De La Rue Annual Report 2004

DeLaRue

Just a banknote?

Contents

Just a banknote?

Just think again.
A De La Rue banknote is a highly sophisticated item of portable technology.

It is secure: its authenticity is assured using a range of security features from tonal watermarks to sophisticated security threads and specialist inks. Many banknotes now incorporate holographic devices to help the public test authenticity.

It is durable: tough enough to endure the rigours of life in circulation thanks to the use of cotton-based paper. Cotton fibres give banknote paper its distinctive feel and the necessary characteristics to circulate efficiently through human hands, retailers' tills, sorting machines and cash dispensers.

It is distinctive: banknotes must be attractive as well as being secure and durable. De La Rue's team of designers work closely with our customers and technical staff to achieve the optimum balance between these differing requirements.

And De La Rue does not just produce banknotes.

We combine innovative thinking, leading edge technology and outstanding customer service to produce many other paper and security products, including excise stamps, driver's licence and passport issuing systems for the world's governments, banks and retailers.

In fact, De La Rue today is recognised on two counts: in the production of banknotes and security paper to more than 150 issuing authorities and in the development and sales of cash handling equipment to over 2,000 financial institutions.

Dual Image™ is a holographic feature which creates a complex challenge for the counterfeiter. As you tilt the banknote from left to right two separate images alternate. This creates an easily understood public recognition feature.

StarChrome™
is a security thread that produces a colour shifting effect (from green to red) when tilted. It is an excellent security feature for the general public and is particularly effective against digital reproduction.

Key Financials

	2003/2004	2002/2003** (restated)
Sales	**£682.5m**	£582.7m
Profit before tax	**£22.5m**	£(4.1)m
Earnings per share	**6.8p**	(4.0)p
Profit before tax, exceptional items and goodwill amortisation*	**£58.7m**	£48.7m
Headline earnings per share*	**24.2p**	19.2p
Cashflow from operating activities	**£92.1m**	£59.1m
Net cash at end of period	**£41.1m**	£8.2m
Dividends per share	**14.2p**	13.6p

* Before exceptional charges of £33.7m (2002/2003 £49.2m) and goodwill amortisation of £2.5m (2002/2003 £3.6m).

**Restated for the adoption of UITF Abstract 38 (Accounting for ESOP Trusts). This has resulted in an increase in the previously reported profit by £0.6m and earnings per share by 0.3p.

Trading Highlights

- Results demonstrated the strength of the Currency business which benefited from a significant Iraq banknote order and a return to normal paper volumes.
- Improved underlying operating performance in Cash Systems was offset by increased pension charges and an adverse foreign exchange environment. Results reflect the benefit of cost reduction programmes implemented throughout the year.
- Following the cessation of Global Services as a strategic activity, the Board is now focusing the Group around the core activities of Security Paper and Print and Cash Systems.
- UK Pension Scheme review now completed and scheme is broadly fully funded at the year end.

Chairman's Statement

Sir Brandon Gough
Chairman

Group Results

De La Rue's results show a strong improvement over 2002/2003. The strength of the Currency business continues to underpin the Group's performance and our success in delivering the exceptional Iraq banknote contract demonstrates the unique skill sets of the business and its ability to meet challenging customer requirements. For the most part, the markets for Cash Systems remained slow, particularly in Europe, and our focus remains on tightly controlling costs. The results also reflect the benefits of the reorganisation programmes undertaken in Cash Systems and Security Products.

Dividend

Subject to shareholders' approval, the Board is recommending an increased final dividend of 9.8p per share, which will be paid on 6 August 2004 to shareholders on the register on 9 July 2004. This will give a total dividend for the year of 14.2p, an overall increase of 4.4 per cent on last year.

Board Changes

We announced with our recent preliminary results that I will retire as non-executive Chairman, immediately after the Annual General Meeting on 22 July 2004.

Nicholas Brookes, currently De La Rue's senior independent non-executive Director will assume the role of Chairman at that time. Nicholas, 57, joined the Board of De La Rue plc in March 1997 and has been Chief Executive of Spirent plc since 1996 and is due to retire from that role in June 2004.

Michael Jeffries will assume the role of Chairman of the Remuneration Committee and the Company's senior independent non-executive Director.

Leo Quinn joined the Board on 29 March 2004 as Chief Executive Designate and will succeed Ian Much as Group Chief Executive on 31 May 2004 when Ian retires from the Company. The Board would like to thank Ian for his significant contribution to the Group's development over the last five and a half years and to wish him well in his retirement.

Leo, 47, joins De La Rue from Invensys plc, where for almost three years he was Chief Operating Officer of the Production Management Division, based in Massachusetts, USA. Leo also spent 16 years with Honeywell Inc., the engineering Group, in a variety of senior management roles in the USA, Europe, the Middle East and Africa.

Outlook

Following the exceptional volumes in Currency during the second half, the business starts the year with a strong order book for both banknote printing and papermaking. This is expected to underpin a stronger first half in 2004/2005, although it is not expected that full year volumes in Currency will reach the exceptional levels of 2003/2004.

We anticipate that 2004/2005 will see the full year benefits of the completion of the restructuring programmes in both Cash Systems and Security Products. However, in Cash Systems the benefits will be mitigated by the effect of the continuing weakness of key currencies, in particular the US Dollar. During 2004/2005 the Presidential election in the USA will aggravate the pressures Sequoia is facing.

Given the strong position in which Currency enters the year, the Board remains confident about the outlook for the Group.

Brandon Gough

Sir Brandon Gough
Chairman

Chief Executive's Review

Ian Much
Chief Executive

Group Results

De La Rue is pleased to report improved results for the year ended 27 March 2004. Turnover increased by 17.1 per cent from £582.7m to £682.5m and profit before tax, exceptional items and goodwill amortisation was strongly ahead at £58.7m* (2002/2003 £48.7m*). This represented a considerably better performance than the Board had expected at the beginning of the year, particularly after taking into account £8.0m of increased pension charges. The main drivers behind the improved Group result were an exceptional performance in the Currency business, coupled with earlier than anticipated delivery of savings from the cost reduction programmes initiated in Cash Systems and Security Products.

Headline earnings per share (excluding exceptional items and goodwill amortisation)* increased from 19.2p to 24.2p reflecting the improved trading, a small reduction in the underlying effective tax rate to 26.2 per cent (2002/2003 26.5 per cent) and the effect of a reduced number of shares in issue, following the share buy back programme last year. Basic earnings per share were 6.8p compared with (4.0)p in 2002/2003.

An excellent year in Currency was the key contributor to the strong operating result in Security Paper and Print, where operating profits were up by £13m to £42.4m (before exceptional items of £10m and amortisation of negative goodwill of £0.5m). This was primarily driven by the impact of the exceptional overspill order in relation to Iraq banknotes processed in the second half of the year. In addition, significantly improved volumes in the papermaking business, which increased 38 per cent year on year partly reflected a return to traditional paper ordering patterns of a large customer, exceptional requirements for the banknote printing business and a sizeable order from a customer who rarely orders paper on the world market.

In Cash Systems, revenues of £302.6m were down £8.3m on last year's result as the tough trading conditions seen in the second half of 2002/2003 continued into 2003/2004. Operating profits (before exceptional items of £11.3m and goodwill amortisation of £2.6m) were ahead of our expectations at £8.8m, although down by £3.0m on last year's result. The impact of additional pension charges of £1.5m together with a weakening US Dollar, however, masks an underlying improvement in the operating performance of the division, driven by the achievement of earlier than anticipated benefits from cost reduction programmes.

Following a weak start to the year, Security Products' performance was much improved during the second half. In particular, this was as a result of the reorganisation of the manufacturing base announced in the second half of 2002/2003. In addition, trading activity during the second half was much improved with a number of significant contracts secured, particularly in the Security Print business.

In November 2003, we announced the outcome of the strategic review of Global Services, including the Security Products activities. The key actions from the review are now well under way and comprise the exit from a number of low margin and declining product areas within Security Print. These include UK personal cheques, export stamps, UK vouchers and coin bags, which are undertaken at De La Rue's Peterborough and Byfleet facilities in the UK. The exit from these sites is on track to be completed by the end of 2004/2005. This will leave the remaining Security Products operations focused on profitable activities.

Cash flow remains a key strength of the Group with a net cash inflow from operating activities of £92.1m (2002/2003 £59.1m), significantly enhanced by a high level of advance payments associated with a number of Currency contracts around the year end. The Group ended the year with net cash on the balance sheet of £41.1m compared with net cash of £8.2m last year.

Acquisitions

During the year Group expenditure on acquisitions was £9.5m.

This comprised the acquisition of the Bank of England's banknote printing operations based at Debden, Essex acquired on 31 March 2003. 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.

Associates

Profit from associates before interest and tax increased from £9.2m to £10.0m. The main associated company is Camelot, the UK lottery operator. Dividends received from associates of £7.2m were lower than last year's income of £9.0m, as last year Camelot made a one off payment of retained profits which arose from the interim licence period.

*Before exceptional charges of £33.7m (2002/2003 £49.2m) and goodwill amortisation of £2.5m (2002/2003 £3.6m)

> "The main drivers behind the improved Group result were an exceptional performance in the Currency business, coupled with earlier than anticipated delivery of savings from the cost reduction programmes initiated in Cash Systems and Security Products."

UK Pension Scheme

The Group accounts for pensions in accordance with SSAP24, having deferred the introduction of FRS17 (Retirement Benefits) in accordance with the transitional measures set out by the Accounting Standards Board.

As outlined in the interim results the Scheme's actuary completed the triennial valuation of De La Rue's UK Pension Scheme. Based on data as at 6 April 2003, it indicated a deficit of approximately £40m on an ongoing actuarial basis. The Trustee of the Scheme has approved this valuation. The charge to the profit and loss account for 2003/2004 under the new valuation was £9.9m (2002/2003 £1.9m under the previous valuation).

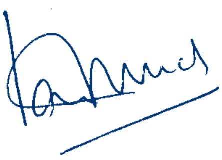
In light of the April 2003 deficit and the evidence of increased volatility in equity values, the Company completed the review of its Pension Scheme arrangements in the second half. The following structural changes to the UK Pension Scheme have now been agreed:

- In conjunction with the Trustee, a revised investment strategy to increase progressively the proportion of Scheme investments in bonds from 30 per cent towards 50 per cent.
- Retention of the final salary section of the Scheme for existing members but with the introduction of a new section for employees who join the Scheme after 30 June 2004, which combines a final salary element with a defined contribution element.
- Company contribution rates have increased from 6.1 per cent of pensionable salaries in 2002/2003 to 17 per cent from January 2004 onwards. Members' contributions will also increase from 5 per cent to 7 per cent of pensionable salary by 1 April 2005. We have decided to phase in this change at a rate of 1 per cent per annum with the first increase effective on 1 July 2004. Company cash contributions will reduce accordingly.

In addition, the Company made a lump sum contribution to the Pension Scheme of £6.47m in the year. We believe that this, together with the combination of increased company and member contributions and the structural changes we have made to the Scheme, will continue to ensure the ongoing financial strength of De La Rue's Pension Scheme. The improvement in equity markets over the course of 2003/2004, combined with the changes outlined above has resulted in the Scheme being broadly fully funded at the year end, on the ongoing actuarial basis.

Environment and Health and Safety Report (EHS)

This year marks our third public Environment, Health and Safety (EHS) Report presented on pages 18 to 21. De La Rue believes EHS performance is vital to the success of our business. We are targeting further improvements notwithstanding the progress made. Our reporting systems are now maturing to a point where we have a much clearer view of our EHS performance across the Group. During 2003/2004, we launched new initiatives, extended recognised best practice from the originating sites to other operations and recruited additional EHS specialists to drive improvement more effectively into our businesses. EHS is now a recognised business priority across the Group.



Ian Much
Chief Executive

De La Rue today

Introduction

De La Rue, a global company employing over 6,600 people in 31 countries, 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. We are 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. We are pioneering new technologies worldwide in government identity solutions for national identification, driver's licence, passport issuing schemes and election systems.

Actions to date

De La Rue's strategy is to apply our knowledge and technologies in secure products, transactions and solutions to create sustainable value for the long term. During the year the Board has taken action to refocus the Group around its core markets of security printing and cash handling. We have also taken action to refocus our Security Products business by reducing overall manufacturing capacity and adopting a more focused approach to sales, targeting key segments of the market.

Our business

Security Paper and Print

Currency

De La Rue aims to be the preferred partner of Central Banks for printed banknotes, banknote paper and banknote technologies worldwide. We invest significantly to deliver the most effective service and advanced security features, tailored to meet our customers' individual needs.

Security Products

Provides a range of secure printed products, services and solutions to businesses and governments worldwide.

Revenue share

Banknote Printing 70%
Banknote Paper 30%

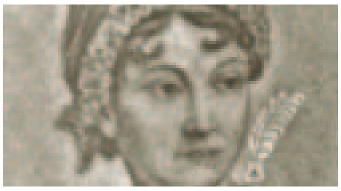
Market information

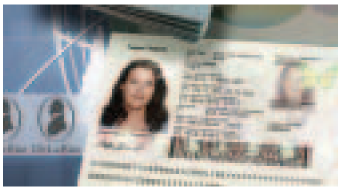
De La Rue is the world's largest commercial banknote papermaker and printer and is involved in the production of nearly one in five of the world's banknotes.

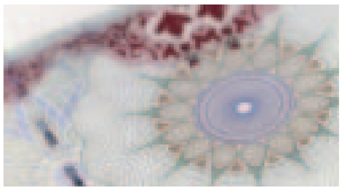
Products

Currency
Anti-counterfeit consultancy, banknotes, banknote paper, coins, currency management, design and origination service, security threads.

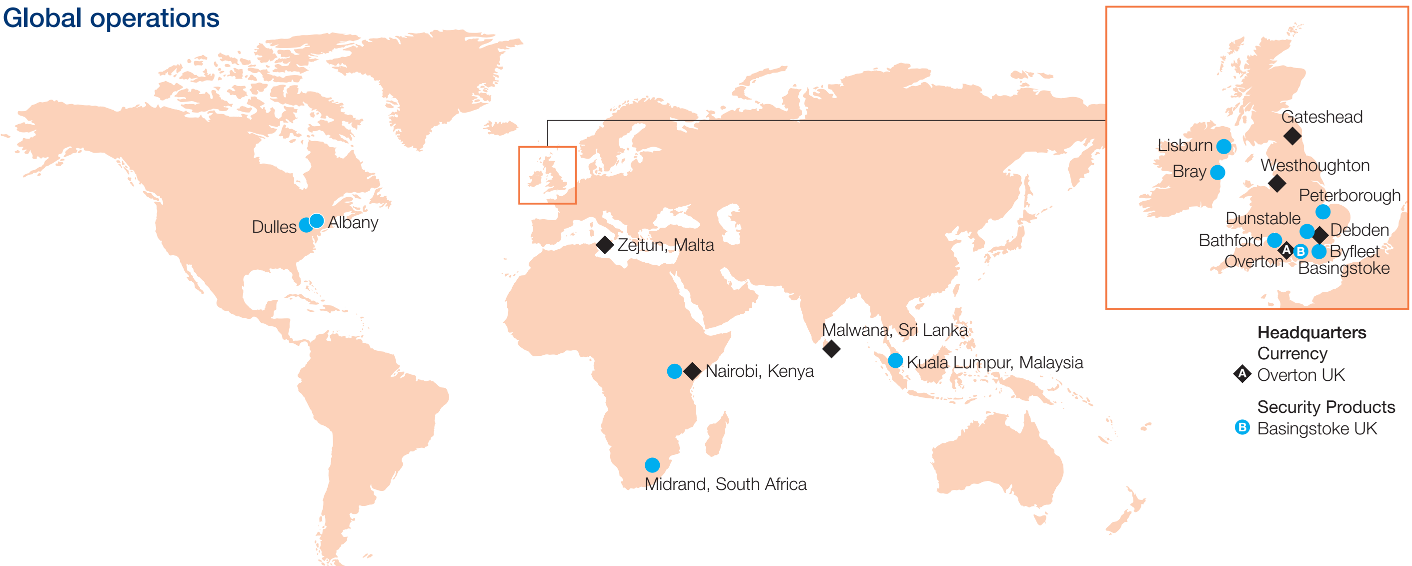
Security Products
Authentication labels, bonds and bearer securities, certificates of origin, export cheques and drafts, drivers' licences and issuing systems, holograms, motor vehicle titles, national identity cards and issuing systems, passports and issuing systems, postage, revenue and fiscal stamps, secure substrates, security labels, signature panels, tax discs, travellers cheques, visas, vital records, vouchers.







Global operations



Results

We remain confident as to the strength of the currency printing and paper business in the long term. With an increasing proliferation of colour copying, scanning and printing technologies we continue to develop innovative anti-counterfeit solutions such as wide threads and holographic devices for our customers to counter these threats.

We also see increased value in the Cash Systems division both as market sophistication increases, and through an expansion of its geographical reach.

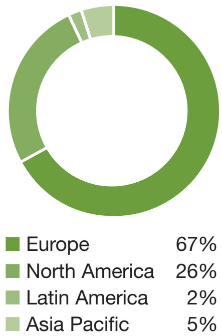
Our principal focus remains on the retail branch banking and automation products. In addition, we see opportunities arising from the enlargement of current cash processing activities due to central and commercial banks decisions to outsource cash processing activities.

The customer services business also continues to be an integral part of our customer offering and a significant profit driver of the division.

Cash Systems

As the world's leading cash experts, over 2000 commercial banks, central banks, cash-in-transit companies and retailers rely on De La Rue Cash Systems' solutions and expertise. We assist our customers to remain competitive and be more profitable by helping them to reduce costs, increase revenue, minimise operational risk and improve the level of customer service delivered to their customers.

Revenue share



Market information

De La Rue's cash handling solutions enable 12 million transactions in financial institutions every day. De La Rue's customer service organisation, which represents about one third of divisional revenues, manages over one million customer calls every year worldwide.

Products and services

Teller automation
Teller cash dispensers and recyclers help to increase teller productivity and improve customer service.

Self-service systems
Multifunctional ATM solutions to automate routine self-banking operations.

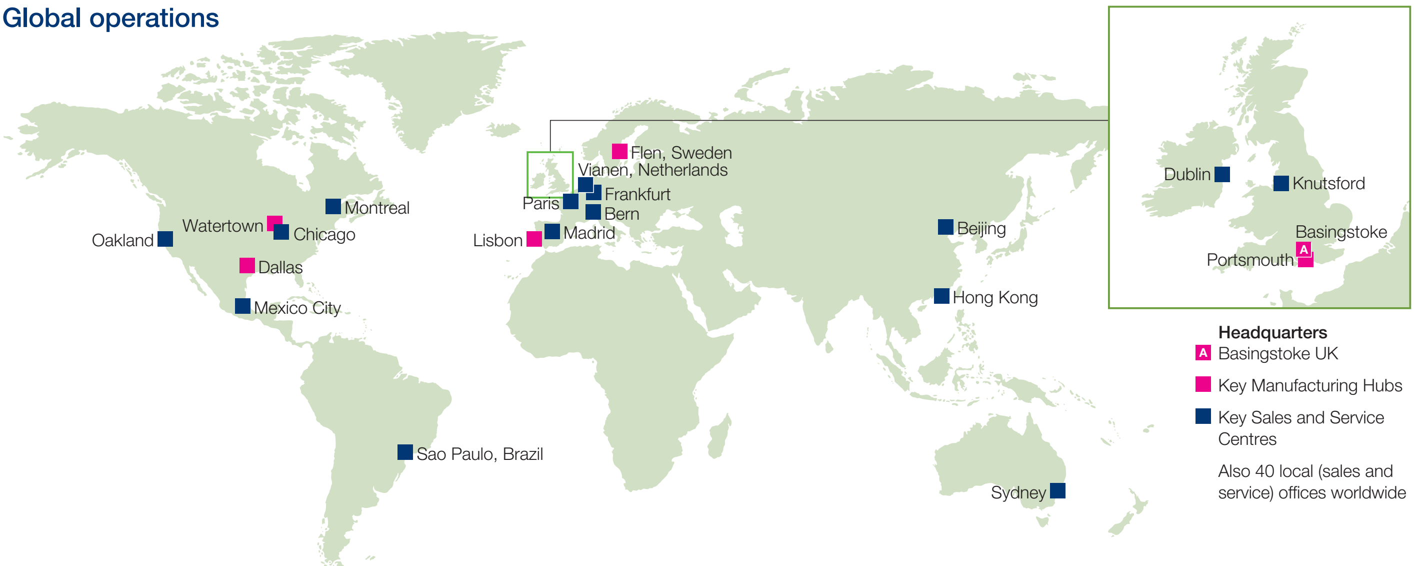
Banknote sorters
Fully configurable note sorters that enable the highest levels of counterfeit detection and quality control for cash providers.

Note and coin counters
For simple batching to counterfeit checking, reconciliation of deposits and value balancing.

Cash management
Software that delivers a systematic approach to cash processing control.

Customer service
A worldwide support network that provides a consistent level of high-quality service to our customers through our direct service operations and indirect service partners.

Global operations



Security Paper and Print

Who says it's only paper?

USING THREADED PAPER TECHNOLOGY TO BOOST PRODUCT SECURITY FOR MICROSOFT®

Ground-breaking security technology developed by De La Rue makes it more difficult than ever for software pirates to produce counterfeit certificates of authenticity – providing reassurance for Microsoft and software users worldwide.

Next generation windowed threaded paper technology supports 'Port-hole™' – a solution that involves the creation of small and uniquely frayed holes into security paper during its formation and then the positioning of an exposed security thread within each hole.

The resulting security feature is both difficult and very expensive for counterfeiters to reproduce.

Sales of authentication labels which incorporate the Port-hole feature started in January 2004. For Microsoft, a valued and longstanding De La Rue customer, our track record and global capability delivered reassurance that we could meet the demand from all Microsoft-licensed software replicators worldwide.

INTRODUCING CORNERSTONE™ – AN INNOVATIVE WAY TO BOOST BANKNOTE PERFORMANCE

If innovation means putting new ideas and technologies to work to solve an enduring problem, then our Cornerstone product is an innovative solution.

Produced in response to a specific customer request – to reduce the number of banknotes rejected by high-speed sorting machines due to turned or folded corners – the thinking that produced Cornerstone is both elegantly simple and original. Most importantly, it is also very effective.

In simple terms, Cornerstone re-applies the traditional watermark to new effect – using the technology to stiffen the corners of banknotes. This is innovation that works hard – helping to keep banknotes in better general condition, reducing processing costs and delivering better performance from a range of sorting, counting and dispensing machines.

WHY THE BANK OF ENGLAND TRUSTED US TO IMPROVE QUALITY AND CUT COSTS

When the Bank of England decided to contract out its banknote printing operation at Debden, Essex, it set three objectives: to ensure high quality and security of supply, to maintain the Debden site and protect staff interests, and to reduce costs at what was already one of the lowest-cost operations in the world.

In awarding the contract to De La Rue the Bank demonstrated its trust in our expertise, experience and enduring performance. It also opened a new phase in a relationship, which through our papermaking business, Portals, stretches back to 1724.

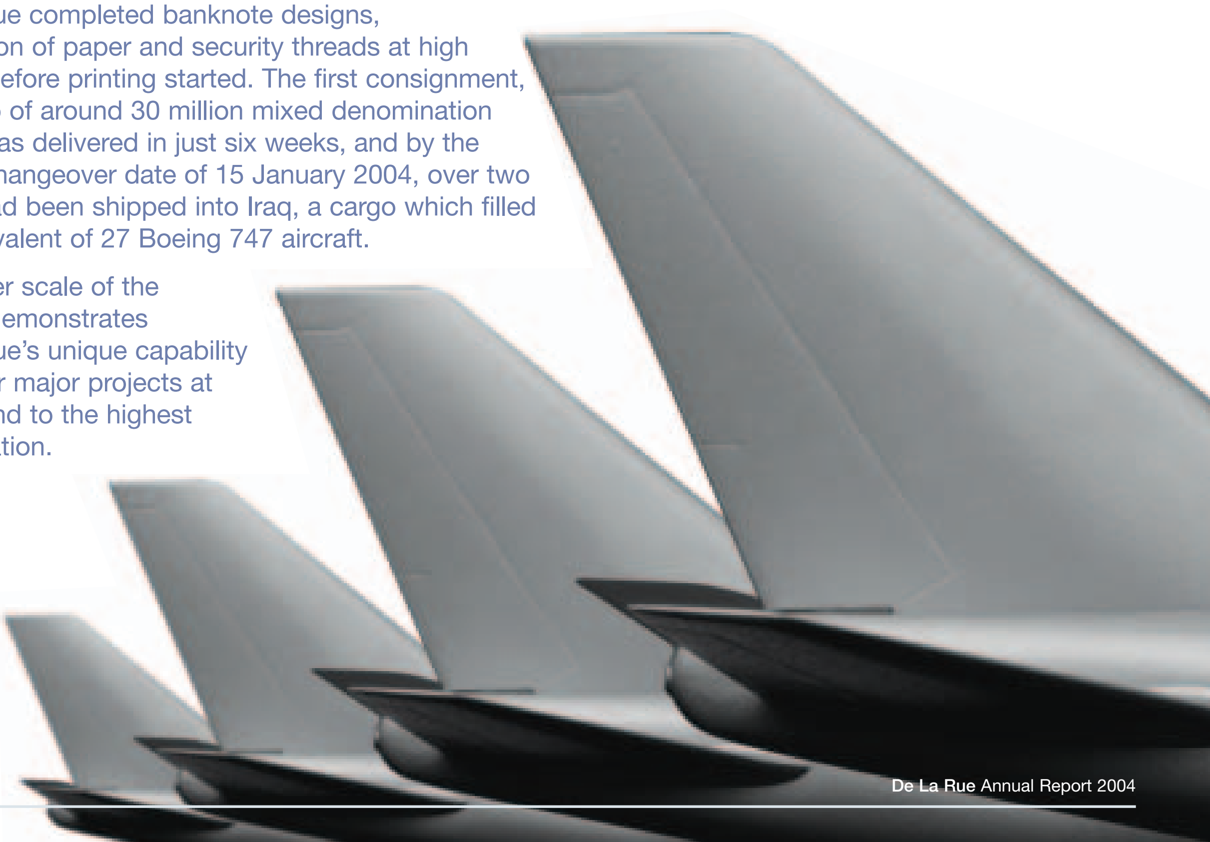
The seven year contract has started well. During our first year of operations we have produced hundreds of millions of notes for the Bank and undertaken export work at Debden.

FROM ZERO TO TWO BILLION IN SIX MONTHS – PROVING OUR CAPABILITY IN IRAQ

In January 2004, two billion new banknotes were ready for issue by the Central Bank of Iraq: the conclusion of a project launched in July 2003 when the Central Bank declared its commitment to put new banknotes into circulation by 15 October – in just three months.

De La Rue completed banknote designs, production of paper and security threads at high speed, before printing started. The first consignment, made up of around 30 million mixed denomination notes, was delivered in just six weeks, and by the official changeover date of 15 January 2004, over two billion had been shipped into Iraq, a cargo which filled the equivalent of 27 Boeing 747 aircraft.

The sheer scale of the project demonstrates De La Rue's unique capability to deliver major projects at speed and to the highest specification.



Security Paper and Print

An excellent year in Currency was the key contributor to the strong operating result in Security Paper and Print. This was primarily driven by the impact of the exceptional overspill order in relation to Iraq banknotes processed in the second half of the year. In addition, significantly improved volumes in the papermaking business also contributed to the strong result.

SECURITY PAPER AND PRINT	2004 £m	2003 (restated) £m	change £m
Sales			
Continuing operations	**303.6**	248.5	55.1
Acquisitions	**36.7**	–	36.7
	340.3	248.5	91.8
Underlying operating profit*			
Continuing operations	**39.0**	29.4	9.6
Acquisitions	**3.4**	–	3.4
	42.4	29.4	13.0

*Before exceptional items of £10.0m (2002/2003 £19.9m) and amortisation of negative goodwill of £0.5m (2002/2003 £0.2m).

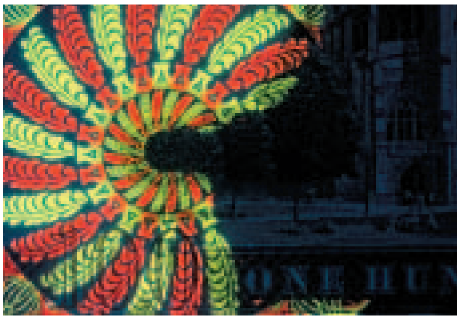
Currency

Currency had an excellent year with operating profits substantially ahead of last year, despite increased pension costs of £3.4m. This was primarily driven by the impact of the exceptional order in relation to Iraq banknotes announced in July 2003. The banknote printing business has performed strongly this year against demanding manufacturing schedules and timescales, given the exceptional second half volumes (due predominantly to the Iraq contract). Following the closure of our Singapore manufacturing facility last year, the ability of De La Rue's worldwide manufacturing facilities to flex up their production capacity to meet the additional volume requirements this year has been an outstanding achievement.

Equally successful has been the integration of the former Bank of England printing works at Debden, acquired on 31 March 2003, which has made a good contribution to operating profits this year. Considerable progress has been made in reorganising the facility to introduce a more rigorous quality regime and managing the cost base in line with the approach at other Currency sites. As anticipated at the time of acquisition, while the primary focus at Debden continues to be on long run work for the production of Sterling, during the year we have successfully undertaken export work at the site.

Demand for the latest technology in anti-counterfeit solutions remains a key driver in the market. The proliferation of colour copying, scanning and printing technologies means that we continue to develop anti-counterfeit solutions such as wide threads, holographic devices and iridescent features.

This year we launched Gemini™, a new ultraviolet feature intended to assist bank tellers and retailers in authenticating banknotes. Gemini features appear as a single colour under normal light but as two different colours under ultraviolet light. The feature, which builds on De La Rue's in-house ink and printing expertise, is an excellent example of an elegant solution, which is both visually striking in appearance as well as being very difficult to replicate. To produce this effect a counterfeiter would need to perform three separate printing operations, although De La Rue achieves this in just a single printing pass.



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1. Gemini™ feature.
During the year our Currency business launched Gemini a new ultraviolet feature intended to assist tellers and retailers in authenticating banknotes.

2. Fiscal stamps.
We also secured a contract to supply the Government of Uzbekistan with high-security holographic foil for alcohol excise stamps.

The papermaking business has seen significantly improved volumes, which increased 38 per cent year on year. This partly reflected a return to traditional paper ordering patterns of a large customer, exceptional requirements for the banknote printing business and a sizeable order from a customer who rarely orders paper on the world market.

The Currency business has started the 2004/2005 financial year with a strong order book for paper and printing, both ahead of last year. However, it is not anticipated that full year volumes will hit the exceptional peaks of 2003/2004 and overall we expect trading to return to more normal levels.

Cash generation continues to be a key strength of the Currency business with operating cash flow in excess of operating profits for a third year running.

Security Products

Following a weak start to the year, Security Products' performance was much improved during the second half. In particular, this was as a result of the benefits of the reorganisation of the manufacturing base announced in the second half of 2002/2003. The reorganisation, which included the closure of the High Wycombe site in the UK, was completed in June 2003 as expected. In addition, trading activity during the second half was much improved with a number of significant contracts secured, particularly within the Security Print business.

It was particularly pleasing this year to announce an exclusive multi-year contract with Microsoft® for the supply of secure labels for its range of software products. In addition, we also secured a contract to supply excise stamps to the government of Uzbekistan. Initially, De La Rue worked as a consultant to the State Printing Works Davlat Belgisi on the design and development of foil application machines used to apply foil to alcohol excise stamps. This then led to a recent contract to supply high-security holographic foil for the stamps themselves, which are printed locally.

In November 2003, we announced the outcome of the strategic review of Global Services, including the Security Products activities. The key actions from the review are now well under way and comprise the exit from a number of low margin and declining product areas within Security Print. These include UK personal cheques, export stamps, UK vouchers and coin bags, which are undertaken at De La Rue's Peterborough and Byfleet facilities in the UK employing about 200 people. The closure of Byfleet, together with the transfer of equipment to supply domestic stamp production to our Dunstable facility in the UK, is now in progress. Our efforts to dispose of the Peterborough cheque printing business as a going concern were unsuccessful. Consequently, in February 2004 we also announced our intention to close the site. We expect to close both manufacturing facilities by the end of 2004/2005.

The exceptional costs associated with the strategic reorganisation are £9.1m, and are substantially cash. The elimination of losses, together with related overhead savings will benefit the Group by approximately £3m per annum.

Through operational cost savings and the emphasis on higher margin products we expect to see a further improvement in Security Products' trading performance during 2004/2005. As outlined at the interim results, we expect all Security Products businesses to make a positive contribution to operating profits next year.

Cash Systems

Who says processing cash is simple?

SECURING A CASH FOR PROFIT BUSINESS MODEL

Cash is the globally dominant payment method in volume terms. In the UK, it is forecast that 66 per cent of all personal payments in 2011 will still be made with cash*.

There is a global trend for deregulation by national central banks to outsource cash processing responsibilities to the commercial sector. This new dimension to the traditional role of the cash processors brings new challenges. There are incentives, penalties and changing market conditions, which encourage new and existing players to offer complementary and competitive services. With these factors combined, a refocused approach to the task of processing cash is required.

In the UK, the Bank of England outsources the processing of banknotes to commercial organisations, and sets industry regulations and standards to manage the quality and volume of notes in circulation.

Securitas is a commercial organisation that handles approximately 40 per cent of all cash in Britain, having taken over cash processing activities for several large commercial banks. For Securitas these new challenges have required a balance in their business operations to provide a secure and efficient processing model that can at the same time meet the fluctuating demands of customers – securing their business model, Cash for Profit. De La Rue's solution approach, delivered through its CPS and Cobra sorter ranges, has enabled Securitas to implement a flexible cash processing environment to meet the demands of the market.

(*source: APACS).

THE CAPABILITY TO UPGRADE A BRANCH NETWORK ACROSS NORTH AMERICA

No matter how clients choose to do business with Royal Bank of Canada Financial Group (RBC), whether it is at a branch, ATM, by phone or online, this leading North American financial services company wants them to have the best experience possible. As part of branch upgrades, RBC selected De La Rue to bring greater versatility and speed in sorting and dispensing cash on demand for client transactions.

As continuity of service to its clients was paramount to the bank, De La Rue undertook the management of the existing installed systems during the transition rollout to the majority of RBC's extensive network. In addition to supplying the latest in teller cash dispensers, De La Rue managed the installation process and developed the bespoke software and connectivity required to achieve full utilisation and maximum benefit across the bank's network. Together we designed and delivered 'train the trainer' staff training programs enabling the bank to integrate our solution into its operational and business processes across North America and the Caribbean.

INNOVATIVE IMAGE SCANNING SOFTWARE SETS NEW LEVELS OF PRODUCTIVITY IN NORWAY

De La Rue is recognised as a world leader in systems that can process used, mixed-denomination notes at high speeds because we are constantly innovating in response to customer requirements.

We improved efficiency for NOKAS, a private cash-handler owned by six banks and banking groups in Norway. NOKAS wanted to push productivity further in order to secure a large central bank contract in a competitive market, so we developed innovative software that removed the need for manual keying of data at the start of the process. By linking image scanners to our Maestro information management software, batch data from clearing banks could be scanned in regardless of whether it was typed, handwritten or in bar code form.

To further improve efficiency and reduce transcription error, we linked Maestro's reporting directly to the NOKAS accounting software system. The result was a significant reduction in manual labour across the whole process, greater accuracy and high processing speeds.

OUR BANKNOTE SORTERS HAVE BEEN TRUSTED WITH CHINA'S CURRENCY SINCE 1994

China, the world's most populous country, is effectively a cash economy. Few individuals have cheque books, credit cards are rare and the highest denomination banknote is low in value – it is worth about US$12. As a result, there is a massive volume of notes in circulation and strong demand for cash-handling equipment.

The People's Bank of China installed its first De La Rue machine in 1994 and the company's first high-speed note sorter in 1999. An indication of the trust the Bank puts in De La Rue is the fact they have now bought over 20 more high-speed sorters since then.

The success of our machines is down to their speed and multiple functions. In one run they can sort by denominations and fitness for reissue while also assessing validity by checking for various security features. De La Rue's machines can deliver high-speed sorting and reliability when sorting excessively worn notes.

Cash Systems

Cash Systems' underlying operating performance improved in 2003/2004, despite increased pension charges and an adverse foreign exchange environment. The results also importantly reflect the benefit of cost reduction programmes implemented throughout the year.

CASH SYSTEMS	2004 £m	2003 (restated) £m	change £m
Sales	302.6	310.9	(8.3)
Underlying operating profit*	8.8	11.8	(3.0)

*Before exceptional items of £11.3m (2002/2003 £26.5m) and goodwill amortisation of £2.6m (2002/2003 £3.3m).

SEQUOIA VOTING SYSTEMS	2004 £m	2003 £m	change £m
Sales	44.2	25.2	19.0
Underlying operating loss*	(1.9)	(2.6)	0.7

*Before exceptional items of £12.6m (2002/2003 £2.8m) and goodwill amortisation of £0.4m (2002/2003 £0.5m).

In Cash Systems, revenues of £302.6m were down £8.3m on last year's result of £310.9m as the tough trading conditions seen in the second half of 2002/2003 continued into 2003/2004. Operating profits (before exceptional items and goodwill amortisation) were ahead of our expectations at £8.8m, although down by £3.0m on last year's result. The impact of additional pension charges of £1.5m together with a weakening US Dollar, however, masks an underlying improvement in the operating performance of the division, driven by the achievement of earlier than anticipated benefit from cost reduction programmes. The business remains strongly cash generative.

The focus within the division will continue to be on alignment of the cost base of the business to underpin trading in the current tough market conditions, particularly in Europe. In 2002/2003, we announced 300 job losses in the division and during the first half of 2003/2004, we identified a further 50 redundancies at our Dallas and Lisbon manufacturing sites. Of the 350 redundancies identified to date, approximately 330 have now been completed. The majority of the costs associated with these actions were included in the 2002/2003 financial year although a further £5.2m of charges have arisen in 2003/2004.

Key markets and product businesses

Teller automation remains by far the largest business within Cash Systems both in terms of product sales and service revenues. Sales of Teller Cash Dispensers, which form a key platform of our teller automation offering to retail banks, continued to grow both in terms of revenue and order intake. Sales and order intake of the TCR Twinsafe®, (our recycler platform), were in line with our expectations and slightly ahead of last year.

We continue to see, particularly in the largest financial institutions, the trend towards equipping the teller positions of branches with teller automation solutions. These are designed for open plan environments where accuracy and high-speed cash handling are combined with efficient management of cash stocks to ensure the maximum benefits to the banking network. It also enables banks to create more open, welcoming environments that focus on enhanced customer service and cross-selling of products and services without compromising security.

1

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1. During the year De La Rue installed the world's largest banknote sorter for the Bank of Ireland in Belfast.

2. We also launched the TCD Benchmark® series for the US market with a new design and enhanced performance and functionality.

We continue to make progress in our self-service offering to retail banks, which was formed out of the acquisition of the Papelaco equipment manufacturing business in June 2002. The roll-out of the self-service product range to several of the most developed European territories continues. The potential for offering these solutions to our customers remains attractive, particularly in niche areas such as bundle note depositing terminals within bank branch networks.

After disappointing revenues in 2002/2003, performance in the large sorter business improved significantly this year. This was due to a combination of the effect of the rationalisation programme (in engineering and manufacturing) initiated at the beginning of 2003/2004. In addition, sales of our desktop sorting platform, Cobra®, have been encouraging.

During the year De La Rue installed the world's largest banknote sorter for the Bank of Ireland in Belfast. With the four Irish bank issuers each with banknotes in up to five denominations plus significant quantities of Scottish and Bank of England notes, the sorting process for the bank is hugely complex. De La Rue's solution was a custom made CPS 1500 sorter with 20 pockets to enable sorting for ATM fitness, repatriation of Sterling banknotes and notes from other banks stacked into cassettes for direct exchange. Unfit banknotes are also automatically shredded.

Customer Services, which supports all Cash Systems' product streams, performed in line with our expectations. The business remains a key profit driver for the division and integral to our solutions offering to our customers. This year we won two large third-party maintenance contracts in Switzerland for self-service solutions, for large financial institutions.

Key geographies

As expected, market conditions in Europe, particularly in the worst affected markets of Germany and Spain, have remained similar to last year, although some operating improvement is now being seen as a result of lower overheads. The Latin American markets were also tough. The North American market, however, remains a key growth region and continues to be the largest in terms of divisional revenues. During the year both the USA and Canadian markets grew in line with our expectations and we see considerable potential for further penetration going forward. In the US market, this year we launched the TCD Benchmark® Series with a new design and enhanced performance and functionality which has been received well by our customers. We also continue to see potential for growth in the Asia Pacific region, as well as the African and Middle East countries, which performed in line with expectations.

Sequoia Voting Systems

The Sequoia Voting Systems business, acquired in May 2002, supplies electronic voting systems to the US and international electoral markets. It reported a small operating loss in 2003/2004, despite a substantial upturn in volumes in the run-up to the US Presidential elections in November 2004, reflecting continued low industry margins. The US electronic voting systems market has seen intense price competition over the last 18 months, with unit prices falling by an average of 25 per cent during that period. In addition, the uncertain legislative environment and political resistance to the adoption of touch-screen technology has also hindered development of the market this year. The outlook for Sequoia for 2004/2005 is for increased losses, reflecting significantly lower machine sales in a Presidential election period and the need to provide higher levels of support for our customers during the November election process. Management is evaluating strategies to mitigate these effects.

In the light of continuing adverse market conditions, during the first half the Board accelerated the fair value review of the Sequoia business, which was due to take place in March 2004. It determined that the goodwill was not sustainable and, consequently, an exceptional non-cash goodwill write-down of £12.6m was announced at the interim results.

Financial Review

Stephen King
Finance Director

Financial Results

Group profit before tax, exceptional items and goodwill amortisation was £58.7m*, up 20.5 per cent over the previous year. The result was particularly driven by an excellent performance from the Currency business, which benefited from a significant Iraq banknote order and a return to historic paper volumes. In addition, significant benefit was derived from restructuring programmes implemented across the Group. Headline earnings per share* of 24.2p was ahead of last year by 26.0 per cent. Cashflow performance was again a key strength of the Group with net cash inflow from operating activities of £92.1m (2002/2003 £59.1m), significantly enhanced by an exceptionally high level of advance payments.

Exceptional Items

Exceptional items before tax of £33.7m (2002/2003 £49.2m) were charged to profits in the year, of which £19.8m were non-cash as shown below:

	Cash £m	Non cash £m	Total £m
Security Paper and Print			
Reorganisation costs			
Security Products	0.9	–	0.9
Global Services	7.8	1.3	9.1
Cash Systems			
Reorganisation costs	5.2	–	5.2
Goodwill impairment – ATS Money Systems	–	6.1	6.1
Goodwill impairment – Sequoia	–	12.6	12.6
Profit on disposal of fixed assets	–	(0.2)	(0.2)
Exceptional pre-tax costs	13.9	19.8	33.7

In Cash Systems and Security Products the reorganisation costs relate to the restructuring programmes announced last year.

The charge in respect of Global Services arises from the actions associated with the strategic exit from the division announced at the interim results, including the disbanding of the division, exit from a number of product areas and closure of the Peterborough and Byfleet factories.

*Before exceptional items of £33.7m (2002/2003 £49.2m) and goodwill amortisation of £2.5m (2002/2003 £3.6m)

Goodwill impairments relate to Sequoia, as announced at the half year, and to the Cash Systems retail business where poor trading and uncertain prospects have led to a prudent view being taken of the sustainability of this asset.

Cash Flow and Borrowings

Cashflow performance was again excellent. Working capital showed a further reduction of £36.4m on top of the good progress made last year. An exceptionally high level of advance payments accounted for part of this improvement and totalled £33.1m at March 2004 compared with £16.6m at the previous year end. This, together with an improvement in profits, led to cashflow from operating activities being £33.0m ahead of last year at £92.1m. Capital expenditure included major new equipment for the Group's banknote factories at Debden, Malta and Gateshead and also equipment for the refitting associated with the new Microsoft contract. Acquisition expenditure related to the purchase of the Debden factory from the Bank of England, which was partly offset by the proceeds from the disposal of surplus property assets. The Group ended the year with net cash of £41.1m at March 2004 against cash of £8.2m at the start of the year.

Taxation

The underlying effective tax rate (excluding exceptional items and goodwill amortisation) was 26.2 per cent for the year (2002/2003 26.5 per cent). The effective rate benefited from the settlement of a number of open tax issues relating to prior years and from profit mix from lower rate tax regimes. Cash flow tax payments at £11.2m were higher than prior year by £7.5m reflecting increased profits and the presence of tax recoveries in 2002/2003.

Pensions Accounting

The Group accounts for pensions in accordance with SSAP 24, having deferred the introduction of FRS17 (Retirement Benefits) in accordance with the transitional measures set out by the Accounting Standards Board.

Following the valuation done as at April 2003, the charge for the UK defined benefits scheme has increased under SSAP 24 from £1.9m in 2002/2003 to £9.9m. This is in line with the expected level signalled earlier this year and also similar to the operating cost if FRS 17 had been adopted.

Principal exchange rates used in translating the Group's results

	2004 Average	2004 Year end	2003 Average	2003 Year End
US dollar	1.69	1.81	1.54	1.57
Euro	1.44	1.50	1.56	1.46
Swedish krona	13.19	13.87	14.26	13.43

Analysis of the Group's assets and related cash/debt by geographic location

	2004 Group assets £m	2004 Cash/(debt) £m	2004 Net assets* £m	2003 Net assets* £m
UK	79.6	105.9	185.5	186.8
USA	6.2	(24.9)	(18.7)	1.1
Eurozone	55.6	(37.8)	17.8	14.6
Rest of World	32.3	(2.1)	30.2	22.3
Total	173.7	41.1	214.8	224.8

*Excluding minority interest

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 whenever a business unit confirms a sale or purchase in a non-domestic currency unless it is impracticable 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 27 March 2004 the Group had sold forward US$72m against Sterling at an average rate of $1.73 and US$43.5 against Swedish Krona at an average rate of SEK7.43. In addition the Group has sold forward €42.3m at an average rate of €1.44. Principal exchange rates used in translating the Group's results are shown in the table above. For the year ended 27 March 2004 adverse foreign exchange impacted the Group by £5.6m. Based on current exchange rates we expect further adverse impacts in 2004/2005 of approximately £8.0m.

The Group currently has committed facilities of £172.2m of which £77.9m expire within the next 12 months and the balance expire on various dates up to March 2011 and have an average remaining life of just under two years. Drawings under these facilities at 27 March 2004 totalled £41.6m.

International Financial Reporting Standards (IFRS)

All listed companies within the European Union will be required to report their financial results in accordance with International Financial Reporting Standards (IFRS) from 31 December 2005. For De La Rue plc this will apply for the year ended 25 March 2006 and will include full comparatives for the prior year. The first financial results announcement under IFRS will therefore be the interim report for the six months to September 2005. In preparation for the transition, the Group has commenced a detailed evaluation of the new accounting standards. The objectives are to assess the changes required to the Group's accounting policies, published statements and financial reporting systems. A training programme for all key finance personnel has also been launched. The process is ongoing and will incorporate changes to the international standards arising from the International Accounting Standard Board's (IASB) improvement project. The review has identified a number of principal areas of impact including the treatment of development expenditure, pensions and other employee benefits and goodwill.

The Group currently writes off development expenditure in the year in which it is incurred. IAS 38 (Intangible assets) requires such expenditure to be capitalised, provided certain criteria are met. The Group follows a five-phase product development process and it is likely that the implementation of IAS 38 will necessitate some expenditure to be capitalised and depreciated over an established useful life.

In accordance with SSAP 24, the Group's defined benefit scheme is not accounted for on the Group's balance sheet. IAS 19 will require the net valuation of the Group's defined benefit pension scheme to be reflected on the balance sheet. The charge to the profit and loss account will comprise the current year service cost together with the finance elements of assets and liabilities representing the expected return on assets and interests on liabilities. The amounts involved are not expected to differ significantly from those disclosed under FRS 17 within note 23. The treatment of actuarial gains and losses in future years is the subject of further IASB discussion and the Group will finalise its policy once this is completed.

IAS 38 requires goodwill to be capitalised in accordance with existing UK GAAP, but in future will not be subject to annual amortisation. Instead, an annual impairment review is required to justify the carrying value. The Group's existing goodwill totals £28.2m on which the annual charge is £2.5m.

The conversion project will continue to review all the international standards and finalise the Group's accounting policies in each area. The Group is well advanced in its preparations and confident of implementing the International Accounting Standards in accordance with the established timetable.

Stephen King
Finance Director

Environment, Health and Safety

In this year's report we present three years' of data on our Environment Health and Safety (EHS) performance. This data and the associated monitoring programmes equip our managers and the Board with the necessary information to control our EHS risks and to develop effective improvement programmes.

Progress Against 2003/2004 Objectives

✓ Completed ◆ Some progress made ✖ No progress

- ✓ Develop corporate EHS procedures and formalise EHS training programmes at all levels
- ✓ Complete the development and implementation of our EHS procedures with our intranet system
- ✓ Keep our ISO14001 implementation programme on target
- ✓ Complete development and implement EHS training programmes
- ✓ Host Interlock 2003 EHS Conference
- ✓ EHS action plans to be completed by all sites
- ◆ Review occupational health management
- ◆ Further develop EHS data assimilation process and set targets for 2004/2005
- ◆ Complete a cycle of internal EHS audits

2004/2005 Objectives

- Complete first EHS audit cycle
- Establish corporate performance standards for key EHS risks
- Set quantitative and time-bound accident frequency rate (AFR) reduction targets for each division
- Achieve reduction of AFR in each division
- Launch OHSAS18001 pilot programme for occupational health and safety management systems
- Host Interlock 2004 EHS Conference

Environment, Health and Safety at De La Rue

We strive to minimise the impact of our operations on the environment and to safeguard the health and safety of those affected by our operations. During 2003/2004 we launched new initiatives, extended recognised best practice from the originating sites to other operations and recruited additional EHS specialists to drive EHS more effectively into our businesses. EHS is now a recognised business priority across our entire Group.

Highlights and Challenges

Executives and managers are personally measured on EHS performance within their respective businesses and all employees are engaged in these issues through training courses, team briefings and other communication modes.

New initiatives have been launched at site and divisional levels. Extended application of our EHS intranet and improved divisional communications have enabled wider roll-out of these initiatives and other identified best practices. For example, behavioural training initially launched at our Overton, UK site has now been extended to a number of sites. One of these sites, Malta, will put over 500 employees through behavioural training by December 2004 with 221 having already attended the programme.

Last year each operating division appointed its own EHS adviser and we have benefited this year from their strategic direction setting and drive. We also recruited EHS specialists into different business units to support our initiatives and improvement targets. Our goal is that each operational site with more than 150 employees should have a dedicated EHS specialist.

Progress Against 2003/2004 Objectives

Two more operations achieved ISO14001 certification last year – Westhoughton and Gateshead in the UK, bringing our total to six sites. Our Sri Lankan plant has also been recommended for certification under ISO14001, OHSAS18001 and ISO9000. Another seven sites are working towards ISO14001 accreditation during 2004/2005, with at least three expected to achieve certification. We have also found that even for sites which affect the environment less ISO14001 has brought benefits such as reduced risk of environmental incidents.

We achieved or made significant progress on all of the objectives we set for ourselves last year. We enhanced our self-audit process and prepared audit procedures ready for audit roll-out during 2004/2005. Whilst EHS data assimilation is reaching a robust standard, it is not sufficiently mature at this point to set quantitative improvement targets because of the changes in the business. We issued guidance to all of our sites on how occupational health should be managed. We will use the audits in 2004/2005 to complete the occupational health review. All other objectives were completed in full. Last year we also developed our EHS audit systems to improve our assurance levels. This included enhancements to our self-assessment process, which all sites are required to complete, and production of a corporate audit protocol.

2004/2005 Objectives

In 2004/2005 we intend to test the benefits of implementing ISO14001 in one of the service oriented operations of our Cash Systems division. Although these operations have limited effect on the environment we are keen to assess whether tangible benefits can be achieved.

We see further improvement to our health and safety performance as a significant challenge and the Board is committing to a year-on-year reduction in our accident frequency rates (AFRs). Appropriate quantitative targets for AFR reductions will be agreed for 2004/2005 with each of our operating divisions, which will then be responsible for implementing plans to achieve them.

In 2004/2005 we will launch a 'pilot' programme of the health and safety management system OHSAS18001 for implementation at representative sites. The pilot will be used to assess whether OHSAS 18001 will bring additional controls and performance improvement to our established health and safety procedures and systems. In fact our Sri Lankan plant achieved a corporate award.

In 2004/2005, we will initiate our first cycle of corporate EHS auditing. These audits will assess operational control of EHS risks, conformance with Group standards and progress against the site's EHS action plan.

Managing Environment, Health and Safety

Effective management of EHS is based on a combination of policy setting, assurance processes and implementation of management systems at operational sites through development of a Company culture that promotes desired EHS related behaviours.

Identification of EHS Risks and Effects

De La Rue operates a global business providing a diverse range of products and services to a diverse range of customers. We are therefore faced with many legislative requirements and customer expectations with regards to EHS performance. Risk and impact identification is the responsibility of site management supported by Divisional and Group EHS advisors and the Group Risk Committee and the Environmental and Health & Safety (EHS) Steering Groups.

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

Our Cash Systems division assembles and services cash handling machines and equipment. Environmental impacts in this business are relatively low, consisting mainly of low volumes of waste generation and energy consumption. Health and safety risks are principally manual handling, which needs correct ergonomics for assembling machines, and road transport and personal safety of field engineers when travelling to repair cash handling machinery.

Security Paper and Print is potentially more hazardous. The Currency operations of papermaking and banknote printing involve chemical handling and machinery hazards and emissions to air and water that require treatment before release.

Security Products consists of hi-tech coating processes, paper making, security printing and information management solutions. Environmental impacts are primarily waste generation and solvent and energy consumption. Health and safety hazards are primarily associated with machinery.

De La Rue's EHS Policies

We have EHS policies that all of our operations must comply with. 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 there is compliance with Company policy and legislative requirements and that all sites and business units are implementing their improvement plans.

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 Board receives key information monthly and divisional managing directors also report quarterly on their EHS performance.

An audit schedule is used to ensure that all sites are audited on a periodic basis with higher risk sites audited more frequently. This audit programme has recently been extended in scope to reflect business changes and maturing systems. This new audit cycle will go live in 2004.

A self-assessment and performance benchmarking process, which allows sites to measure how they are performing in respect of Company policies and expectations, is used to support the audit programme.

Management Systems

Our 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) across all of our key sites. This year we

Summary of Consumptions and Emissions

(see page 21 for commentary)

Water Consumption (million m³)

Energy Consumption (GWh)

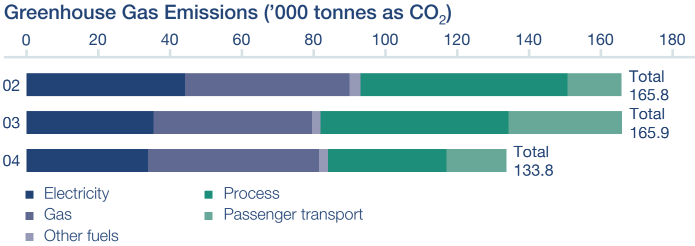
	2002		2003		2004	
Electricity	102.7	29%	124.3	34%	127.2	33%
Gas	241.2	68%	232.1	63%	250.5	64%
Other Fuels	12.5	3%	9.2	3%	10.4	3%
Total Energy	356.4	100%	365.6	100%	388.1	100%

Emissions to Air ('000 kg)

	2002	2003	2004
Non-Chlorinated VOCs	128	153	128
Chlorinated VOCs	.2	.4	10.6

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.

Greenhouse Gas Emissions ('000 tonnes as CO_2)

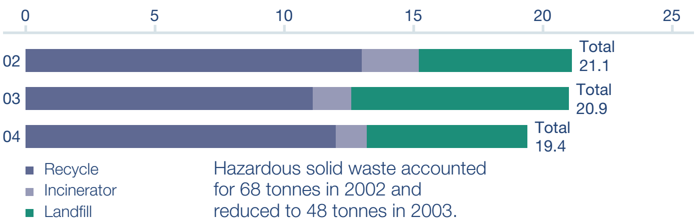


Emissions to Water ('000 kg)

	2002	2003	2004
COD	158	125	346
BOD	28	25	31
Suspended Solids	28	29	28

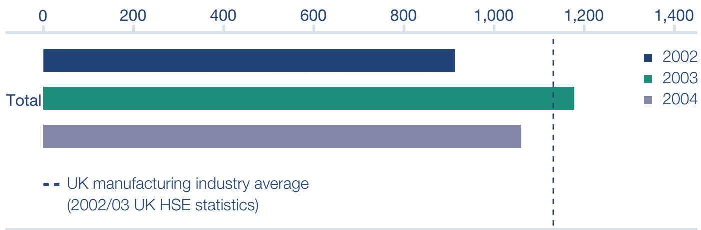
BOD – Biochemical Oxygen Demand. COD – Chemical Oxygen Demand. Suspended Solids – the filtered dry weight of solids suspended within the liquid effluent.

Solid Waste Generation and Management ('000 tonnes)

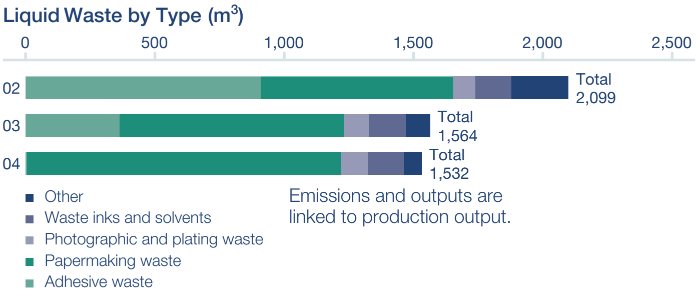


Hazardous solid waste accounted for 68 tonnes in 2002 and reduced to 48 tonnes in 2003.

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



Liquid Waste by Type (m³)



Emissions and outputs are linked to production output.

Summary Safety Performance Data

	2002	2003	2004
Over-3-Day Reportable Accidents	60	78	67
Other Recordable Accidents	390	499	489
Over-3-Day Incidence Rate per 100,000 employees	913	1,178	1,060
Days Lost due to Over-3-Day Accidents	1,009	1,988	1,144

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.

PRESSING HOME NEW INITIATIVES

De La Rue Smurfit Limited in Bray, Ireland, shows that a number of small measures can make a collective difference in waste management.

Two drums per month of soiled ‘print rags’, used to clean print machinery, are laundered and reused instead of being incinerated.

A drum/tin crusher has been installed to reduce the volume of waste to disposal by 70 per cent. The drum crusher also flattens metal 25 litre solvent drums, which are now collected for recycling, and suppliers are providing high volume liquid products in metal drums rather than plastic ones to enable these to be recycled in a similar manner.

Waste segregation has also yielded improvements. For example, installation of water catchment drums installed under sinks and wash basins at the site enables this wastewater to be collected and reused to soak waste security printing plates. By doing this the image area is dissolved from the plates, removing the need for shredding and therefore reducing energy usage.

will also pilot the implementation of OHSAS18001 at selected sites. Increased standardisation of practices is also being encouraged where consistency of approach is beneficial. For example a consistent accident investigation and reporting procedure enables greater sharing of information and organisational learning.

Environment, Health and Safety Performance Indicators

Our key performance indicators have been presented in graphs and tables on page 20.

Our key indicators generally show improvements across the company. The indicators over which we feel we have greatest control – solid waste, greenhouse gases and accident rates – have all shown improvement. Greenhouse gas emissions associated with production were broadly similar to last year despite a significant increase in production across the Group. We have restated our greenhouse gas emissions from previous years to exclude freight transport as we need to rely on third parties to provide this data and we have limited confidence in the data that we receive. This is not to say we will not continue to assess transport-related impacts and strive for better fuel economy.

However, our business is operationally diverse, from producing banknotes to cash machines, and production output is variable. These variations make meaningful annual comparison of performance indicators difficult even using the data as a ratio of production. Moreover, our EHS performance is directly linked to production variations so that this year when we have operated, for example, our banknote paper and printing factories to capacity, our outputs have correspondingly increased. We intend to explore whether more sophisticated forms of annual benchmarking are possible and beneficial.

None of our operations has been prosecuted for infringing any EHS laws or regulations.

Awareness and Culture

Continually developing awareness and embedding EHS within the operating culture are critical to improving EHS performance. This continued to be a focus area for management last year.

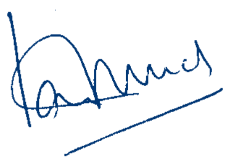
Remuneration for members of the Operating Board has, for the first time this year, been based on EHS performance along with other business critical performance measures. This practice is consistent with our belief that development of a desirable EHS operating culture comes through leadership.

The fourth Interlock EHS Conference in 2003 was attended by senior managers, operational personnel and EHS and union representatives from worldwide operations and was an opportunity to share best practice, to launch new corporate procedures and for operational personnel to exchange views with senior management. EHS is also discussed at the European Employee Forum.

With the assistance of divisional advisers we launched formalised training programmes for all levels throughout the Group. This included the first in a series of planned behavioural training programmes.

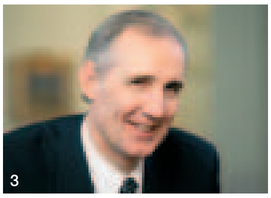
Full copies of our EHS policies are available on our website, or from the Company Secretary, details of which are on page 68.

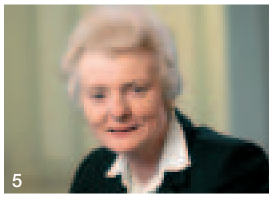
By Order of the Board

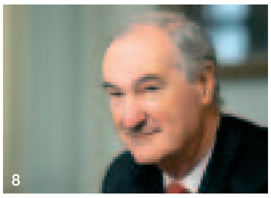


Ian Much
Chief Executive

Directors and Secretary







1. Sir Brandon Gough
Non-executive Chairman 66
was appointed to the Board in February 1994 and became chairman of the Company with effect from 23 July 1997. He resigned from the Audit, Remuneration and Nomination Committees on 25 March 2004, having chaired the Nomination Committee up to that date. 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.

2. Ian Much
Chief Executive 59
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.

3. Leo Quinn
Chief Executive Designate 47
joined the Group as chief executive designate on 29 March 2004. He will succeed Ian Much as chief executive on 31 May 2004. He was formerly with Invensys where for three years he was chief operating officer of its Production Management Division (PMD) based in Massachusetts, USA. Prior to that he spent 16 years with Honeywell Inc. in a variety of senior management roles in the USA, Europe, the Middle East and Africa.

4. Stephen King
Group Finance Director Ø 43
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.

5. Louise Fluker
General Counsel and Company Secretary Ø 50
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.

6. Nicholas Brookes
Non-executive †‡ 56
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 and, since 25 March 2004, chairman of the Nomination Committee.

7. Keith Hodgkinson FCMA
Non-executive #†‡ 60
was appointed to the Board on 19 April 2000. He is chairman of the Audit Committee of the Board. He joined the Nomination Committee on 25 March 2004. 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.

8. Michael Jeffries
Non-executive #†‡ 59
was appointed to the Board on 19 April 2000. He joined the Nomination Committee on 25 March 2004. 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 and chairman of Wyless plc in February 2004.

9. Philip Nolan
Non-executive #‡ 50
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.

\# 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 27 March 2004

Directors' Report

The Directors present their annual report together with the audited financial statements of the Group and the Company for the year ended 27 March 2004.

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 and stamps. 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 6 to 15.

Results and Dividends

Profit before taxation, exceptional items and goodwill amortisation was £58.7m. The profit attributable to shareholders for the year was £12.1m. The Directors are recommending a final ordinary dividend for the year of 9.8 pence. Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 6 August 2004 to ordinary shareholders on the register on 9 July 2004. An interim dividend of 4.4 pence per ordinary share was paid on 16 January 2004 making a total of 14.2 pence per share (2003 13.6 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 4 to 5.

Post Balance Sheet Events

Leo Quinn was appointed Chief Executive Designate and an executive Director on 29 March 2004. He will succeed Ian Much as Chief Executive on 31 May 2004, when Ian Much retires from the Company.

Nicholas Brookes, currently the Company's senior independent non-executive Director will become non-executive Chairman when Sir Brandon Gough retires immediately after the Annual General Meeting on 22 July 2004.

Michael Jeffries will then become Chairman of the Remuneration Committee and the Company's senior independent non-executive Director.

Share Capital

Details of shares issued during the year are provided in note 19 to the financial statements on pages 54 to 56.

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 2003. 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 2003 Annual General Meeting to purchase a maximum of 14.99 per cent of its own shares for cancellation. No purchases have been made during the year under this authority. 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. The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 allow companies to hold shares acquired by way of market purchase in treasury, rather than having to cancel them.

Further details are contained in the Chairman's letter to shareholders dated 17 June 2004.

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 34 and 35.

Substantial Shareholdings

As at 25 May 2004 the following persons on the share register had notified the Company of the following interests of three per cent or more in its issued ordinary share capital:

	Number of ordinary shares held	Percentage of shares held
Persons notifying		
Silchester International Investors	27,789,365	15.18
Schroders plc	27,673,060	15.11
Barclays PLC	9,552,188	5.22
FMR Corp.	9,467,777	5.17
AEGON UK plc	7,928,095	4.33
Legal & General Group Plc	5,926,145	3.24

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 38 to 67 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

The Group's R&D and Intellectual Property (IP) teams are now part of a combined Strategic Marketing and Technology function which enables technology to be shared appropriately across the Group. This year was particularly productive for launching new technical innovations, many of which are featured in this annual report, into the market with excellent rates of early adoption by customers.

2003/2004 set new levels of activity for patent applications and oppositions. Over one million new patent applications are filed worldwide each year, so De La Rue's IP function has become increasingly active to protect our own innovations against infringement and to enhance our technical differentiation.

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 26 to 30.

Directors

Details of each person who was a Director at any time during or since the end of the year and their qualifications, experience and responsibilities are given on page 22. A table giving details of their interests as at 27 March 2004 is shown opposite.

All the Directors held office throughout the year except Leo Quinn who was appointed Chief Executive Designate and an executive Director on 29 March 2004. Ian Much retires as an executive Director and Chief Executive on 31 May 2004 when Leo Quinn will succeed him as Chief Executive.

In accordance with the Company's Articles of Association, Leo Quinn offers himself for election at the Annual General Meeting. Keith Hodgkinson and Philip Nolan will retire by rotation and, both being eligible, will offer themselves for re-election at the Annual General Meeting.

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, Stephen King and Leo Quinn have 12-month rolling contracts, details of which are set out in the Remuneration Report on pages 31 to 36.

Lord Wright, who retired as a Director on 19 July 2000, continues to provide consultancy services pursuant to a recently renewed agreement with the Company from 20 July 2000 until 19 July 2005, 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:

	27 March 2004	30 March 2003
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**	10,000
Ian Much	**46,750**	46,750
Stephen King	**48,000**	48,000

Leo Quinn has no interest in the Company's ordinary shares.

There have been no changes in Directors' interests in ordinary shares since 27 March 2004. All interests of the Directors and their families are beneficial.

Interest in Shares under Trust

As at 27 March 2004 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.

Directors' Remuneration

Details of the remuneration and share options of each of the Directors are set out in the Remuneration Report on pages 31 to 36.

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 seventh meeting of the De La Rue European Employee Forum took place in June 2003 for consultation and the exchange of information between senior management and elected employees. Innovation Awards, now in their fifth 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 gender, sexual orientation, religious beliefs, age, colour, ethnic or racial origin, nationality, disability or trade union membership. 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.

Litigation

The Company announced on 9 July 2003 that it had become aware of allegations made in an unrelated criminal proceeding in a US Federal Court that its holographics subsidiary had engaged in an illegal price fixing scheme in relation to the supply of holograms for Visa banking cards in 1997 and that it understood that the Department of Justice in New York was conducting an investigation into these allegations. The Company had been advised that, in the event of there being any substance to the allegations, the penalties could range from 20 per cent of the relevant turnover in the relevant year which in 1997 was estimated at $5m for the supply of Visa holograms manufactured by the Company up to a maximum of $10m. Since then the Company has voluntarily co-operated with the Department of Justice which is considering the matter. No charges have been served on the Company.

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 28 days (2003 39 days).

Charitable and Political Donations

Donations for charitable purposes amounting to £198,610 (2003 £177,361) 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 2003) and a further £0.5m (2003 £0.7m) 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

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 22 July 2004 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
25 May 2004

Corporate Governance

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

Compliance with Section 1 of the 1998 Combined Code on Corporate Governance

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness to safeguard shareholders' investment and the Company's assets.The Company has complied throughout 2003/2004 with the provisions of Section 1 of the Combined Code issued by the Hampel Committee in June 1998 ("1998 Combined Code"). In accordance with the Turnbull Guidance on internal control, the Board confirms that there is an established process for identifying, evaluating and managing the key risks including financial, operational and compliance controls and risk management systems. 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. The Board's governance policies include a process for the Board to review regularly the effectiveness of the system of internal control and risk management systems, and the Board has conducted such a review.

This statement explains how the Company has applied and complied with the applicable provisions of the 1998 Combined Code. This does not extend to associated companies, such as Camelot Group, where we do not have management control.

Although the 2003 Revised Combined Code issued by the Financial Reporting Council in July 2003 ("2003 Revised Code") will not become mandatory for the Company until 2004/2005 the Board considered that as far as practicable it should comply with the 2003 Revised Code during 2003/2004. During last year the Company implemented procedures to ensure compliance during 2004/2005 to the extent the Board considers appropriate.

The Company considers it complied with the 2003 Revised Code during the year except as follows. The Chairman, a non-executive, was a member of the Remuneration and Audit Committees. The Chairman resigned from these two Committees with effect from 25 March 2004. His views will be obtained by inviting him to attend meetings of the Remuneration and Audit Committees, as appropriate. Having resigned from the Remuneration Committee, the Committee will in future be responsible for determining the fees paid to the Chairman. During the year only two of seven Directors were executive Directors but the Board concluded that the composition of the Board is appropriately constituted and balanced with a majority of independent non-executive Directors.

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 the 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 made in October 2003 and March 2004.

The Board also approves the Company's Business Code of Conduct ("Code of Conduct") which defines the Company's business principles and which was updated in February 2004.

The Company's auditors, PricewaterhouseCoopers LLP, have reviewed whether the statement reflects compliance with the specified provisions of the 1998 Combined Code as required by the Financial Services Authority and their comments on this can be found in the Auditors' Report on page 37.

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 Code of Conduct. The Code of Conduct defines the core values and principles governing how De La Rue does business. It covers areas such as complying with local laws and regulations (for example 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 approved by the Audit Committee whereby employees who have any concerns about the application of the Code of Conduct or business practices within the Company may raise them internally, or anonymously through an independently run telephone help-line.

All current and new employees are required to receive a personal copy of the Code of Conduct. 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 be collectively responsible for the success of 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 is assisted by an Executive Committee and Operating Board comprising key senior managers responsible for the performance of each of the businesses and functions.

The Directors' biographies appear on page 22. 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. Notwithstanding that Sir Brandon Gough has served as a Director since 1994, and that under the 2003 Revised Code a chairman ceases to be independent after his appointment as chairman, the Board considers that his contribution and objectivity in Board and Committee discussions were fully consistent with those of an independent Director. Nicholas Brookes is the Company's senior independent non-executive Director and is the Director whom shareholders may contact if they feel their concerns are not being addressed through normal channels. Both Sir Brandon Gough and Nicholas Brookes met key shareholders during the year and communicated their views to the Board. Non-executive Directors confirm on appointment, and on an annual basis, that they are able to allocate sufficient time to enable them properly to discharge their duties.

Induction and Training

Directors are provided with a comprehensive information pack on joining the Company and are advised of their legal and other duties and obligations as Directors of a listed Company. 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. Stephen King attended an external course during the year. In addition, all new Directors receive induction on their appointment covering such matters as the operation and activities of the Group (including key financial, business, social and environmental risks to the Group's activities), the role of the Board and the Company's corporate governance procedures as outlined in this report. 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. Keith Hodgkinson attended a seminar organised by the Company's auditors for Chairmen of Audit Committees. At least once a year the Board generally visits one site outside head office and Directors are encouraged to visit other sites and staff. The Company Secretary through the Chairman ensures that there is proper communication between the Board and its Committees and senior management and that non-executive Directors receive good information. She also reviews and facilitates induction and other professional development as required.

Appointments

All Directors are required to submit themselves for re-election at least every three years. Additionally, new Directors are subject to election by shareholders at the first opportunity after their appointment. Non-executive Directors are appointed for an initial period of three years with the expectation of a further three years subject to satisfactory performance. The Board may invite a non-executive Director to serve a third three year term after a detailed review at the end of the second term as was the case with Nicholas Brookes. Non-executive Directors' letters of appointment are available for inspection at the Company's registered office and at the Annual General Meeting together with executive Directors' service contracts.

The Work of the Board

The Board generally meets 10 times a year. During 2003/2004 there were 16 meetings. The Board reviews the performance of management in meeting agreed goals and objectives and through regular reports on key issues for which there is a prescribed timetable. Details are set out on page 29. The Chairman and non-executive Directors also met without the executive Directors being present.

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 reviewed and 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. The Board retains responsibility for reviewing the Group's system of internal control including financial controls, operational and compliance controls and risk management systems and is assisted by the Audit and Risk Committees.

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

Number of Meetings held	Board 16	Audit Committee 3	Remuneration Committee 8	Nomination Committee 4
Sir Brandon Gough	15	3	8	4
Nicholas Brookes	15		7	4
Keith Hodgkinson	15	3	8	2
Stephen King	16			
Michael Jeffries	15	3	7	
Ian Much	15			3
Philip Nolan	11	2	6	

Board Effectiveness and Evaluation

Consistent with its responsibility for the overall direction of the Company, the Board carried out its annual evaluation for 2003/2004 to assess its performance and to identify areas in which the effectiveness of its activities, including its Committees, policies or processes might be enhanced. Directors completed questionnaires and subsequently discussed with the Chairman matters concerning the Board, Nomination and Risk Committees. Members of the Remuneration and Audit Committees discussed issues with the Chairman of each Committee, as appropriate. The senior independent non-executive Director was responsible for appraising the Chairman. The Chairman was responsible for appraising each Director. The results of the evaluation process were presented to and discussed by the Board and any matters identified are being addressed.

Directors receive agendas and Board papers generally five days before each Board meeting; minutes are circulated as soon as possible thereafter. The Board reviews progress on implementing actions arising from the Board and its Committee meetings each month. There is also a defined procedure for dealing with urgent matters between Board meetings.

All Directors can request additional information from management 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. The terms of reference of the Audit, Nomination and Remuneration Committees appear on the Company's website. Membership of these Committees is given in the Directors' biographies on page 22. Further details of Committees are given below.

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 size, structure and composition of the Board and Committees and makes recommendations to the Board with regard to any changes that are considered necessary. The Committee also reviews 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. During 2003/2004 the Committee retained executive search consultants to recruit a new Chief Executive to succeed Ian Much. The Committee met four times during the year.

The Committee consisted of a majority of independent non-executive Directors. Keith Hodgkinson was co-opted as a member in October 2003 as part of the process of recruiting a new Chief Executive. On 25 March 2004 Keith Hodgkinson and Michael Jeffries were appointed as members of the Committee. Sir Brandon Gough and Ian Much ceased to be members of the Committee with effect from 25 March 2004 when Nicholas Brookes became Chairman of the Committee. Consequently, all its members are now considered independent pursuant to the 2003 Revised Code.

Remuneration Committee

The Committee met eight times during the year. Details of the Committee and of the remuneration policy can be found in the Remuneration Report on pages 31 to 36.

General Business Committee

The Committee meets when necessary to deal with routine matters arising between scheduled Board meetings. Only independent 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. Any Director is entitled to attend any meeting. 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 of 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 risks and the management processes and systems introduced to monitor and manage them are reviewed by the Risk Committee. Quarterly reports are made to the Board which monitors progress in managing any issues identified.

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

- Environmental Steering Group
- Health and Safety Steering Group
- Group Information Security Committee
- Group Security Committee
- Human Resources.

Audit Committee

The Committee met three times in 2003/2004. It is responsible for ensuring the adequacy of the systems and standards of internal financial control within the Group, including the financial reporting. It received regular reports from internal and external auditors, reviewed the interim and final financial statements and monitored the internal and external auditing process before submission to the Board. The Chief Executive, Finance Director, Financial Controller and representatives of the auditors, PricewaterhouseCoopers LLP, attend by invitation, as will the Chairman from 2004/2005. For part of the proceedings PricewaterhouseCoopers LLP attended alone with members of the Committee. Other activities of the Audit Committee are described in this report.

Risk Management

Business risks are categorised as external or strategic risks compared to risks which are more internal and operational in nature. 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. 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. The key elements of operational risk are rated according to exposure and are then benchmarked according to each risk discipline 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 Environmental and Health and Safety section of this annual report.

Internal Control and Internal Financial Control

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 control. The internal control and internal financial control procedures 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.

The controls by their nature are designed to manage, rather than eliminate, risk and can only provide reasonable but not absolute assurance against material misstatement or loss.

The review process used by the Board and through the Risk and Audit Committees, details of which are set out above, includes:

- reviewing monthly finance, operational and development reports;
- reviewing internal and external audit plans;
- reviewing significant issues identified by internal and external audits;
- reviewing significant Group risks reported by the Risk Committee;
- reviewing annual compliance statements in the form of self-audit questionnaires;
- reviewing reports on other such matters as security, health and safety, environmental issues and fire risks; and
- discussions with management on risk areas identified by management and/or the audit process and any changes from the previous review.

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 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.

Internal Audit

The Board through the Audit Committee also monitors the internal financial control systems through reports received from the Group internal audit function during the year. The internal audit function reviews internal financial controls in all key activities of the Group, typically over a three year cycle. It acts as a service to businesses by assisting with the continuous improvement of controls and procedures. There is a system of internal control reviews which includes a self-assessment programme covering both financial and IT controls. Actions are agreed in response to its recommendations and these are followed up to ensure that satisfactory control is maintained. 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.

Independence of Auditors

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

The Company follows its procedures relating to:

- selecting the statutory auditors and approving the audit fee;

- satisfying itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business);
- agreeing a policy on the employment of former employees of the auditor, then monitoring the implementation of this policy;
- commissioning non-audit work;
- circumstances in which it is appropriate or inappropriate for incumbent auditors to be allowed to, or prohibited from, providing 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. Therefore a total ban might lead to loss of business knowledge that could 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 not appropriate for the incumbent auditors to perform without the 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 2003/2004 the amount of consulting related non-audit fees paid to PricewaterhouseCoopers LLP was 23 per cent of the audit fee and principally related to tax compliance and other assurance services.

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 who may be providing services to De La Rue.

Relationship with Shareholders

The Company places a high priority on communications with and accountability to shareholders. A general interim statement and a fully 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. Proxy votes are also available to shareholders at the Annual General Meeting and through the Company's website. The Chairman 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 and senior independent non-executive Director are also available to meet such shareholders. The views of shareholders and analysts' and brokers' reports 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.

By order of the Board
Louise Fluker
Company Secretary
25 May 2004

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 of 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 (as defined under the 1998 Combined Code). The members during the year were: Nicholas Brookes (Chairman), Sir Brandon Gough, Keith Hodgkinson, Michael Jeffries and Philip Nolan. Their biographical details appear on page 22. Reflecting the requirement of the 2003 Revised Combined Code issued by the Financial Reporting Council in July 2003 ("2003 Revised Code"), Sir Brandon Gough ceased to be a member of the Committee with effect from 25 March 2004.

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 does use independent consultants to provide advice on remuneration levels amongst comparator companies, design of incentive bonus schemes and share option schemes and performance monitoring. The Committee has retained Watson Wyatt LLP to provide advice on remuneration levels and New Bridge Street Consultants advises only on whether performance targets in share option schemes are achieved. In addition to providing advice to the Remuneration Committee, Watson Wyatt LLP has also provided advice to the Company on a variety of compensation and employee benefits.

The Chief Executive is consulted on the remuneration of his direct reports and other senior executives and will seek to ensure a consistent process 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, which is described below, 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 2003/2004. Details of fees to the Chairman and other non-executive Directors are set out on page 33. These include additional fees for chairing the Audit and Remuneration Committees. 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 achievement of the Company's key business strategies; to enable it to attract and retain employees who have the necessary skills and commitment; and to motivate these employees by providing outstanding reward opportunities linked to the achievement of outstanding results. The structure of 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 a 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 Remuneration Committee regularly reviews this structure to ensure that it continues to meet its objectives, and in particular, achieving a strong link to De La Rue's performance. For 2003/2004 the two incentive elements which provide the principal link with performance were: first, participation in the annual incentive bonus which is tied to De La Rue plc earnings and cash flow performance for the year; and second, grants of share options under the De La Rue Executive Share Option Plan, the potential payout under which is tied to earnings per share growth and share price improvement over the medium to longer term. The on-target annual incentive bonus, combined with the expected value of the share option grant (using the Watson Wyatt Present Economic Value methodology 'PEV') provides approximately 80 per cent of the executive Directors' direct remuneration for target performance.

Executives are also encouraged to own shares in the Company by participating in the Matching Shares Scheme which is linked to De La Rue's performance. Executive Directors and certain key executives may invest up to 50 per cent of their pre-tax annual bonus in De La Rue plc shares. If these shares are held for two years and if De La Rue earnings per share increase in real terms by at least three per cent per annum, the Company will then match them on a one-for-two basis. These plans are described in more detail below. The Remuneration Committee intends to maintain this overall pattern for 2004/2005.

The Committee approves:

- all elements of the Company's executive Directors' and senior executives' remuneration, including base salaries, benefits, pensions, performance 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 against similar positions in comparable companies and obtains detailed information from external and internal sources about current market practices. The primary external comparator group used by the Committee are companies of similar size in the FTSE 250. 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.

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 33.

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 having regard 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 2003/2004 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. Leo Quinn will be eligible for 100 per cent of basic salary for 2004/2005 of which £100,000 is guaranteed. 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 cash flow 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 five years and for the annual bonus scheme of 2004/2005. Once the design of the bonus scheme has been approved by the Committee it is then introduced throughout the business, based on seniority with a corresponding, market competitive bonus opportunity.

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 non-executive Directors current letters of appointment are dated as follows: Nicholas Brookes 19 March 2003; Keith Hodgkinson and Michael Jeffries 19 April 2003 and Philip Nolan 1 September 2001.

Sir Brandon Gough was initially appointed as a non-executive Director on 1 February 1994 and as Chairman on 23 July 1997 and his appointment subsequently renewed. The executive Directors have rolling service contracts with a 12-month notice period (except as set out below) and provision for compensation on termination not exceeding 12 months' remuneration.

If Stephen King's employment is terminated by reason of a change of control (other than for the purpose of internal amalgamation or reconstruction) within 24 months from the date of commencement of his employment on 31 January 2003 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.

Ian Much's service contract provided for automatic termination on 7 September 2004 being his normal retirement age. Mr Much has agreed in a compromise agreement with the Company to the early termination of his contract dated 1 December 1998 on 31 May 2004 in order to facilitate a smooth and quick handover to his successor. Mr Much will therefore receive by way of compensation for the early termination of his contract a lump sum payment of £111,919 less deductions for any applicable tax or national insurance contributions. This represents payment of salary from 1 June to 7 September 2004 plus £32,980 relating to a salary supplement equal to 40 per cent of the contribution which the Company would have made to his FURBS for that period plus a sum equal to the value of pensionable service foregone for the period. In addition, Mr Much will receive a gross payment of £49,471 in respect of pension contributions to his FURBS. During this time Mr Much will continue to receive benefits in kind to which he is contractually entitled. The Remuneration Committee considered the extent to which mitigation was possible and concluded that it was not appropriate in the circumstances. The compromise agreement contains appropriate clauses to protect the Company's business.

Leo Quinn's service contract dated 3 March 2004 and commencing on 29 March 2004 contains a rolling 12-month notice period.

In determining compensation for early termination of a service contract, the Remuneration Committee carefully considers the specific circumstances, the Company's commitments under the individual's contract and the individual's obligation to mitigate loss.

Directors' Emoluments	2004 Salary and fees £'000	2004 Other payments £'000	2004 Benefits £'000	2004 Bonus £'000	2004 Total £'000	2003 Total £'000
Executive Directors						
Ian Much (highest paid director)	405	*123	58	324	910	509
Paul Hollingworth (resigned 30 June 2002)	–	–	–	–	–	69
Stephen King	240	–	26	144	410	68
	645	123	84	468	1,320	646
Non-executive Chairman						
Sir Brandon Gough	115	–	–	–	115	115
Non-executive Directors						
Nicholas Brookes	31	–	–	–	31	31
Keith Hodgkinson	31	–	–	–	31	31
Michael Jeffries	26	–	–	–	26	26
Philip Nolan	26	–	**3	–	29	32
	229	–	3	–	232	235
Aggregate emoluments	874	123	87	468	1,552	881

* Salary supplement equal to 40 per cent of the contribution the Company would have made to a FURBS.
**Relates to reimbursement of travelling expenses from Ireland to attend Board meetings.
Leo Quinn's salary with effect from 29 March 2004 is £400,000 per annum.

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 above. In the course of the year Ian Much received £25,000 in respect of a non-De La Rue related directorship. He was permitted to retain the fees earned.

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, increasing to six per cent on 1 July 2004 and seven per cent on 1 April 2005. Where required by Inland Revenue rules basic salary is capped (£99,000 for 2003/2004). 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 or Leo Quinn 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'). This is, however, under review because of the proposed changes to the taxation of pensions benefits and contributions outlined in the Budget and expected to apply from April 2006.

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 (increasing as described above) 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.

Directors' Pension Entitlements

	Defined benefit scheme (£'000)						Defined contribution schemes (£'000)	
	Additional pension accrued during the year ended 27 March 2004	Accrued pension entitlement at 27 March 2004	Transfer value of accrued pension at 30 March 2003	Transfer value of accrued pension at 27 March 2004	Contri-butions from Director	Increase in transfer value of accrued pension during year (net of contributions by Director)	Contri-butions over year to 27 March 2004	Contributions over year to 29 March 2003
Ian Much	2	9	119	169	5	45	184	194
Paul Hollingworth (resigned 30 June 2002)	–	–	–	–	–	–	–	14
Stephen King	3	4	2	30	5	23	26	10
	5	13	121	199	10	68	210	218

Note

The Listing Rules of the Financial Services Authority differ from the Directors' Remuneration Report Regulations 2002 by requiring 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 27 March 2004 (excluding inflation): Ian Much £1,580; Stephen King £3,295.
- Transfer values of increase in accrued pension (excluding inflation and contributions by Director) during the year ending 27 March 2004: Ian Much £28,934; Stephen King £25,642.

Leo Quinn is eligible for a target pension from all sources of two thirds of basic salary at the age of 60. Part of this benefit arises from previous employment. The Company will provide for a maximum pension of 42.5 per cent of basic salary. Due to forthcoming changes in legislation no decision has yet been reached as to the most appropriate way to fund or compensate for this benefit.

Share Schemes

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 number of shares comprised in any options to be granted will be determined by reference to a percentage of annual base salary. This is normally in a range between 25 per cent and up to 200 per cent of base salary depending on levels of seniority. The Committee may award an individual options equal to three times base salary each year, but options on this scale would only be granted in exceptional circumstances. Generally, grants to date have not been made at these levels. 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 December 2003 at a price of 258.90 pence which was a 10 per cent discount, and 30 per cent of eligible employees participated.

Executive Share Option Scheme

The Company operates an Executive Share Option Scheme with an Inland Revenue approved section and unapproved section. It will expire on 31 December 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. The Remuneration Committee considered the performance target to be the most appropriate at the time it was introduced.

Share Price Improvement Plan

The Company established the Share Price Improvement Plan in July 1999. The objective of the Plan was to achieve improvement in the Company's value by aligning shareholders' interests with those of senior key employees. Currently 21 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 and second grants of options failed to meet the minimum target price of 322.95 and 392.22 pence respectively on their third anniversary and consequently all those options lapsed. No options under the final grant of the Plan become exercisable unless the share price achieves a minimum target price of 557.06 pence. 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 12 months of vesting and option holders must retain a proportion of shares for a minimum period of three years. There will be no further grants of options under the Plan.

Executive Share Option Plan

The Executive Share Option Plan 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 July 2003 at an option price of 237.333 pence. These options will vest subject to achieving the performance condition over three years of earnings per share growth of at least five per cent per annum 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 from the fixed date of the original grant date, on the fourth and fifth anniversaries of the grant date. The Remuneration Committee has agreed that future grants of options should not be subject to retesting. For the purpose of the calculations in connection with the Plan (and the Matching Shares Scheme) earnings per share will be derived from the headline earnings per ordinary share (before exceptional items) as shown in the Group Profit and Loss Account.

The Remuneration Committee at the time of establishing the Plan in July 2002 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 the remuneration policy is that certain key executives should be encouraged to acquire and retain a personal shareholding in the Company. The Company has 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 at the time of establishing the Scheme concluded that under current market conditions the performance measure represented an appropriately challenging goal and that the requirement to build up a shareholding equivalent to one times salary was sufficiently flexible to take account of changing economic or personal circumstances. 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. Ian Much is ineligible to participate.

US Employee Share Purchase Plan

The US Employee Share Purchase Plan, established under section 423 of the US Internal Revenue Code, 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 Second Offering under the Plan commenced on 1 January 2004. The purchase price is 85 per cent of the lower market value of a De La Rue share either at the beginning (235.66 pence) or end of the Offering Period on 31 December 2004. 19 per cent of eligible employees participated.

Directors' Share Options — Number of options

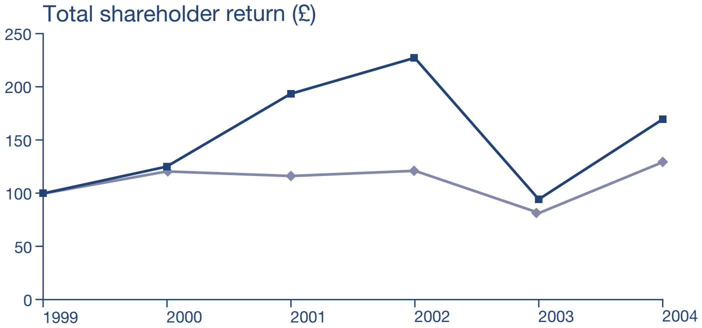
	Date of grant	30 March 2003	Exercised during year	Granted during year	Lapsed during year	27 March 2004	Exercise price (pence)	Market price at exercise date (pence)	Performance targets (see below)	Date from which exercisable	Expiry date
Ian Much											
Executive Share Options	Sep '98	301,600	–	–	–	301,600	218.833	–	(a)	Sep '01	May '05
	Nov '99	204,002	–	–	–	204,002	333.330	–	(a)	Nov '02	May '05
Share Price Improvement Plan	Jul '00	105,600	–	–	105,600	–	340.900	–	–	–	–
	Jun '01	76,000	–	–	–	76,000	506.420	–	(b)	–	*May '04
		687,202			105,600	581,602					
Stephen King											
Executive Share Options	Mar '03	100,000	–	–	–	100,000	200.500	–	(c)	Mar '06	Mar '13
	Jul '03	–	–	204,000	–	204,000	237.333	–	(d)	Jul '06	Jul '13
Sharesave Options	Dec '03	–	–	3,563	–	3,563	258.900	–	(e)	Mar '07	Aug'07
		100,000	–	207,563	–	307,563					

The performance targets are:
(a) total return of a share over 36 consecutive months to exceed total return of median company in the FTSE Mid-250 Index;
(b) share price must achieve a minimum target price of 557.06p;
(c) earnings per share growth over three years of at least three per cent per annum over rate of increase in retail prices index; headline earnings per share at the start of the performance period was 34.4p;
(d) earnings per share growth over three years of at least five per cent per annum over rate of increase in retail prices index; headline earnings per share at the start of the performance period was 18.9p;
(e) no performance conditions are attached to the Options under the Sharesave Scheme as it is open to all UK employees.
*Options will lapse on 31 May 2004.
No Options have been granted to Leo Quinn yet.

During 2003/2004 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.

The market price of the ordinary shares at 27 March 2004 was 316 pence and the price range during the year was 182.50 pence to 338 pence.

Total shareholder return (£)



This graph shows the value, by 27 March 2004, of £100 invested in De La Rue on 31 March 1999 compared with the value of £100 invested in the FTSE Mid-250 Index. The other points plotted are the values at intervening financial year-ends.

De La Rue — FTSE Mid 250 Index

Source: Thomson Financial.

Shareholder Return

The performance chart above shows the value by 27 March 2004 of £100 invested in the Company on 31 March 1999 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 sections of this report 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 33 to 36. The other parts of the Remuneration Report including the performance graph opposite are not subject to audit.

By order of the Board

Nicholas K Brookes

Nicholas Brookes
Chairman of the Remuneration Committee
25 May 2004

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 to 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 and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' Responsibilities. The Directors are also responsible for preparing the Remuneration Report.

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 Sequoia Voting Systems), the Financial Review, the Environment, Health and Safety Report, the Directors' Report, the Corporate Governance Statement, the unaudited part of the Remuneration Report, 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 issued in June 1998 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 27 March 2004 and of the profit and cash flows 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
25 May 2004

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 27 March 2004

	Notes	2004 £m Before exceptionals	2004 £m Exceptional items	2004 £m Total	2003 (restated) £m Before exceptionals	2003 £m Exceptional items	2003 (restated) £m Total
Turnover							
Continuing operations		645.8		645.8	582.7		582.7
Acquisitions		36.7		36.7	–		–
	1	682.5		682.5	582.7		582.7
Operating profit							
Continuing operations		45.9		45.9	38.6		38.6
Reorganisation costs			(15.2)	(15.2)		(31.9)	(31.9)
Loss on impairment of investments			–	–		(1.3)	(1.3)
		45.9	(15.2)	30.7	38.6	(33.2)	5.4
Acquisitions		3.4	–	3.4	–	–	–
Operating profit/(loss) before goodwill amortisation		49.3	(15.2)	34.1	38.6	(33.2)	5.4
Goodwill amortisation		(2.5)	(18.7)	(21.2)	(3.6)	(16.0)	(19.6)
Group operating profit/(loss)	1, 2, 3	46.8	(33.9)	12.9	35.0	(49.2)	(14.2)
Share of operating profits of associated companies	1	10.0		10.0	9.2		9.2
Total operating profit/(loss)		56.8	(33.9)	22.9	44.2	(49.2)	(5.0)
Profit on the disposal of fixed assets	4	–	0.2	0.2		–	–
Profit/(loss) on ordinary activities before interest		56.8	(33.7)	23.1	44.2	(49.2)	(5.0)
Net interest: Group	5	(0.6)		(0.6)	0.5		0.5
Associates		–		–	0.4		0.4
		(0.6)		(0.6)	0.9		0.9
Profit/(loss) on ordinary activities before taxation		56.2	(33.7)	22.5	45.1	(49.2)	(4.1)
Tax on profit/(loss) on ordinary activities	6	(15.0)	5.0	(10.0)	(12.5)	10.0	(2.5)
Profit/(loss) on ordinary activities after taxation		41.2	(28.7)	12.5	32.6	(39.2)	(6.6)
Equity minority interests		(0.4)	–	(0.4)	(1.0)	0.3	(0.7)
Profit/(loss) for the financial year		40.8	(28.7)	12.1	31.6	(38.9)	(7.3)
Dividends	8	(24.8)		(24.8)	(24.6)		(24.6)
Transferred from reserves	18	16.0	(28.7)	(12.7)	7.0	(38.9)	(31.9)
Earnings per ordinary share	7	23.0p	(16.2)p	6.8p	17.2p	(21.2)p	(4.0)p
Diluted earnings per ordinary share		23.0p	(16.2)p	6.8p	17.1p	(21.1)p	(4.0)p
Headline earnings per ordinary share	7	24.2p	(5.8)p	18.4p	19.2p	(11.9)p	7.3p
Dividends per ordinary share	8			14.2p			13.6p

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 27 March 2004

	Notes	2004 Group £m	2003 (restated) Group £m	2004 Company £m	2003 (restated) Company £m
Fixed assets					
Intangible assets	9	**28.2**	54.6	**–**	–
Tangible assets	10	**164.4**	163.4	**–**	–
Investments: Associates	11	**13.2**	13.5	**–**	–
Other investments	11	**0.2**	0.2	**151.6**	151.6
		206.0	231.7	**151.6**	151.6
Current assets					
Stocks	12	**99.7**	99.2	**–**	–
Debtors	13	**116.6**	119.1	**31.0**	50.6
Deferred taxation	14	**33.1**	37.2	**–**	–
Cash at bank and in hand		**85.5**	51.4	**41.7**	55.1
		334.9	306.9	**72.7**	105.7
Creditors: amounts falling due within one year					
Short-term borrowings	15	**(8.3)**	(0.5)	**(98.4)**	(92.8)
Other creditors	15	**(214.5)**	(208.3)	**(17.7)**	(17.0)
		(222.8)	(208.8)	**(116.1)**	(109.8)
Net current assets/(liabilities)		**112.1**	98.1	**(43.4)**	(4.1)
Total assets less current liabilities		**318.1**	329.8	**108.2**	147.5
Creditors: amounts falling due after more than one year					
Long-term borrowings	16	**(36.1)**	(42.7)	**–**	(15.9)
Other creditors	16	**(13.6)**	(4.9)	**(2.7)**	(0.9)
		(49.7)	(47.6)	**(2.7)**	(16.8)
Provisions for liabilities and charges	17	**(50.8)**	(53.2)	**–**	–
		217.6	229.0	**105.5**	130.7
Capital and reserves					
Called up share capital	18	**45.8**	45.4	**45.8**	45.4
Share premium	18	**14.6**	12.5	**14.6**	12.5
Revaluation reserve	18	**1.8**	1.8	**–**	–
Capital redemption reserve	18	**3.5**	3.5	**3.5**	3.5
Other reserve	18	**(83.8)**	(83.8)	**–**	–
Profit and loss account	18	**232.2**	245.4	**41.6**	69.3
Shareholders' funds		**214.1**	224.8	**105.5**	130.7
Equity minority interests		**3.5**	4.2	**–**	–
		217.6	229.0	**105.5**	130.7

Approved by the Board on 25 May 2004

Sir Brandon Gough **Chairman**

Stephen King **Finance Director**

Group Cash Flow Statement

For the year ended 27 March 2004

	Notes	2004 £m	2003 £m
Net cash inflow from operating activities	20a	**92.1**	59.1
Dividends received from associated companies		**7.2**	9.0
Returns on investments and servicing of finance	20b	**(1.5)**	(1.1)
Taxation		**(11.2)**	(3.7)
Capital expenditure and financial investment	20c	**(31.8)**	(3.7)
Acquisitions and disposals	20d	**(5.1)**	(33.4)
Equity dividends paid		**(24.1)**	(33.3)
Net cash inflow/(outflow) before use of liquid resources and financing		**25.6**	(7.1)
Management of liquid resources	20e	**(30.3)**	28.2
Financing	20f	**7.6**	(25.5)
Increase/(decrease) in cash in the period		**2.9**	(4.4)
Reconciliation of net cash flow to movement in net funds	20g		
Increase/(decrease) in cash in the period		**2.9**	(4.4)
Cash outflow/(inflow) from increase/(decrease) in liquid resources		**30.3**	(28.2)
Cash inflow from increase in debt		**(5.1)**	(11.4)
Change in net funds resulting from cash flows		**28.1**	(44.0)
Translation difference		**4.8**	2.2
Movement in net funds in the period		**32.9**	(41.8)
Net funds at start of period		**8.2**	50.0
Net funds at end of period		**41.1**	8.2
Analysis of net funds			
Cash		**28.0**	24.2
Liquid resources		**57.5**	27.2
Overdrafts		**(1.0)**	(0.5)
Other debt due within one year		**(7.3)**	–
Other debt due after one year		**(36.1)**	(42.7)
Net funds at end of period		**41.1**	8.2

Group Statement of Total Recognised Gains and Losses
For the year ended 27 March 2004

	2004 £m	2003 (restated) £m
Profit/(loss) for the financial year: Group	5.0	(14.2)
Associates	7.1	6.9
	12.1	(7.3)
Currency translation differences on foreign currency net investments	(0.5)	0.5
Total recognised gains/(losses) for the year	11.6	(6.8)
Prior year adjustment (see below)	0.6	–
Total recognised gains/(losses) since last annual report	12.2	(6.8)

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 27 March 2004

	2004 £m	2003 (restated) £m
Profit/(loss) for the financial year	12.1	(7.3)
Dividends	(24.8)	(24.6)
	(12.7)	(31.9)
Share capital issued	2.5	1.1
Shares repurchased	–	(38.0)
Currency translation differences on foreign currency net investments	(0.5)	0.5
Net decrease in shareholders' funds	(10.7)	(68.3)
Opening shareholders' funds	224.8	293.1
Closing shareholders' funds	214.1	224.8

The opening shareholders' funds of £224.8m in 2003/2004 (2002/2003: £293.1m) includes a prior year adjustment of £19.1m (2002/2003: £19.7m) relating to own shares held.

The Group has decided to adopt the requirements of Urgent Issues Task Force Abstract 38 and show the cost of own shares purchased as a deduction from shareholders' funds. Prior year comparatives have been restated to reflect the change of accounting policy, leading to an increase in the previously reported operating profit for 2002/2003 by £0.6m.

Accounting Policies
For the year ended 27 March 2004

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 the Companies Act 1985 and applicable UK accounting standards.

The consolidated accounts have been prepared as at 27 March 2004 being the last Saturday in March. The comparatives for the 2003 financial year are for the year ended 29 March 2003.

Basis of Consolidation
The results of all of the subsidiaries of the Company have been fully consolidated. The majority of these subsidiaries and the material associated companies prepare their annual financial statements to 27 March except for certain associated companies and one subsidiary whose year end is 31 December. In the case of the subsidiary, whose financial statements are made up to 31 December, results for the year to 29 March 2004 have been fully consolidated. 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
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. Negative goodwill is capitalised and amortised through the profit and loss account over the estimated life to which the goodwill relates.

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 to 33 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 Group accounts for taxation which is deferred or accelerated by reason of timing differences which have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits. Deferred tax on the related earnings of overseas subsidiaries is only provided when there is a binding commitment to distribute past earnings in future periods.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax liabilities and assets are not discounted.

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
The Group's Employee Share Ownership Plan ('ESOP') is a separately administered trust. Liabilities of the ESOP are guaranteed by the Company and the assets of the ESOP mainly comprise shares in the Company.

The impact of the implementation of Urgent Issues Task Force Abstract 38 'Accounting for ESOP Trusts' on these financial statements is set out under 'Changes in presentation of financial information' below.

Changes in presentation of financial information
Urgent Issues Task Force (UITF) Abstract 38 'Accounting for ESOP Trusts' has been adopted for the first time in these financial statements. As required by the UITF, own shares held by the De La Rue employee share ownership trusts have been reclassified from fixed asset investments to a reduction in shareholders' funds. The shares will be held at historical rates until such time as they are disposed of. Any profit or loss on the disposal of own shares is treated as a movement in reserves rather than as a profit and loss item. This change has been accounted for as a prior period adjustment and previously reported figures have been restated accordingly. If the previous policy had been adopted in the current year, the impact would have been to reduce profit after tax by £0.3m. The impact of adopting the new policy on the year ended 29 March 2003 has been to increase profit after tax by £0.6m. The cumulative effect of this prior year adjustment on the balance sheet as at 29 March 2003 is to reduce other investments and profit and loss reserve by £19.1m. The assets, liabilities, income and costs of the trusts continue to be included in the consolidated and the Company's financial statements.

1 Segmental analysis

	2004 Turnover £m	2004 Profit before tax £m	2004 Net assets £m	2003 Turnover £m	2003 (restated) Profit before tax £m	2003 (restated) Net assets £m
Continuing operations – before exceptionals						
Cash Systems	302.6	8.8	72.1	310.9	11.8	87.1
Security Paper and Print	303.6	39.0	81.6	248.5	29.4	102.5
Acquisitions	36.7	3.4	13.0			
	340.3	42.4	94.6	248.5	29.4	102.5
Voting Systems	44.2	(1.9)	(0.6)	25.2	(2.6)	10.1
Less inter-segment sales	(4.6)	–		(1.9)		
	682.5	49.3	166.1	582.7	38.6	199.7
Exceptional costs						
Cash Systems		(5.2)			(10.5)	
Security Paper and Print		(10.0)			(19.9)	
Voting Systems		–			(2.8)	
		(15.2)			(33.2)	
Goodwill amortisation						
Cash Systems		(8.7)			(19.3)	
Security Paper and Print		0.5			0.2	
Voting Systems		(13.0)			(0.5)	
		(21.2)			(19.6)	
	682.5	12.9	166.1	582.7	(14.2)	199.7
Associated companies (analysed below)		10.0	13.2		9.2	13.5
Non-operating items (note 4)		0.2			–	
Net interest including associates		(0.6)			0.9	
Profit before taxation		22.5			(4.1)	
Unallocated net assets/(liabilities)			(2.8)			7.6
Capital employed			176.5			220.8
Net funds			41.1			8.2
Net assets			217.6			229.0
Geographical area by operation						
United Kingdom and Ireland	406.1	9.7	58.1	320.0	(16.6)	80.9
Rest of Europe	232.8	20.7	61.7	216.5	14.5	67.0
The Americas	161.8	(18.3)	30.8	136.2	(15.6)	40.7
Rest of World	39.3	0.8	15.5	42.8	3.5	11.1
Less inter-area sales	(157.5)	–	–	(132.8)	–	–
	682.5	12.9	166.1	582.7	(14.2)	199.7

The profit before tax in 2004 is shown after reorganisation costs of £15.2m (2003 £31.9m) comprising UK and Ireland £9.5m (2003 £22.8m), Rest of Europe £4.3m (2003 £5.2m), Americas £1.4m (2003 £3.9m), Rest of World £Nil (2003 £Nil). Inter-area sales of £157.5m (2003 £132.8m) comprise: UK & Ireland £53.1m (2003 £51.4m), Rest of Europe £67.7m (2003 £53.3m), Americas £19.3m (2003 £6.0m), Rest of World £17.4m (2003 £22.1m).

1 Segmental analysis continued

	2004 Turnover £m	2004 Profit before tax £m	2004 Net assets £m	2003 Turnover £m	2003 (restated) Profit before tax £m	2003 (restated) Net assets £m
Geographical area by destination						
United Kingdom and Ireland	83.1			68.8		
Rest of Europe	179.0			174.7		
The Americas	178.9			173.0		
Rest of World	241.5			166.2		
	682.5			582.7		
Associated companies are analysed as follows:						
Security Paper and Print		–	–		–	0.2
Cash Systems		–	–		0.6	–
UK Lottery		10.0	13.2		8.6	13.3
		10.0	13.2		9.2	13.5
Geographical area by operation						
United Kingdom and Ireland		10.0	13.2		8.6	13.3
Rest of Europe		–	(0.1)		0.6	–
Rest of World		–	0.1		–	0.2
		10.0	13.2		9.2	13.5

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.

Following the announcement in November 2003 of the outcome of the strategic review of Global Services, that division has now been disbanded and actions to exit from a number of product areas are under way. All the businesses previously reported under Global Services, with the exception of Sequoia Voting Systems, are now included within Security Paper and Print above and comparatives restated. This has resulted in an increase of £34.7m to turnover within Security Paper and Print and an increase of £1.4m to operating profit. Sequoia Voting Systems is shown separately as a business segment.

2 Operating costs (excluding amortisation of goodwill)

	2004 £m	2003 (restated) £m
Cost of sales		
Continuing operations	434.6	387.4
Reorganisation costs	13.0	31.9
	447.6	419.3
Acquisitions	25.3	–
	472.9	419.3
Distribution costs		
Continuing operations	21.6	20.2
Administration and other expenses		
Continuing operations	143.7	136.5
Reorganisation costs	2.2	–
Loss on impairment of investments	–	1.3
Acquisitions	8.0	–
	648.4	577.3

Notes to the Accounts
continued

3 Operating profit

	2004 £m	2003 £m
Operating profit is stated after charging/(crediting) the following:		
Employee costs (note 24)	**226.5**	210.9
Depreciation of tangible fixed assets		
– purchased	**23.8**	28.6
– leased	**0.3**	–
Amortisation of goodwill and other intangible assets		
– exceptional	**18.7**	16.0
– non exceptional	**2.5**	4.8
Operating leases		
– hire of plant and machinery	**1.1**	1.0
– other	**7.6**	8.5
Auditors' remuneration		
– audit fees	**1.0**	0.8
– UK non audit-related fees	**0.2**	0.2
– overseas non audit-related fees	**0.1**	0.1
Research and development	**21.3**	25.7
Loss on impairment of investments	**–**	1.3
Reorganisation costs	**15.2**	31.9
Foreign exchange gain	**(0.3)**	–

In 2004, reorganisation costs of £15.2m comprised: £9.1m relating to the restructuring arising from the now disbanded Global Services division; £5.2m in respect of Cash Systems restructuring commenced in 2002/2003 and £0.9m from the closure of High Wycombe, which was commenced in 2002/2003.

£11.7m of reorganisation costs are carried forward within provisions for liabilities and charges.

The loss on impairment of investments of £1.3m in 2003 reflects full provision against the Group's investment in Valora-Services de Apoio a Emissao Monitaria SA. 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 as a result of the CSI acquisition. Reorganisation costs of £18.6m were for the closure of High Wycombe, completed in June 2003. Reorganisation costs of £2.8m were in respect of the closure of Sequoia's Exeter plant.

Non-audit related fees comprised taxation services of £0.1m (2003 £0.2m) and further assurance services of £0.2m (2003 £0.1m).

4 Profit on disposal of fixed assets

The profit on disposal of fixed assets of £0.2m (2003 nil) arises from:

- Profit on the disposal of the Singapore factory (£0.9m);
- Profit on the disposal of the High Wycombe factory (£0.9m);
- Profit on sale of other property assets (£1.0m); offset in part by;
- Loss on disposal of £2.6m arising from the sale of the IMW property assets announced in August for a net consideration of £6.4m.

5 Net interest (payable)/receivable

	2004 £m	2003 £m
Interest payable on bank loans and overdrafts, and on other loans repayable within five years	**(2.4)**	(2.0)
Interest receivable	**1.8**	2.5
	(0.6)	0.5

6 Taxation

	2004 £m	2003 £m
Tax on profit on ordinary activities		
United Kingdom		
Current tax		
Corporation tax at 30 per cent (2003 30 per cent)	**8.4**	6.6
Adjustments in respect of prior years	**(4.0)**	(0.8)
	4.4	5.8
Double taxation relief	**(0.5)**	(0.7)
	3.9	5.1
Overseas tax	**4.0**	6.5
Adjustments in respect of prior years	**0.3**	(0.6)
	4.3	5.9
Tax on share of associates' profits	**2.9**	1.9
	11.1	12.9
Deferred tax		
Origination and reversal of timing differences	**2.7**	(0.4)
Adjustments in respect of prior years	**1.2**	(0.8)
Tax on share of associates' profits	**–**	0.8
	3.9	(0.4)
Total tax charge excluding exceptionals	**15.0**	12.5
Exceptional items	**(5.0)**	(10.0)
Total tax charge after exceptionals	**10.0**	2.5

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

	2004 £m	2003 (restated) £m
Profit before tax on ordinary activities before exceptional items	**56.2**	45.1
Expected tax charge at 30 per cent	**16.9**	13.5
Rate adjustments relating to overseas profits	**(1.6)**	(2.8)
Overseas dividends	**1.5**	0.2
Disallowables and other items	**(2.0)**	3.4
Adjustments in respect of prior years	**(3.7)**	(1.4)
Current tax charge (excluding exceptional items)	**11.1**	12.9

7 Earnings per share

	2004	2003 (restated)
Basic	6.8p	(4.0)p
Fully diluted	6.8p	(4.0)p

Earnings per share are based on the profit for the year attributable to ordinary shareholders of £12.1m (2003 loss of £7.3m) as shown in the Group Profit and Loss Account. The weighted average number of ordinary shares used in the calculations is 177,032,098 (2003 183,656,364) for basic earnings per share and 177,453,669 (2003 184,714,858) for diluted earnings per share after adjusting for dilutive share options.

Reconciliation of earnings per share	pence per share	pence per share (restated)
As calculated under FRS 14	6.8	(4.0)
Loss on impairment of investments	–	0.7
Profit/(loss) on the disposal of fixed assets and assets held for resale	(0.1)	0.2
Amortisation of goodwill	11.7	10.4
Headline earnings per share as defined by the IIMR	18.4	7.3
Reorganisation costs	5.8	11.9
Headline earnings per share before items shown above	24.2	19.2

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.

8 Dividends

	2004 £m	2003 £m
Ordinary shares		
Interim	7.8	7.9
Final proposed	17.4	16.7
Overprovision in prior year	(0.4)	–
	24.8	24.6
Net dividend per ordinary share	pence	pence
Interim	4.4	4.4
Final proposed	9.8	9.2
	14.2	13.6

The above charge excludes £0.7m of dividends in respect of shares held within the Employee Share Ownership Trust.

9 Intangible assets

Group	Goodwill £m	Negative goodwill £m	Distribution rights £m	Total £m
Cost or valuation				
At 30 March 2003	78.7	(1.7)	2.9	79.9
Exchange adjustments	(6.8)	–	(0.1)	(6.9)
Additions	(2.6)	0.1	–	(2.5)
At 27 March 2004	69.3	(1.6)	2.8	70.5
Amortisation				
At 30 March 2003	22.9	(0.3)	2.7	25.3
Exchange adjustments	(4.3)	–	(0.1)	(4.4)
Provision for the year	21.7	(0.5)	0.2	21.4
At 27 March 2004	40.3	(0.8)	2.8	42.3
Net book value				
At 30 March 2003	55.8	(1.4)	0.2	54.6
At 27 March 2004	29.0	(0.8)	–	28.2

Goodwill amortisation all relates to continuing businesses.

In the light of the increasingly competitive market being faced by the Sequoia Voting Systems business, the full carrying value of goodwill relating to the Company has been impaired by an exceptional charge of £12.6m.

As a result of trading experienced since the acquisition of ATS Money Systems, the full carrying value of goodwill relating to the Company has been impaired by an exceptional charge of £6.1m.

Goodwill adjustments include £(4.0)m for purchase price and £1.3m for stock relating to the acquisition of the banking automation business from Papelaco which have been identified as part of the fair value adjustments in the first full year after acquisition.

10 Tangible assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	In course of construction £m	Total £m
Cost or valuation					
At 30 March 2003	81.2	212.7	56.7	4.0	354.6
Exchange adjustments	(1.2)	(4.1)	(1.6)	(0.5)	(7.4)
Acquisitions	–	10.0	–	–	10.0
Additions	0.5	12.2	3.4	18.1	34.2
Transfers from assets in the course of construction	1.2	8.3	1.8	(11.3)	–
Disposals	(25.1)	(8.1)	(6.5)	–	(39.7)
At 27 March 2004	56.6	231.0	53.8	10.3	351.7
Representing					
Valuation in 1988/89	3.7	–	–	–	3.7
Cost	52.9	231.0	53.8	10.3	348.0
	56.6	231.0	53.8	10.3	351.7
Accumulated depreciation					
At 30 March 2003	21.1	128.1	42.0	–	191.2
Exchange adjustments	(0.3)	(3.4)	(0.9)	–	(4.6)
Provision for the year	1.2	17.6	5.3	–	24.1
Disposals	(9.8)	(7.3)	(6.3)	–	(23.4)
At 27 March 2004	12.2	135.0	40.1	–	187.3
Net book value					
At 30 March 2003	60.1	84.6	14.7	4.0	163.4
At 27 March 2004	44.4	96.0	13.7	10.3	164.4

Included in the above are leased assets as follows:

Plant and machinery	cost	£23.3m (2003 £2.3m)
	net book value	£19.6m (2003 £Nil)

10 Tangible assets continued

Included in the cost or valuation of land and buildings is an amount of £2.4m of capitalised interest (2003 £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	2004 Group £m	2003 Group £m
Net book value		
Freehold	**28.3**	43.2
Long leasehold	**15.0**	15.6
Short leasehold	**1.1**	1.3
	44.4	60.1
Historical cost of land and buildings		
Cost	**54.5**	79.1
Accumulated depreciation	**(11.9)**	(20.8)
	42.6	58.3

11 Investments

	2004 Group £m	2003 Group restated £m	2004 Company £m	2003 Company restated £m
Investments comprise				
Investment in associated companies	**13.2**	13.5	**–**	–
Cost of shares in Group companies	**–**	–	**151.6**	151.6
Other investments	**0.2**	0.2	**–**	–
	13.4	13.7	**151.6**	151.6

Associates are analysed in further detail below.

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. The Group has decided to adopt the requirements of Urgent Issues Task Force Abstract 38 and show the cost of own shares purchased (£21.1m) as a deduction from shareholders' funds. Prior year comparatives have been restated to reflect the change in accounting policy. The market value of own shares at 27 March 2004 was £16.1m (2003 £9.4m).

Associates	Cost of shares £m	Share of retained profit £m	Total £m
At 30 March 2003	**11.1**	**2.4**	**13.5**
Exchange adjustments	**(0.1)**	**(0.1)**	**(0.2)**
Share of associated companies' profit after taxation	**–**	**7.1**	**7.1**
Less share of associated companies' dividends	**–**	**(7.2)**	**(7.2)**
At 27 March 2004	**11.0**	**2.2**	**13.2**

11 Investments continued

Group's share of aggregate associates and Camelot Group plc	Total associates 2004 £m	Camelot Group 2004 £m	Total associates 2003 £m	Camelot Group 2003 £m
Turnover	**933.1**	**923.1**	916.7	915.3
Profit before tax	**10.0**	**10.0**	9.6	9.0
Taxation	**(2.9)**	**(2.9)**	(2.7)	(2.7)
Profit after tax	**7.1**	**7.1**	6.9	6.3
Fixed assets	**38.2**	**23.6**	43.6	24.1
Current assets	**49.7**	**42.5**	53.9	46.0
Liabilities due within one year	**(59.6)**	**(51.9)**	(71.4)	(56.3)
Liabilities due after one year or more	**(7.1)**	**(3.5)**	(3.5)	(3.5)
Net assets	**21.2**	**10.7**	22.6	10.3

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

12 Stocks

	2004 Group £m	2003 Group £m
Raw materials	**18.4**	26.3
Work in progress	**34.5**	25.7
Finished goods	**46.8**	47.2
	99.7	99.2

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

13 Debtors

	2004 Group £m	2003 Group £m	2004 Company £m	2003 Company £m
Amounts due within one year				
Trade debtors	**89.4**	97.8	**–**	–
Amounts owed by Group undertakings	**–**	–	**31.0**	50.6
Amounts due from associated companies	**0.1**	0.3	**–**	–
Other debtors	**16.5**	11.2	**–**	–
Taxation	**1.8**	–	**–**	–
Prepayments and accrued income	**8.5**	9.2	**–**	–
	116.3	118.5	**31.0**	50.6
Amounts due after more than one year				
Other debtors	**0.2**	0.5	**–**	–
Prepayments and accrued income	**0.1**	0.1	**–**	–
	0.3	0.6	**–**	–
	116.6	119.1	**31.0**	50.6

Notes to the Accounts
continued

14 Deferred taxation

	2004 Group £m	2003 Group £m
Provided		
Timing differences between capital allowances and depreciation	**4.2**	1.1
Pension provisions	**(5.2)**	(5.7)
Tax losses	**(7.0)**	(15.2)
Other short term timing differences	**(23.2)**	(15.6)
At 27 March 2004	**(31.2)**	(35.4)
Comprising:		
Assets	**(33.1)**	(37.2)
Liabilities	**1.9**	1.8
At 27 March 2004	**(31.2)**	(35.4)

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.

A deferred tax asset has not been recognised on tax losses of £5.9m (2003 £5.4m) because there is insufficient evidence to suggest that it will be recoverable.

As at 29 March 2003 and 27 March 2004, there were no unprovided deferred tax liabilities.

The movement on deferred tax is explained as follows:

At 30 March 2003	**(35.4)**
Amount charged to profit and loss (note 6)	3.9
On acquisition of Debden Security Printing Limited	1.3
Deferred tax on exceptional items	(2.3)
Amount credited to statement of total recognised gains and losses for revaluation of foreign exchange balances	1.7
Goodwill on fair value adjustments to the assets purchased on the acquisition of the banking automation business of Papelaco	(0.4)
At 27 March 2004	**(31.2)**

15 Creditors

	2004 Group £m	2003 Group £m	2004 Company £m	2003 Company £m
Amounts falling due within one year				
Bank loans and overdrafts	**4.8**	0.5	**98.4**	92.8
Obligations under finance leases	**3.5**	–	**–**	–
Short-term borrowings	**8.3**	0.5	**98.4**	92.8
Payments received on account	**33.1**	16.6	**–**	–
Trade creditors	**31.3**	39.2	**–**	–
Amounts owed to associated companies	**0.1**	0.4	**–**	–
Other short-term creditors	**17.2**	22.1	**–**	–
Proposed dividends	**18.0**	17.7	**17.7**	17.0
Taxation	**7.1**	22.4	**–**	–
Social security and other taxation	**12.8**	8.9	**–**	–
Accruals and deferred income	**94.9**	81.0	**–**	–
Other creditors	**214.5**	208.3	**17.7**	17.0

16 Creditors

	2004 Group £m	2003 Group £m	2004 Company £m	2003 Company £m
Amounts falling due after more than one year				
Bank loans repayable otherwise than by instalments				
Between one and two years	–	15.9	–	15.9
Between two and five years	19.3	26.8	–	–
Obligations under finance leases				
Between one and two years	3.6	–	–	–
Between two and five years	10.6	–	–	–
Over five years	2.6	–	–	–
Long-term borrowings	36.1	42.7	–	15.9
Amounts owed to Group companies	–	–	2.6	–
Other long-term creditors	0.6	3.5	0.1	0.9
Taxation	12.9	1.4	–	–
Accruals and deferred income	0.1	–	–	–
Other creditors	13.6	4.9	2.7	0.9

As at 27 March 2004, the total of undrawn committed borrowing facilities maturing in more than two years was £46.0m.

The finance lease obligation is repayable quarterly in advance and interest is accrued at Libor plus 45 basis points.

17 Provisions for liabilities and charges

	Pensions and similar obligations £m	Deferred taxation £m	Other £m	Total £m
Group				
At 30 March 2003	21.4	1.8	30.0	53.2
Exchange adjustment	(0.3)	(0.1)	(0.4)	(0.8)
At acquisition	–	1.3	–	1.3
Provided in year	11.0	0.6	26.2	37.8
Utilised in year	(12.6)	–	(23.6)	(36.2)
Released in year	–	–	(0.8)	(0.8)
Disposed in year	–	–	(4.1)	(4.1)
Adjustments	–	(0.4)	–	(0.4)
Transfers between categories and from other creditors	1.6	(1.3)	0.5	0.8
At 27 March 2004	21.1	1.9	27.8	50.8

As at 27 March 2004 other provisions principally comprise:

- Reorganisation provisions of £11.7m (2003 £14.0m). During the year, Cash Systems provided a further £5.2m in respect of reorganisations, utilised £10.9m (including a balance from prior years), leaving a balance of £0.7m carried forward. In addition, the Group provided £9.1m for the reorganisation arising from the strategic review of the now disbanded Global Services division announced at the half year, of which £0.6m has been utilised, leaving £8.5m carried forward.
- Disposal provisions of £5.4m (2003 £5.5m), none of which are individually material. During the year, £0.1m of these provisions were utilised.
- A provision of £2.9m (2003 £2.0m), 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). £0.3m of this provision was utilised in the year, and £1.2m was transferred from other creditors.

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 reserves £m	Profit and loss account £m	Total £m
Group							
At 30 March 2003	45.4	12.5	1.8	3.5	(83.8)	264.5	243.9
Prior year adjustment	–	–	–	–	–	(19.1)	(19.1)
At 30 March 2003 (restated)	45.4	12.5	1.8	3.5	(83.8)	245.4	224.8
Share capital issued	0.4	2.1	–	–	–	–	2.5
Currency translation	–	–	–	–	–	(0.5)	(0.5)
Loss for the financial year	–	–	–	–	–	(12.7)	(12.7)
At 27 March 2004	45.8	14.6	1.8	3.5	(83.8)	232.2	214.1
Company							
At 30 March 2003	45.4	12.5	–	3.5	–	88.4	149.8
Prior year adjustment	–	–	–	–	–	(19.1)	(19.1)
At 30 March 2003 (restated)	45.4	12.5	–	3.5	–	69.3	130.7
Share capital issued	0.4	2.1	–	–	–	–	2.5
Loss for the financial year before dividends	–	–	–	–	–	(2.9)	(2.9)
Dividends proposed	–	–	–	–	–	(24.8)	(24.8)
At 27 March 2004	45.8	14.6	–	3.5	–	41.6	105.5

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 £2.9m.

As at 27 March 2004, £740.4m (2003 £740.4m) of goodwill has been eliminated against reserves in respect of acquisitions made prior to 31 March 1998.

The prior year adjustment relates to the adoption of UITF Abstract 38 explained under accounting policies.

19 Share capital

	2004 £m	2003 £m
Authorised		
265,625,900 ordinary shares of 25p each	66.4	66.4
Allotted, called up and fully paid		
183,069,986 (2003 181,766,898) ordinary shares of 25p each	45.8	45.4

Allotments during the year	2004 '000	2003 '000
Ordinary shares in issue at 30 March 2003	181,767	195,243
Issued under savings related share option scheme	1,002	118
Issued under executive share option schemes	182	269
Issued under US employee share purchase plan	107	–
Issued under the matching shares scheme	12	–
Shares bought back for cancellation	–	(13,863)
Ordinary shares in issue at 27 March 2004	183,070	181,767

Contingent rights to the allotment of shares	2004 '000	2003 '000
Savings related share option scheme		
Options over ordinary shares outstanding at 30 March 2003	3,293	3,175
New options granted during year	1,033	903
Options exercised during the year	(1,002)	(118)
Options lapsed during the year	(802)	(667)
Savings related share options outstanding at 27 March 2004	2,522	3,293

At 27 March 2004 there was a total of 1,236 participants holding options under the savings-related share option scheme which are exercisable at various dates up to 31 August 2009 at prices ranging between 150p and 434.1p.

19 Share capital continued

Executive Share Option Scheme	2004 '000	2003 '000
Options over ordinary shares outstanding at 30 March 2003	**4,012**	4,707
New options granted during year	**–**	–
Options exercised during year	**(182)**	(256)
Options lapsed during year	**(300)**	(439)
Executive share options outstanding at 27 March 2004	**3,530**	4,012

At 27 March 2004 there was a total of 213 participants holding options under the executive share option scheme which are exercisable at various dates up to 3 December 2011 at prices ranging between 187.84p and 1005p.

Share Price Improvement Plan	2004 '000	2003 '000
Options over ordinary shares outstanding at 30 March 2003	**1,211**	3,418
New options granted during year	**–**	–
Options lapsed during year	**(708)**	(2,207)
Share Price Improvement Plan options outstanding at 27 March 2004	**503**	1,211

At 27 March 2004 there were 21 senior key employees holding options under the Share Price Improvement Plan which are exercisable up to 25 June 2005 at 506.42p.

Executive Share Option Plan	2004 '000	2003 '000
Options over ordinary shares outstanding at 30 March 2003	**1,318**	–
New options granted during year	**1,737**	1,393
Options lapsed during year	**(65)**	(75)
Executive Share Option Plan options outstanding at 27 March 2004	**2,990**	1,318

At 27 March 2004 there was a total of 123 participants holding options under the executive share option plan which are exercisable at various dates up to 25 September 2013 at prices ranging between 200.5p and 319.17p.

Matching Shares Scheme	2004 '000	2003 '000
Options over matching shares outstanding at 30 March 2003	**–**	–
New matching shares options granted during year	**6**	–
Options lapsed during year	**–**	–
Matching Shares Scheme options outstanding at 27 March 2004	**6**	–

At 27 March 2004 there was a total of 2 key executives holding options under the Matching Shares Scheme. The participants subscribed for 11,649 Retained Shares at 275.25p on 14 August 2003. Retained Shares must be held in trust for two years from the date of subscription and a performance condition satisfied before qualifying for Matching Shares at a ratio of one Matching Share to every two Retained Shares.

US Employee Share Purchase Plan

De La Rue operates a US Employee Share Purchase Plan for US employees. Under the Plan, employees have an option to purchase De La Rue plc shares at the end of each 12-month savings period at a price which is the lower of the market value of a De La Rue plc share either at the beginning or end of the offering period, less a 15 per cent discount. In 2003/2004, 107,223 shares (2002/2003 0 shares) were allotted pursuant to the Plan. It is estimated that 102,000 shares will be required to satisfy the Company's 2004/2005 obligations in respect of employees' savings under the Plan as at 27 March 2004.

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. At 27 March 2004 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.

19 Share capital continued

(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 0.0001p 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.

(c) The Group has decided to adopt the requirements of Urgent Issues Task Force (UITF) Abstract 38 and show the cost of own shares purchased as a deduction from shareholders' funds (see Accounting Policies on pages 42 and 43).

20 Notes to Group Cash Flow Statement	**2004 £m**	2003 (restated) £m
a **Reconciliation of operating profit/(loss) to net cash inflow from operating activities**		
Operating profit/(loss)	**12.9**	(14.2)
Depreciation and amortisation	**45.3**	49.4
(Increase)/decrease in stocks	**(3.8)**	8.6
Decrease in debtors	**10.2**	15.9
Increase/(decrease) in creditors	**30.0**	(9.8)
(Decrease)/increase in reorganisation provisions	**(2.5)**	7.4
Other items	**–**	1.8
Net cash inflow from operating activities	**92.1**	59.1
b **Returns on investments and servicing of finance**		
Interest received	**2.0**	4.2
Interest paid	**(2.4)**	(3.8)
Dividends paid to minority shareholders	**(1.1)**	(1.5)
Net cash outflow from returns on investments and servicing of finance	**(1.5)**	(1.1)
c **Capital expenditure and financial investment**		
Purchase of tangible fixed assets	**(33.3)**	(20.7)
Purchase of intangible fixed assets	**–**	(0.6)
Sale of tangible fixed assets	**1.5**	1.7
Sale of investments	**–**	15.9
Net cash outflow for capital expenditure and financial investment	**(31.8)**	(3.7)
d **Acquisitions and disposals**		
Purchase of subsidiary undertakings	**(0.9)**	(33.6)
Net (overdraft)/cash acquired with subsidiary undertakings (note 22)	**(9.8)**	0.2
Sale of subsidiary undertakings (note 22)	**6.4**	–
Net cash sold with subsidiary undertakings (note 22)	**(0.8)**	–
Net cash outflow from acquisitions and disposals	**(5.1)**	(33.4)
e **Management of liquid resources**		
Net (increase)/decrease in short-term deposits	**(30.3)**	28.2
f **Financing**		
Debt due within one year:		
Loans raised	**7.9**	–
Loans repaid	**–**	(7.0)
Debt due beyond one year:		
Loans raised	**17.1**	24.1
Loans repaid	**(19.0)**	(5.0)
Capital element of finance lease rental repayments	**(0.9)**	(0.7)
Share repurchase	**–**	(38.0)
Share capital issued	**2.5**	1.1
Net cash inflow/(outflow) from financing	**7.6**	(25.5)

20 Notes to Group Cash Flow Statement continued

	At 29 March 2003 £m	Cash flow £m	Exchange movement £m	At 27 March 2004 £m
g Analysis of net funds				
Cash at bank and in hand	51.4	33.7	0.4	85.5
Less liquid resources	(27.2)	(30.3)	–	(57.5)
Overdrafts	(0.5)	(0.5)	–	(1.0)
Cash – Group Cash Flow Statement	23.7	2.9	0.4	27.0
Liquid resources	27.2	30.3	–	57.5
Debt due within one year, excluding bank overdrafts	–	(7.3)	–	(7.3)
Debt due after one year	(42.7)	2.2	4.4	(36.1)
	(42.7)	(5.1)	4.4	(43.4)
Net funds	8.2	28.1	4.8	41.1

21 Group operating leases

	2004 Land and buildings £m	2003 Land and buildings £m	2004 Other £m	2003 Other £m
Annual commitments expiring				
Within one year	0.8	1.1	1.5	1.1
Between one and two years	1.7	0.5	1.1	1.0
Between two and five years	1.3	1.2	0.8	2.0
Over five years	1.5	1.7	–	–
Payments to be made during next year	5.3	4.5	3.4	4.1

Notes to the Accounts
continued

22 Acquisition and disposal

Acquisition

On 30 March 2003 the Group acquired the Bank of England's banknote printing operations, Debden Security Printing Limited for total consideration including expenses of £9.5m. The business has been integrated into the continuing operations of the Group.

The provisional fair values attributed to Debden on the date of acquisition were as follows:

	Debden Security Printing Limited		
	Book value prior to acquisition £m	Fair value adjustments £m	Fair value to the Group £m
Tangible fixed assets	9.5	0.5	10.0
Stock	2.7	0.2	2.9
Trade debtors	1.5	–	1.5
Trade creditors	(1.8)	–	(1.8)
Other current assets and liabilities	(0.6)	–	(0.6)
Debt	(1.2)	–	(1.2)
Deferred taxation	(1.3)	–	(1.3)
Net assets acquired	8.8	0.7	9.5
Consideration			
Acquisition costs paid			0.9
Loan acquired			8.6
Total consideration			9.5

The business purchased has been accounted for using the acquisition method. The loan acquired of £8.6m was repaid shortly after acquisition. This, together with £1.2m net debt acquired, is shown in note 20 (d) as net overdrafts acquired.

Disposal

During the year the Group disposed of its entire shareholding in IMW Immobilien AG. The Group had retained its shareholding in IMW (formerly Garny AG) following earlier disposals and the remaining investment represented the related property portfolio. The net assets disposed, loss on disposal and consideration are summarised as follows:

	£m
Tangible fixed assets	11.7
Cash	0.8
Provisions for liabilities and charges	(4.1)
Other current assets and liabilities	(0.1)
Net assets disposed	8.3
Loss on disposal	(2.6)
Total	5.7
Comprising:	
Cash proceeds	6.4
Disposal costs accrued	(0.7)
Total	5.7

Operating cash flows in respect of businesses disposed in the year were not material.

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 £21.1m (2003 £21.4m) is included in provisions for liabilities and charges, to cover the excess of the accumulated pension costs (£18.6m) and other post-retirement benefits (£2.5m) over the amounts funded.

The total pension cost for the Group was £13.1m (2003 £4.2m), of which £11.8m relates to plans in the United Kingdom and the United States which cover 81 per cent of employees within schemes. Included within the total pension cost is £0.9m for defined contribution arrangements in the USA.

An actuarial valuation of the UK scheme was carried out as at 6 April 2003 by AON Limited, independent consulting actuaries. The valuation showed that the scheme had a deficit of £40m at that date. The increase in the pension cost is largely as a result of this valuation. The scheme is valued formally every three years, the next valuation being as at April 2006.

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

Last valuation date	6 April 2003
Main assumptions	
Investment return p.a.	6.3%
Salary increases p.a.	3.75%
Pension increases p.a.	3%
Market valuation of investments at last valuation date	£361.9m
Level of funding, being the actuarial value of assets expressed as a percentage of the accrued service liabilities	90%

	2003/04 £m	2002/03 £m
Regular pension cost	**7.4**	8.0
Variation from regular cost	**2.5**	(6.1)
Net pension cost for 2003	**9.9**	1.9

The contributions to the UK plan are assessed in accordance with advice from AON Limited, using the Projected Unit Method. This method aims for a stable and regular pension cost for current and expected future employees over their anticipated period of employment. The deficit of assets relative to 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 (2003 £0.2m). 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 2003 by a qualified independent actuary, and the valuation results have been updated to 27 March 2004 in accordance with the FRS. The Group also operates a number of minor defined contribution programmes in the UK and overseas as well as minor defined benefit arrangements overseas. The latest valuations for the defined benefit arrangements have been updated 27 March 2004 by local actuaries. The latest valuation for the US Scheme was prepared as at 1 January 2003.

Details of post-retirement benefit scheme assets and liabilities of the Group at 27 March 2004, valued in accordance with FRS 17, are set out below.

The financial assumptions used are:			**2003/04**			2002/03			2001/02
	UK %	**USA %**	**Other %**	UK %	USA %	Other %	UK %	USA %	Other %
Discount rate	**5.5**	**6.0**	**6.0**	5.6	7.0	6.8	6.2	7.0	6.8
Inflation rate	**3.0**	**–**	**2.7**	2.6	–	2.8	2.9	–	2.8
Rate of increase in pension payment	**3.0**	**–**	**1.0**	3.0	–	–	3.2	–	–
Rate of increase in salaries	**4.3**	**–**	**3.3**	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 27 March 2004	Expected return on assets at 27 March 2004 UK %	USA %	Other %	Expected return on assets at 29 March 2003 UK %	USA %	Other %	Expected return on assets at 30 March 2002 UK %	USA %	Other %
Equities	**8.6**	**–**	**–**	8.9	–	–	7.7	–	–
Bonds	**4.7**	**–**	**–**	4.6	–	–	5.3	–	–
Other	**3.0**	**7.0**	**6.3**	2.6	7.0	–	2.9	7.0	–

	Value at 27 March 2004 UK £m	USA £m	Other £m	Total £m	Value at 29 March 2003 UK £m	USA £m	Other £m	Total £m	Value at 30 March 2002 UK £m	USA £m	Other £m	Total £m
Equities	**272.3**	**–**	**–**	**272.3**	223.4	–	–	223.4	321.6	–	–	321.6
Bonds	**129.1**	**–**	**–**	**129.1**	124.9	–	–	124.9	129.4	–	–	129.4
Other	**8.0**	**1.3**	**0.7**	**10.0**	5.7	1.4	0.4	7.5	3.0	1.6	–	4.6
	409.4	**1.3**	**0.7**	**411.4**	354.0	1.4	0.4	355.8	454.0	1.6	–	455.6

The following amounts at 27 March 2004 and 29 March 2003 were measured in accordance with the requirements of FRS 17:

	27 March 2004 UK £m	USA £m	Other £m	Total £m	29 March 2003 UK £m	USA £m	Other £m	Total £m
Total market value of assets	**409.4**	**1.3**	**0.7**	**411.4**	354.0	1.4	0.4	355.8
Present value of liabilities	**(496.6)**	**(1.4)**	**(2.7)**	**(500.7)**	(441.9)	(2.0)	(2.5)	(446.4)
Deficit	**(87.2)**	**(0.1)**	**(2.0)**	**(89.3)**	(87.9)	(0.6)	(2.1)	(90.6)
Related deferred tax asset	**26.2**	**0.0**	**0.5**	**26.7**	26.4	0.2	0.7	27.3
Net pension liability	**(61.0)**	**(0.1)**	**(1.5)**	**(62.6)**	(61.5)	(0.4)	(1.4)	(63.3)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 27 March 2004 would be as follows:

	27 March 2004 Group £m	29 March (restated) 2003 Group £m
Net assets		
Net assets including SSAP 24 pension liability	**217.6**	229.0
SSAP 24 provision (net of deferred tax)	**15.9**	15.8
Pension liability under FRS 17	**(62.6)**	(63.3)
Net assets including FRS 17 pension liability	**170.9**	181.5
Reserves		
Profit and loss reserve including SSAP 24 pension liability	**232.2**	245.4
SSAP 24 provision (net of deferred tax)	**15.9**	15.8
Pension liability under FRS 17	**(62.6)**	(63.3)
Profit and loss reserve including FRS 17 pension liability	**185.5**	197.9

23 Pensions and other post-retirement benefits continued

The following amounts would have been recognised in the performance statements in the years to 27 March 2004 and 29 March 2003 under the requirements of FRS 17:

Analysis of amount charged to operating profit	**2003/04 Group £m**	2002/03 Group £m
Operating cost		
Current service cost	**(9.9)**	(10.9)
Past service cost	**(1.6)**	–
Gains/(losses) due to settlements/curtailments	**0.3**	(0.2)
Financing cost		
Expected return on assets	**25.5**	32.1
Interest on liabilities	**(24.5)**	(23.9)
Net charge	**(10.2)**	(2.9)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	**2003/04 Group £m**	2002/03 Group £m
Actual return less expected return on pension scheme assets	**39.4**	(115.1)
Experience losses arising on pension scheme liabilities	**(13.1)**	(24.9)
Changes in financial assumptions underlying pension scheme liabilities	**(27.4)**	(14.6)
Currency gains arising on pension schemes	**0.2**	–
Actuarial loss recognised in STRGL	**(0.9)**	(154.6)

Movement in surplus during the year	**Group £m**	Group £m
Surplus/(deficit) in the scheme at the beginning of the year	**(90.6)**	63.6
Movement in the year:		
Current service cost	**(9.9)**	(10.9)
Past service cost	**(1.6)**	–
Employer contributions	**12.4**	3.3
Other finance income	**1.0**	8.2
Settlements/curtailments	**0.3**	(0.2)
Actuarial loss recognised in STRGL	**(0.9)**	(154.6)
Deficit in the scheme at the end of the year	**(89.3)**	(90.6)

History of experience gains and losses which would have been recognised under FRS 17:

	2004	2003
Actual return less expected return on pension scheme assets		
Amount (£m)	**39.4**	(115.1)
Percentage of pension scheme assets	**9.6%**	(32.3%)
Experience losses arising on pension scheme liabilities		
Amount (£m)	**(13.1)**	(24.9)
Percentage of pension scheme liabilities	**2.6%**	5.6%
Actuarial loss recognised in STRGL		
Amount (£m)	**(0.9)**	(154.6)
Percentage of pension scheme liabilities	**0.2%**	34.6%

24 Employees

	2004	2003
Average number of employees		
United Kingdom and Ireland	**2,773**	2,736
Rest of Europe	**2,402**	2,278
The Americas	**1,065**	1,134
Rest of World	**601**	641
	6,841	6,789

	2004 £m	2003 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	**195.5**	189.4
Social security costs	**17.9**	17.3
Pension costs	**13.1**	4.2
	226.5	210.9

Details of Directors' emoluments are set out in the Remuneration Report on pages 31 to 36.

25 Capital commitments

	2004 Group £m	2003 Group £m
The following commitments existed at the balance sheet date:		
Contracted but not provided for in the accounts	**3.8**	6.3
Authorised but not contracted	**0.3**	1.0
	4.1	7.3

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), Valora-Servicos de Apoio a Emissao Monitaria SA (25 per cent), Nigerian Security and Minting Company (25 per cent), and Royal Mint Services (50 per cent).

The Group's trading activities with these companies include £6.6m for the purchase of ink and other consumables; £0.4m for the provision of management services, £1.5m for the purchase of banknotes; £2.6m for the sale of paper; £10.7m for the sale of banknotes; £0.3m for the sale of machinery and consumables and £0.4m for commission costs. At the balance sheet date there were £0.1m creditor and £0.1m 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, Foreign Exchange and Borrowing Facilities Interest charge and Exchange paragraphs of the Financial Review on pages 16 and 17. 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.

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 value and fair values of the Group's financial assets and liabilities with the exception of the US$25m interest rate swap which on a mark to market basis has a net liability of £0.3m unprovided for.

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 £8.3m (note 15); long-term borrowings of £36.1m (note 16); other long-term creditors of £13.6m (note 16) and provisions for other liabilities and charges of £27.8m (note 17).

Currency	**2004 Total £m**	**2004 Floating £m**	**2004 Fixed £m**	**2004 Interest free £m**	2003 Total £m	2003 Floating £m	2003 Fixed £m	2003 Interest free £m
Sterling	**48.7**	**18.6**	**–**	**30.1**	17.8	–	–	17.8
US dollar	**23.3**	**7.3**	**13.8**	**2.2**	43.8	22.3	15.9	5.6
Eurozone	**8.6**	**0.6**	**–**	**8.0**	9.2	0.2	–	9.0
Other	**5.2**	**4.1**	**–**	**1.1**	7.3	4.8	–	2.5
	85.8	**30.6**	**13.8**	**41.4**	78.1	27.3	15.9	34.9

Floating rate financial liabilities bear interest rates based on relevant national LIBOR equivalents. Drawings under major committed facilities are at no more than 0.45% above LIBOR.

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 27 March 2004 and the current facility maturity pattern were as follows:

	Total facilities £m	Drawings £m	Undrawn £m
Within one year	**77.9**	**6.7**	**71.2**
Between one and two years	**16.3**	**2.9**	**13.4**
Between two and five years	**73.9**	**27.9**	**46.0**
More than five years	**4.1**	**4.1**	**–**
	172.2	**41.6**	**130.6**

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

	2004 £m	2003 £m
Within one year	**30.5**	30.4
Between one and two years	**13.8**	18.1
Between two and five years	**37.4**	29.6
More than five years	**4.1**	–
	85.8	78.1

28 Derivatives and other financial instruments continued

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:

Cash and deposits	2004 £m	2003 £m
Sterling	57.4	16.6
US dollar	10.2	12.1
Eurozone	12.2	14.4
Other	5.7	8.3
	85.5	51.4

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.

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.

The table below shows the extent to which the Group has off-balance sheet (unrecognised) gains and losses in respect of financial instruments (forward foreign currency contracts) used as hedges at the beginning and end of the year.

All gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions.

	Unrecognised		
	Gains £m	Losses £m	Total net Gains/Losses £m
Gains and losses on hedges at 30 March 2003	**2.4**	**(0.8)**	**1.6**
Arising in previous years included in 2003/04 income	(1.0)	0.6	(0.4)
Gains and losses not included in 2003/04 income			
Arising before 30 March 2003	**1.4**	**(0.2)**	**1.2**
Arising in 2003/04	2.9	(1.1)	1.8
Gains and losses on hedges at 27 March 2004	**4.3**	**(1.3)**	**3.0**
Of which:			
Gains and losses expected to be included in 2004/05 income	1.7	(1.1)	0.6
Gains and losses expected to be included in 2005/06 income or later	2.6	(0.2)	2.4

Longer term foreign exchange contracts have been entered into to hedge the longer term sales and purchasing contracts. As a result, a proportion of foreign exchange hedges extend beyond the end of 2004 into 2005 and 2006.

Principal Subsidiaries, Branches and Associated Companies

As at 27 March 2004

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 %
EUROPE		
United Kingdom		
De La Rue Holdings plc	Holding and general commercial activities	100+
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
Debden Security Printing Limited	Currency printing	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*
Channel Islands		
The Burnhill Insurance Company Limited	Insurance	100
De La Rue (Guernsey) Limited	General commercial company	100
Belgium		
De La Rue Cash Systems N.V.	Distribution, service and marketing	100
Ireland		
De La Rue Smurfit Limited	Security printing	50
De La Rue Cash Systems Limited	Distribution, service and marketing	100
France		
De La Rue France Holdings SAS	Holding company	100
De La Rue Cash Systems S.A.	Distribution, service and marketing	100
Germany		
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
Malta		
De La Rue Currency and Security Print Limited	Security printing	100
The Netherlands		
De La Rue BV	Holding company and distribution and marketing of cash handling products	100
Portugal		
Valora-Serviços de Apoio à Emissão Monitária S.A.	Currency printing	25*
De La Rue Systems – Automatizacao, S.A.	Manufacturing, distribution, service and marketing	100
Russia		
Arbok Zao	Manufacturing, distribution. service and marketing	50
Spain		
De La Rue Systems S.A.	Distribution, service and marketing	100
Sweden		
De La Rue Cash Systems AB	Manufacturer of cash handling equipment	100

Principal Subsidiaries, Branches and Associated Companies

As at 27 March 2004
continued

Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
Switzerland		
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
NORTH AMERICA		
United States of America		
De La Rue Inc.	Holding company	100
Sequoia Voting Systems, Inc.	Manufacturer of voting equipment and related software	85
De La Rue Security Print 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
Canada		
De La Rue Cash Systems Inc.	Distribution, service and marketing	100
SOUTH AMERICA		
Brazil		
De La Rue Cash Systems Limitada	Distribution, service and marketing	100
Mexico		
De La Rue México, S.A. de C.V.	Distribution, marketing and identity systems	100
AFRICA		
Kenya		
De La Rue Currency & Security Print Limited	Security printing	100
South Africa		
De La Rue South Africa (Proprietary) Limited	Distribution, service and marketing	100
De La Rue Global Services (Pty) Limited	Security printing	100
FAR EAST		
Australia		
De La Rue Cash Systems Pty Limited	Distribution, service and marketing	100
China		
Shenzhen De La Rue Nantian Banking Technology Corporation Limited	Manufacturer of cash handling equipment	51
Hong Kong		
De La Rue Systems Limited	Distribution, service and marketing	100
Malaysia		
De La Rue (Malaysia) Sdn Bhd	Identity systems	100
Sri Lanka		
De La Rue Lanka Currency and Security Print (Private) Limited	Security printing	60
Thailand		
De La Rue (Thailand) Limited	Distribution, service and marketing	100

+Shares held by De La Rue plc
* Associated company

Five-Year Record

Profit and loss account		2000 £m	2001 £m	2002 £m	2003 (restated) £m	**2004 £m**
Turnover						
Continuing operations		518.9	517.4	641.7	582.7	**645.8**
Acquisitions		–	–	–	–	**36.7**
Discontinued operations	(note a)	98.2	7.4	9.5	–	**–**
Total		617.1	524.8	651.2	582.7	**682.5**
Operating profit						
Continuing operations		55.2	68.4	77.6	38.6	**45.9**
Reorganisation and arbitration costs		(25.6)	(0.8)	(11.1)	(31.9)	**(15.2)**
Loss on impairment of investment		–	–	–	(1.3)	**–**
Acquisitions		–	–	–	–	**3.4**
Discontinued operations	(note a)	5.1	(1.5)	(1.4)	–	**–**
Total		34.7	66.1	65.1	5.4	**34.1**
Amortisation of goodwill		–	(0.5)	(2.8)	(19.6)	**(21.2)**
Share of profits of associated companies		14.7	4.8	11.8	9.2	**10.0**
Profit/(loss) on the sale of continuing operations		–	(3.0)	–	–	**0.2**
Profit/(loss) on the disposal of discontinued operations		56.1	–	1.5	–	**–**
Profit on sale of investments		2.0	–	22.7	–	**–**
Scheme of arrangement costs		(1.1)	–	–	–	**–**
Profit/(loss) on ordinary activities before interest		106.4	67.4	98.3	(5.0)	**23.1**
Net Interest: Group		(3.0)	(1.2)	(0.4)	0.5	**(0.6)**
Associates		3.0	4.4	3.0	0.4	**–**
Profit/(loss) on ordinary activities before taxation		106.4	70.6	100.9	(4.1)	**22.5**
Taxation on profit on ordinary activities		(17.7)	(7.5)	(22.2)	(2.5)	**(10.0)**
Profit/(loss) on ordinary activities after taxation		88.7	63.1	78.7	(6.6)	**12.5**
Equity minority interests		(1.0)	(0.2)	(1.5)	(0.7)	**(0.4)**
Profit/(loss) for the financial year		87.7	62.9	77.2	(7.3)	**12.1**
Dividends		(24.3)	(24.0)	(25.5)	(24.6)	**(24.8)**
Transferred to/(from) reserves		63.4	38.9	51.7	(31.9)	**(12.7)**
Earnings per ordinary share		39.9p	33.1p	40.7p	(4.0)p	**6.8p**
Diluted earnings per share (per FRS 14)		39.6p	32.6p	40.0p	(4.0)p	**6.8p**
Headline earnings per ordinary share		15.8p	35.8p	29.4p	7.3p	**18.4p**
Headline earnings per ordinary share (before exceptionals)		26.5p	30.9p	34.4p	19.2p	**24.2p**
Dividends per ordinary share		12.0p	12.6p	13.4p	13.6p	**14.2p**
Balance sheet		£m	£m	£m	£m	**£m**
Fixed assets		242.0	235.6	253.2	231.7	**206.0**
Net current assets		(18.7)	31.8	63.0	47.2	**34.9**
Cash/(borrowings)		2.1	36.1	50.0	8.2	**41.1**
Other liabilities		(62.3)	(46.0)	(50.3)	(58.1)	**(64.4)**
Equity minority interests		(3.0)	(2.6)	(3.1)	(4.2)	**(3.5)**
Shareholders' funds		160.1	254.9	312.8	224.8	**214.1**

Notes

(a) Discontinued operations refer to all businesses discontinued between 2000 and 2004. Thus continuing operations refer to those businesses continuing as at 27 March 2004.

(b) The comparatives for 2001 have been adjusted to reflect the requirements of FRS 19. Years prior to 2001 have not been restated.

(c) The comparatives for 2003 have been adjusted to reflect the adoption of UITF Abstract 38. Years prior to 2003 have not been restated.

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

Electronic Communications

You can register online at 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 11 character number (which starts with the letter C or G) can be found on share certificates and dividend tax vouchers. 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

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 22 July 2004 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	6 August 2004
Record Date	9 July 2004
Ex-Dividend Date	7 July 2004
Interim	January 2005

Results Announcements

Final Results	May
Interim Results	November

Analysis of Shareholders at 27 March 2004

By range of holders	Shareholder Number	Shareholder %	Shares Number	Shares %
1 – 1,000	5,987	58.71	2,556,479	1.40
1,001 – 2,000	1,842	18.06	2,722,482	1.49
2,001 – 4,000	1,264	12.40	3,587,932	1.96
4,001 – 20,000	791	7.76	6,122,769	3.34
20,001 – 200,000	219	2.15	15,676,055	8.56
200,000 and above	94	0.92	152,404,269	83.25
Total	10,197	100.00	183,069,986	100.00

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 £20. Further information and forms can be obtained from Cazenove & Co. Ltd, 20 Moorgate, London, EC2R 6DA UK. Telephone: +44 (0)20 7155 5155. A copy of the low-cost dealing form is also available at 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.

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