors have been omitted from these disclosures as permitted by FRS 13.

### Currency analysis of net assets

While continuing to focus on the management of cash flow, the Group will, where practicable, seek to limit translation exposures to major currencies by hedging between 75 per cent and 100 per cent of underlying net assets.

### Interest rate risk profile of financial liabilities

With the Group currently holding relatively low levels of debt, and being in a net cash position at year end, decisions on interest rate hedging management for major borrowings will be taken on a case by case basis and subject to Board approval.

The Group's financial liabilities comprise short-term borrowings of £0.5m (note 15); long-term borrowings of £42.7m (note 16); other long-term creditors of £4.9m (note 16) and provisions for other liabilities and charges of £30.0m (note 17).

Currency	2003	2003	2003	2003	2002	2002	2002	2002
	Total £m	Floating £m	Fixed £m	Interest free £m	Total £m	Floating £m	Fixed £m	Interest free £m
Sterling	17.8	–	–	17.8	19.2	3.7	–	15.5
US dollar	43.8	22.3	15.9	5.6	25.8	24.9	–	0.9
Eurozone	9.2	0.2	–	9.0	1.8	0.5	–	1.3
Other	7.3	4.8	–	2.5	14.4	8.1	–	6.3
	<b>78.1</b>	<b>27.3</b>	<b>15.9</b>	<b>34.9</b>	<b>61.2</b>	<b>37.2</b>	<b>–</b>	<b>24.0</b>

Floating rate financial liabilities bear interest rates based on relevant national LIBOR equivalents. Drawings under major committed facilities are at no more than 0.4 per cent above LIBOR.

## 28 Derivatives and other financial instruments continued

The Group entered into an interest rate swap in October 2002 to fix the interest rate on US\$25m of financial liabilities at 3.0 per cent until September 2005.

The Group intends to maintain significant undrawn available committed facilities. Borrowings under these facilities at 29 March 2003 and the current facility maturity pattern were as follows:

	Total facilities £m	Drawings £m	Undrawn £m
Between one and two years	136.0	15.9	120.1
Between two and five years	71.0	26.8	44.2
	207.0	42.7	164.3

An analysis of the Group's total financial liabilities maturity profile is set out below:

	2003 £m	2002 £m
Within one year	30.4	28.3
Between one and two years	18.1	5.0
Between two and five years	29.6	27.5
More than 5 years	–	0.4
	78.1	61.2

### Interest rate risk profile of financial assets

The Group's financial assets comprise cash and deposits together with other investments as per note 11.

Composition of the Group's cash and deposits is set out below:

	2003 £m	2002 £m
Cash and deposits		
Sterling	16.6	41.8
US dollar	12.1	16.7
Eurozone	14.4	23.2
Other	8.3	5.5
	51.4	87.2

All cash and deposits are of a floating rate nature and earn interest based on the relevant national LIBID equivalents and are recoverable within one year.

### Fair value of financial assets and liabilities

Market values have been used to determine the fair values of the Group's financial assets.

There is no significant difference between book values and fair values of the Group's financial assets and liabilities.

To limit the cost of financing the acquisition of CSI Inc. the Group has entered into a two year interest rate cap to fix the maximum interest rate on US\$50m of debt at a rate of 5.5 per cent, with an expiry date in August 2003.

### Hedging future transactions

Whenever a Group company transacts in non local currency it is policy to take protection in the foreign exchange market unless it is impracticable or uneconomic to do so. Transactions undertaken will be accounted for at these contract rates.

## 29 Post balance sheet events

On 31 March 2003, the Company announced that it had completed the acquisition of the Bank of England's banknote printing operations, based at Debden in Essex for a cash consideration, including acquisition expenses, of £10m. At the date of acquisition the printing operations had net assets of £9m.

# Principal Subsidiaries, Branches and Associated Companies

As at 29 March 2003

The companies and branches listed on these two pages include those which principally affect the profits and assets of the Group. A full list of subsidiary undertakings will be filed with the Company's Annual Return.

Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
<b>EUROPE</b>		
<b>United Kingdom</b>		
De La Rue Holdings plc	Holding and general commercial activities	100 <sup>+</sup>
De La Rue International Limited	Security paper and printing, sale and maintenance of cash handling products and services, identity systems, brand protection and holographics	100
De La Rue Overseas Limited	Holding company	100
De La Rue Investments Limited	Holding company	100
Portals Group Limited	Holding company	100
Portals Property Limited	Property holding company	100
Currency Consulting International Limited	Consultancy	100
Camelot Group plc	Lottery operator	20 <sup>*</sup>
<b>Channel Islands</b>		
The Burnhill Insurance Company Limited	Insurance	100
De La Rue (Guernsey) Limited	General commercial company	100
<b>Belgium</b>		
De La Rue Cash Systems N.V.	Distribution, service and marketing	100
<b>Ireland</b>		
De La Rue Smurfit Limited	Security printing	50
De La Rue Cash Systems Limited	Distribution, service and marketing	100
<b>Italy</b>		
De La Rue Cash Systems s.r.l.	Distribution, service and marketing	100
<b>France</b>		
De La Rue France Holdings SAS	Holding company	100
De La Rue Cash Systems S.A.	Distribution, service and marketing	100
<b>Germany</b>		
IMW Immobilien AG	Property company	95.73
De La Rue Cash Systems GmbH	Distribution, service and marketing	100
De La Rue Systems GmbH	Holding company and distribution and marketing of cash handling products for export	100
<b>Malta</b>		
De La Rue Currency and Security Print Limited	Security printing	100
<b>The Netherlands</b>		
De La Rue BV	Holding company and distribution and marketing of cash handling products	100
<b>Portugal</b>		
Valora-Serviços de Apoio à Emissão Monetária S.A.	Currency printing	25 <sup>*</sup>
De La Rue Systems – Automatizacao, S.A.	Manufacturing, distribution, service and marketing	100
<b>Spain</b>		
De La Rue Systems S.A.	Distribution, service and marketing	100



Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
<b>Sweden</b>		
De La Rue Cash Systems AB	Manufacturer of cash handling equipment	100
<b>Switzerland</b>		
Thomas De La Rue A.G.	Holding company	100
Fidink S.A.	Security ink marketing	33.33*
De La Rue Cash Systems AG	Distribution, service and marketing	100
De La Rue International Limited, Swiss Branch	Design and development centre, principally for cash handling products and solutions	100
<b>NORTH AMERICA</b>		
<b>United States of America</b>		
De La Rue Inc.	Holding company	100
Sequoia Voting Systems, Inc.	Manufacture of voting equipment and related software	85
De La Rue Global Services Inc.	Security printing	100
De La Rue Cash Systems Inc.	Design, assembly, distribution, marketing and identity systems	100
De La Rue Systems Limited Partnership	Assembly of cash handling products	100
Currency Systems International Inc.	Assembly and sale of cash handling products	100
<b>Canada</b>		
De La Rue Cash Systems Inc.	Distribution, service and marketing	100
<b>SOUTH AMERICA</b>		
<b>Brazil</b>		
De La Rue Cash Systems Limitada	Distribution, service and marketing	100
<b>Mexico</b>		
De La Rue México, S.A. de C.V.	Distribution, marketing and identity systems	100
<b>AFRICA</b>		
<b>Kenya</b>		
De La Rue Currency & Security Print Limited	Security printing	100
<b>South Africa</b>		
De La Rue South Africa (Proprietary) Limited	Distribution, service and marketing	100
<b>FAR EAST</b>		
<b>Australia</b>		
De La Rue Cash Systems Pty Limited	Distribution, service and marketing	100
<b>Hong Kong</b>		
De La Rue Systems Limited	Distribution, service and marketing	100
<b>Malaysia</b>		
De La Rue (Malaysia) Sdn Bhd	Identity systems	100
<b>Sri Lanka</b>		
De La Rue Lanka Currency and Security Print (Private) Limited	Security printing	60
<b>Thailand</b>		
De La Rue (Thailand) Limited	Distribution, service and marketing	100

\*Shares held by De La Rue plc

\*Associated company

# Five-Year Record

<b>Profit and loss account</b>	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m
Turnover					
Continuing operations	526.2	518.9	517.4	641.7	<b>536.6</b>
Acquisitions	–	–	–	–	<b>46.1</b>
Discontinued operations	(note a) 211.7	98.2	7.4	9.5	–
<b>Total</b>	<b>737.9</b>	<b>617.1</b>	<b>524.8</b>	<b>651.2</b>	<b>582.7</b>
Operating profit					
Continuing operations	37.3	55.2	68.4	77.6	<b>37.5</b>
Reorganisation and arbitration costs	(48.5)	(25.6)	(0.8)	(11.1)	<b>(31.9)</b>
Loss on impairment of investment	–	–	–	–	<b>(1.3)</b>
Acquisitions	–	–	–	–	<b>0.5</b>
Discontinued operations	(note a) (0.9)	5.1	(1.5)	(1.4)	–
Operating profit/(loss) before goodwill amortisation	(12.1)	34.7	66.1	65.1	<b>4.8</b>
Amortisation of goodwill	–	–	(0.5)	(2.8)	<b>(19.6)</b>
Group operating profit/(loss)	(12.1)	34.7	65.6	62.3	<b>(14.8)</b>
Share of profits of associated companies	26.7	14.7	4.8	11.8	<b>9.2</b>
Loss on the sale of continuing operations	(2.1)	–	(3.0)	–	–
Profit/(loss) on the disposal of discontinued operations	(16.2)	56.1	–	1.5	–
Profit on sale of investments	2.3	2.0	–	22.7	–
Loss on write-off of investments	–	–	–	–	–
Scheme of arrangement costs	–	(1.1)	–	–	–
Profit/(loss) on ordinary activities before interest	(1.4)	106.4	67.4	98.3	<b>(5.6)</b>
Net Interest: Group	(8.8)	(3.0)	(1.2)	(0.4)	<b>0.5</b>
Associates	2.8	3.0	4.4	3.0	<b>0.4</b>
Profit/(loss) on ordinary activities before taxation	(7.4)	106.4	70.6	100.9	<b>(4.7)</b>
Taxation on profit on ordinary activities	(5.7)	(17.7)	(7.5)	(22.2)	<b>(2.5)</b>
Profit/(loss) on ordinary activities after taxation	(13.1)	88.7	63.1	78.7	<b>(7.2)</b>
Equity minority interests	(0.9)	(1.0)	(0.2)	(1.5)	<b>(0.7)</b>
Profit/(loss) for the financial year	(14.0)	87.7	62.9	77.2	<b>(7.9)</b>
Dividends	(27.0)	(24.3)	(24.0)	(25.5)	<b>(24.6)</b>
Transferred to/(from) reserves	(41.0)	63.4	38.9	51.7	<b>(32.5)</b>
Earnings per ordinary share	(6.2p)	39.9p	33.1p	40.7p	<b>(4.3)p</b>
Diluted earnings per share (per FRS 14)	(6.2p)	39.6p	32.6p	40.0p	<b>(4.3)p</b>
Headline earnings per ordinary share	0.1p	15.8p	35.8p	29.4p	<b>7.0p</b>
Adjusted earnings per ordinary share	18.8p	26.5p	30.9p	34.4p	<b>18.9p</b>
Dividends per ordinary share	12.0p	12.0p	12.6p	13.4p	<b>13.6p</b>
<b>Balance sheet</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Fixed assets	303.6	242.0	235.6	253.2	<b>250.8</b>
Net current assets	23.5	(18.7)	31.8	63.0	<b>47.2</b>
Cash/(borrowings)	(126.3)	2.1	36.1	50.0	<b>8.2</b>
Other liabilities	(67.2)	(62.3)	(46.0)	(50.3)	<b>(58.1)</b>
Equity minority interests	(3.0)	(3.0)	(2.6)	(3.1)	<b>(4.2)</b>
Shareholders' funds	130.6	160.1	254.9	312.8	<b>243.9</b>

## Notes

(a) Discontinued operations refer to all businesses discontinued between 1999 and 2003. Thus continuing operations refer to those businesses continuing as at 29 March 2003.

# Shareholders' Information

## Registered Office

De La Rue House  
Jays Close, Viables, Basingstoke  
Hampshire RG22 4BS UK  
Telephone: +44 (0)1256 605000  
Fax: +44 (0)1256 605336  
Registered Number 3834125  
Company Secretary: Miss C L Fluker

## Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH UK  
Telephone: +44 (0)870 702 0000  
Fax: +44 (0)870 703 6101

## Shareholder Enquiries and Holder Amendments

Enquiries regarding shareholdings or dividends should, in the first instance, be addressed to Computershare Investor Services PLC. Details of your shareholding and how to make amendments to your details can be viewed online at [www.computershare.com](http://www.computershare.com).

## Electronic Communications

You can register online at [www-uk.computershare.com/investor](http://www-uk.computershare.com/investor) to stop receiving statutory communications through the post. If you choose this option you will receive an e-mail notification each time we publish new shareholder documents on our website and you will be able to download and read them at your own convenience.

To register you will need an internet-enabled PC. You will also need to have your shareholder reference number (SRN) available when you first log in. This may be found on your share certificate.

Shareholders who elect this may vary their instruction or request a paper copy of any shareholder document at any time in the future.

## Internet

Visit our home page at [www.delarue.com](http://www.delarue.com)

## Consolidation of Share Certificates

If your total registered shareholding is represented by several individual share certificates, you may wish to have these replaced by one consolidated certificate. De La Rue will meet the cost for this service. You should send your share certificates to the Company's registrar together with a letter of instruction.

## Annual General Meeting

The Annual General Meeting will be held at 12 noon on Thursday 17 July 2003 at Winchester Guildhall, The Broadway, Winchester, Hampshire SO23 9LJ UK. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in a separate notice to shareholders.

## Dividend Payments

Final	8 August 2003
Record Date	11 July 2003
Ex-Dividend Date	9 July 2003
Interim	January 2004

## Results Announcements

Final Results	May
Interim Results	November

## Analysis of Shareholders at 29 March 2003

By range of holders	Shareholder		Number	Shares %
	Number	%		
1 – 1,000	6,238	63.9	2,650,035	1.5
1,001 – 2,000	1,651	16.9	2,389,171	1.3
2,001 – 4,000	921	9.4	2,597,675	1.4
4,001 – 20,000	641	6.6	4,982,096	2.7
20,001 – 200,000	208	2.1	13,766,953	7.6
200,000 and above	103	1.1	155,380,968	85.5
<b>Total</b>	<b>9,762</b>	<b>100</b>	<b>181,766,898</b>	<b>100</b>

## Share Dealing Facilities

The Company's Stockbroker, Cazenove & Co. Ltd, provides a simple, low cost postal dealing facility in De La Rue plc shares. Commission is charged at the rate of 1 per cent (up to £5,000), with a minimum charge of £10. Further information and forms can be obtained from Cazenove & Co. Ltd, 20 Moorgate, London EC2R 6DA UK. Telephone: +44 (0)20 7588 2828. A copy of the low-cost dealing form is also available at [www.delarue.com](http://www.delarue.com)

A low cost **telephone** dealing service has also been arranged with Stocktrade which provides a simple way for buying or selling De La Rue plc shares. Basic commission is 0.5 per cent (subject to a minimum commission of £15). For further information please call +44 (0)845 601 0995 and quote reference Low Co103.

## Capital Gains Tax – March 1982 Valuation

Shareholders should be aware that the price per share on 31 March 1982 was 617.5p.

Shareholders are advised to refer to their brokers/financial advisers for detailed advice on individual CGT calculations.

Every attempt has been made to ensure this report is as environmentally friendly as possible. The paper used is made from a base pulp extracted from the timber of sustainably managed forests and is Elemental Chlorine Free, fully recyclable, acid free and fully bio-degradable. Designed and produced by Pauffley, London.



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