DeLaRue

# **De La Rue** Interim Statement 2003/2004
Secure transactions for a changing world

## Contents

# Trading Summary

- Profit before tax, exceptional items and goodwill amortisation of £19.7m* (2002/2003 : £19.6m*), achieved despite additional pension costs of £3.7m and ahead of the Board's original expectations at the start of the year.

- Strong cash flow performance with net cash inflow from operating activities of £35.0m (2002/2003 : £2.5m) in the first half (aided by customer prepayments). The Group ended the first half with net cash of £13.9m.

- Strong first half in Security Paper and Print was underpinned by higher levels of activity in the papermaking business and our success in winning the Iraq banknote contract.

- Operating profits in Cash Systems were ahead of our expectations reflecting the benefit of the ongoing cost reduction programmes, although down on last year's result.

- Global Services strategic review completed. An exit from low margin and declining product areas announced today. Global Services will cease as a separate division.

- Interim dividend 4.4p (2002/2003 : 4.4p).

* before exceptional charges of £17.9m (2002/2003 : £18.7m) and goodwill amortisation of £1.7m (2002/2003 : £1.7m)

# Directors' Review

## Group Results

Turnover increased by 7.6 per cent from £269.6m to £290.1m and profit before tax, exceptional items and goodwill amortisation was also slightly ahead at £19.7m* (2002/2003 : £19.6m*). This represented a considerably better performance than the Board had anticipated at the beginning of the year and is after taking account of increased accrued pension charges of £3.7m. A strong first half performance in Security Paper and Print, where operating profits (including acquisitions and before exceptional items of £0.8m and goodwill amortisation credit of £0.2m) were up £1.6m to £14.3m, offset the anticipated tough trading conditions currently being experienced in other parts of the Group.

Headline earnings per share (excluding exceptional items) increased by 0.8p to 8.1p due to a reduction in the underlying effective tax rate to 26.0 per cent (2002/2003 : 27.6 per cent) and the effect of a lower number of shares in issue than last year, following the share buy back programme. Basic earnings per share were (2.2)p compared with (0.6)p last year.

An excellent first half in Currency was the key contributor to the strong operating result in Security Paper and Print. This was primarily due to significantly higher levels of activity in the papermaking business. In addition, it reflected the commencement of deliveries in the period relating to the Iraq banknote contract, announced in July 2003. The business goes into the second half with a strong order book in both papermaking and print. Continuing weak markets contributed to a poor first half performance in the Security Products business.

In Cash Systems, first half revenues of £142.2m were down £4.4m on last year's revenues of £146.6m as the tough trading conditions seen in the second half of 2002/2003 continued. Operating profits were ahead of our expectations at £2.2m (before reorganisation costs of £1.9m and goodwill amortisation of £1.6m) although down by £2.8m on last year's result. This better than expected operating result was achieved by early benefit from the cost reduction programmes.

We outlined in February 2003 that the focus within Cash Systems would be on alignment of the cost base of the business to underpin trading in the current tough market conditions, particularly in Europe. We announced 300 job losses in the division and during the first half we have identified a further 50 redundancies at our Dallas and Lisbon manufacturing sites. Of the 350 redundancies identified to date, approximately 250 have now been completed with the balance to follow in the second half.

Global Services' revenues increased from £29.4m to £35.0m. The operating loss of £2.3m (before exceptional costs of £12.6m and goodwill amortisation of £0.3m) was marginally better than the loss in the same period last year.

*before exceptional charges of £17.9m (2002/2003 : £18.7m) and goodwill amortisation of £1.7m (2002/2003 : £1.7m)

Cash flow remains a key strength with a net cash inflow from operating activities of £35.0m (2002/2003 : £2.5m) albeit assisted by favourable working capital associated with Iraq. The Group ended the half year with net cash of £13.9m compared with net cash of £8.2m at the start of the year.

## Dividend

An interim dividend of 4.4p per share will be paid on 16 January 2004 to shareholders on the register on 12 December 2003.

## Disposals

In August 2003, De La Rue disposed of its entire shareholding in IMW Immobilien AG for a net consideration of £6.4m in cash, after repayment of related inter-company debt. The net carrying value of the assets attributable to De La Rue was £9.0m. De La Rue had retained its shareholding in IMW (formerly Garny AG) following earlier disposals and the remaining investment represented the related property portfolio.

## UK Pension Scheme

The triennial valuation of De La Rue's UK pension scheme has now been completed by the scheme's actuary, based on data as at 6 April 2003. The Group accounts for pensions in accordance with SSAP 24, having deferred the introduction of FRS 17 pending the implementation of International Accounting Standard 19.

The preliminary results of the triennial valuation, which are subject to approval by the Trustee of the scheme, reflect the poor performance of the financial markets during the period and show a deficit of approximately £40.0m. The deficit was assessed at 6 April 2003 as required. Since then, however, equity prices have improved.

The previous triennial valuation, assessed at 6 April 2000, indicated a fund surplus of £40.0m. The change in the fund's position will increase annual charges going forward and the cost for 2003/2004 under the new valuation will be around £9.5m, in line with expectations (2002/2003 : £1.9m). The charge under SSAP 24 in the first half of this year was £4.7m compared with £1.0m in 2002/2003. The net operating charge under FRS 17 in the first half would have been similar to the actual charge on a SSAP 24 basis.

As a result of the 2003 triennial review, the Company is reviewing its UK pension scheme arrangements. The review, involving discussions with key stakeholders, has now commenced and is expected to be completed by the end of the financial year.

# Directors' Review continued

| Security Paper and Print | 2003/2004 Half Year £m | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|
| Sales | | | |
| Continuing operations | **97.5** | 94.3 | 213.8 |
| Acquisitions | **17.3** | – | – |
| | **114.8** | 94.3 | 213.8 |
| Operating profit* | | | |
| Continuing operations | **13.1** | 12.7 | 30.4 |
| Acquisitions | **1.2** | – | – |
| | **14.3** | 12.7 | 30.4 |

***before exceptional items of £0.8m (2002/2003 : £17.7m) and goodwill amortisation credit of £0.2m (2002/2003 : nil)**

## Currency

Operating profits in the Currency business were higher than in the equivalent period last year, despite increased pensions costs of £1.7m. This was primarily as a result of much higher levels of activity in the papermaking business, which was supported by the return to the market of a large overspill customer after several years absence. Additionally, it reflected the commencement of deliveries in the period for the previously announced Iraq contract, although other significant contracts were also secured in the first half. The integration of the former Bank of England printing works at Debden, acquired at the beginning of the current financial year, is proceeding well and it made its anticipated contribution to divisional profits in the half year.

The business goes into the second half with a strong order book. In addition the second half will also see the completion of the exceptional Iraq order. Next year, we expect the print and papermaking markets to return to historical ordering patterns and volumes.

## Security Products

During the first half, we completed the closure of our High Wycombe facility in the UK. Continuing weak markets contributed to a poor first half performance. However, we expect some operating improvement in the second half as a result of lower overheads. Trading in the first half in De La Rue Tapes, which makes security threads for banknotes, improved as a result of stronger demand in the banknote papermaking business. We expect to see this trend continue in the second half. Portals Bathford, our pulp based papermaking business, performed well with good production volumes in the first half.

| Cash Systems | 2003/2004 Half Year £m | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|
| Sales | **142.2** | 146.6 | 310.9 |
| Operating profit* | **2.2** | 5.0 | 11.6 |

***before exceptional items of £1.9m (2002/2003 : £1.0m) and goodwill amortisation of £1.6m (2002/2003 : £1.5m)**

In Cash Systems, first half revenues of £142.2m were down £4.4m on last year's revenues of £146.6m as the tough trading conditions seen in the second half of 2002/2003 continued. Operating profits were ahead of our expectations at £2.2m (although down by £2.8m on last year's result), reflecting savings from the cost reduction programmes, despite increased pensions costs of £0.7m.

During the first half, our priority in our financial institutions business has been to reduce the cost base in the current tough market conditions, particularly in Europe. As expected, market conditions in the worst affected markets, notably Germany and Spain, have remained similar to last year, although some operating improvement is now being seen as a result of lower overheads. The anticipated tough first half trading situation in Europe continued to be offset by continued growth of the North American market. Teller automation remains by far the largest business within Cash Systems both in terms of product sales and service revenues and during the first half, volumes of Teller Cash Dispensers were strong. In addition, the self-service business, formed out of the acquisition of the Papelaco equipment manufacturing business in June 2002, performed well. We continue to roll out the self-service product range to several of the most developed European territories.

As announced at the preliminary results 2002/2003, we have also taken action to reduce the cost base of the large sorter business in line with the difficult prevailing market conditions. The business had an encouraging first half with better than expected large system sales.

The customer service business, which supports all Cash Systems businesses, continues to be a significant profit driver of the division. The business performed well in the first half and in line with last year.

# Directors' Review continued

| Global Services | **2003/2004 Half Year £m** | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|
| Sales | **35.0** | 29.4 | 59.9 |
| Operating loss* | **(2.3)** | (2.8) | (4.0) |

***before exceptional items of £12.6m (2002/2003 : nil) and goodwill amortisation of £0.3m (2002/2003 : £0.2m)**

Global Services' revenues increased by £5.6m to £35.0m with an operating loss of £2.3m, which was marginally better than the loss of £2.8m in the same period last year. The result also included increased pensions costs of £0.3m.

De La Rue Holographics' revenues were down in the first half due to the timing of banknote order receipts particularly in the first quarter. In August 2003, De La Rue was named by FIFA as the official brand protection partner of the 2006 World Cup to be held in Germany. Under the terms of the contract we will supply holograms to approximately 300 firms who will produce official merchandise for the event.

Reduced call-off by a major customer in Identity Systems resulted in lower than expected first half volumes for our installed base of contracts. Timing delays on expected new system sales also continued to affect revenues. During the period, De La Rue was awarded a number of new contracts including the driver's licence system for the province of Quebec, adding to our North America installed base.

In Sequoia Voting Systems' competitive pricing has become an increasing feature of the market consequently affecting margins and leading to a small loss in the first half. Volumes remain encouraging and in the period the business won a number of significant contracts against strong competition. We expect the business to return to profit in the second half, but this is unlikely to offset first half losses. As announced in March 2003, we completed the closure and the outsourcing of Sequoia's Exeter, USA ballot printing facility in the first half with the loss of 60 jobs.

## Global Services Strategic Review

The Board has completed the strategic review of Global Services, including the Security Products activities. Its criterion has been the creation of long-term value for shareholders.

The principal conclusions from the review are that Global Services should cease to exist as a strategic activity and that the Group should exit from a number of low margin and declining product areas within the Security Products business. These include UK personal cheques, export stamps, UK vouchers and coin bags, which are currently undertaken at De La Rue's Peterborough and Byfleet facilities in the UK. These sites currently employ about 200 staff. Consequently, the Company is announcing today its intention to exit the Peterborough business. De La Rue will close the Byfleet facility and transfer the equipment required to support domestic stamp production to its Dunstable facility in the UK. The above proposals are subject to appropriate employee consultation, which has begun.

The Security Paper and Print division will now comprise banknote printing and papermaking operations, together with the Tapes and Holographics activities, which are intrinsically linked with the banknote market. It will also include the Security Products business, which will now centre on authentication labels, travellers cheques, passports, fiscal stamps and domestic postage stamps at the Dunstable, Dulles and Nairobi facilities. The Portals Bathford pulp-based papermaking facility will continue to supply the printing businesses. The Board is pleased to announce the recent signing of multi-year contracts commencing in January 2004, for the worldwide exclusive supply of secure labels for a leading software provider.

The reorganisation will commence immediately and on completion the Board expects all businesses within Security Paper and Print to be profitable in 2004/2005. The exceptional costs associated with the strategic reorganisation, to be incurred over the next 12 months, are estimated to be £10m, will be charged in the second half and will be substantially cash. The elimination of losses, together with related overhead savings, will benefit the Group by approximately £3m per annum.

The Sequoia Voting Systems business, acquired in May 2002, will be reported within Cash Systems reflecting its close alignment with the self-service market and common customer services requirements. Although the fair value review of Sequoia is not due to be completed until March 2004, the Board has decided to accelerate this as part of the strategic review. In the light of the increasingly competitive market being faced by the business, the Board has determined that the goodwill is not sustainable. Consequently, an exceptional non-cash goodwill write down of £12.6m has been made in the first half.

The above changes will be reflected in the preliminary results in May 2004.

## Associates

Profit from associates before interest and tax increased from £3.6m in the first half of 2002/2003 to £5.6m in the current half year. The main associated company is Camelot, the UK lottery operator.

## Interest

The Group's net interest charge of £0.1m was £1.2m down on last year's income of £1.1m.

## Taxation

Excluding exceptional items, the underlying effective tax rate was 26 per cent (2002/2003 : 27.6 per cent). We expect that, in the absence of unforeseen events, the tax rate for the full year will be at a similar level.

# Directors’ Review continued

## Exceptional Items

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

| | Cash £m | Non Cash £m | Total £m |
|---|---|---|---|
| Reorganisation costs: Cash Systems | (1.9) | – | (1.9) |
| Security Products | (0.8) | – | (0.8) |
| Loss on disposal of fixed assets | – | (2.6) | (2.6) |
| Sequoia goodwill impairment | – | (12.6) | (12.6) |
| Exceptional pre-tax costs | (2.7) | (15.2) | (17.9) |

Reorganisation costs in Cash Systems relate to the ongoing restructuring announced last year. The Security Products charge is in respect of the closure of High Wycombe, which was completed in the first half. The reorganisation costs have been included within operating profit.

The loss on disposal arises from the sale of IMW property assets announced in August 2003 for a net consideration of £6.4m.

As a result of trading experienced since the acquisition of Sequoia, the carrying value of goodwill relating to the company has been impaired by an exceptional charge of £12.6m.

## Cash Flow

The net cash inflow from operating activities was £35.0m in the first half, compared with £2.5m in the first half of 2002/2003 due mainly to favourable working capital movements (including pre-payments associated with Iraq, a proportion of which will be paid to sub-contractors in the second half). Capital expenditure of £14.0m was £6.4m higher than last year. Acquisitions and disposals comprised the purchase of the Bank of England banknote printing factory at Debden, Essex and the sale of IMW Immobilien AG.

The overall net cash flow was positive by £5.7m (2002/2003 : £71.0m outflow), resulting in closing net cash of £13.9m at the end of the period compared with £21.0m net debt at the end of the first half of last year, and net cash of £8.2m at the start of the year.

## Outlook

Continuation into the second half of the favourable conditions that resulted in an improvement in underlying first half performance, leads the Board to expect a strong second half result.

**Sir Brandon Gough** Chairman

# Independent Review Report to De La Rue plc

## Introduction

We have been instructed by the Company to review the financial information which comprises the Group profit and loss account, the Group balance sheet, the Group cash flow statement, the Group statement of total recognised gains and losses and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

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 interim report since it was initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 27 September 2003.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
24 November 2003

# Group Profit and Loss Account

**For the half year ended 27 September 2003**

| Notes | | **2003/2004 Half Year £m** | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|---|
| | **Turnover** | | | |
| | Continuing operations | **272.8** | 269.6 | 582.7 |
| | Acquisitions | **17.3** | – | – |
| 1 | | **290.1** | 269.6 | 582.7 |
| | **Operating profit/(loss)** | | | |
| | Continuing operations | **13.0** | 14.9 | 38.0 |
| 2 | – Exceptional costs | **(2.7)** | (18.7) | (31.9) |
| | – Loss on impairment of investments | **–** | – | (1.3) |
| | | **10.3** | (3.8) | 4.8 |
| | Acquisitions | **1.2** | – | – |
| | Operating profit/(loss) before goodwill amortisation | **11.5** | (3.8) | 4.8 |
| | Goodwill amortisation | | | |
| 2 | – Exceptional costs | **(12.6)** | – | (16.0) |
| | – Other | **(1.7)** | (1.7) | (3.6) |
| 1 | Group operating loss | **(2.8)** | (5.5) | (14.8) |
| | Share of profits of associated companies | **5.6** | 3.6 | 9.2 |
| | Total operating profit/(loss) | **2.8** | (1.9) | (5.6) |
| 2 | Loss on disposal of fixed assets | **(2.6)** | – | – |
| | **Profit/(loss) on ordinary activities before interest** | **0.2** | (1.9) | (5.6) |
| | Net interest: Group | **(0.2)** | 0.9 | 0.5 |
| | Associates | **0.1** | 0.2 | 0.4 |
| | | **(0.1)** | 1.1 | 0.9 |
| | **Profit/(loss) on ordinary activities before taxation** | **0.1** | (0.8) | (4.7) |
| | Tax on profit/(loss) on ordinary activities | **(3.7)** | 0.2 | (2.5) |
| | **Loss on ordinary activities after taxation** | **(3.6)** | (0.6) | (7.2) |
| | Equity minority interests | **(0.3)** | (0.6) | (0.7) |
| | **Loss for the period** | **(3.9)** | (1.2) | (7.9) |
| | Dividends | **(7.5)** | (8.3) | (24.6) |
| | **Transferred to reserves** | **(11.4)** | (9.5) | (32.5) |
| 3 | **Earnings per ordinary share** | **(2.2)p** | (0.6)p | (4.3)p |
| | **Diluted earnings per ordinary share** | **(2.2)p** | (0.6)p | (4.3)p |
| 3 | **Headline earnings per ordinary share before exceptional items & goodwill amortisation** | **8.1p** | 7.3p | 18.9p |
| | **Dividends per ordinary share** | **4.4p** | 4.4p | 13.6p |

# Group Balance Sheet

**At 27 September 2003**

| | **2003/2004 Half Year £m** | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | **36.1** | 71.2 | 54.6 |
| Tangible assets | **164.5** | 163.4 | 163.4 |
| Investments: Associates | **13.9** | 13.6 | 13.5 |
| Other investments | **0.2** | 1.7 | 0.2 |
| Own shares | **19.0** | 19.4 | 19.1 |
| | **233.7** | 269.3 | 250.8 |
| **Current assets** | | | |
| Stocks | **112.1** | 111.1 | 99.2 |
| Debtors | **118.7** | 119.5 | 119.1 |
| Deferred taxation | **31.1** | 31.3 | 37.2 |
| Cash at bank and in hand | **57.3** | 38.1 | 51.4 |
| | **319.2** | 300.0 | 306.9 |
| **Creditors: amounts falling due within one year** | | | |
| Short term borrowings | **(2.1)** | (1.7) | (0.5) |
| Other creditors | **(227.2)** | (180.2) | (208.3) |
| **Net current assets** | **89.9** | 118.1 | 98.1 |
| **Total assets less current liabilities** | **323.6** | 387.4 | 348.9 |
| **Creditors: amounts falling due after more than one year** | | | |
| Long term borrowings | **(41.3)** | (57.4) | (42.7) |
| Other creditors | **(0.5)** | (2.5) | (4.9) |
| **Provisions for liabilities and charges** | **(44.7)** | (54.7) | (53.2) |
| | **237.1** | 272.8 | 248.1 |
| **Capital and reserves** | | | |
| Called up share capital | **45.5** | 46.1 | 45.4 |
| Share premium account | **13.0** | 12.9 | 12.5 |
| Revaluation reserve | **1.8** | 1.8 | 1.8 |
| Capital redemption reserve | **3.5** | 2.8 | 3.5 |
| Other reserve | **(83.8)** | (83.8) | (83.8) |
| Profit and loss account | **253.4** | 289.2 | 264.5 |
| **Shareholders' funds** | **233.4** | 269.0 | 243.9 |
| **Equity minority interests** | **3.7** | 3.8 | 4.2 |
| | **237.1** | 272.8 | 248.1 |

# Group Cash Flow Statement

**For the half year ended 27 September 2003**

| Notes | | 2003/2004 Half Year £m | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|---|
| 4a | **Net cash inflow from operating activities** | **35.0** | 2.5 | 59.1 |
| | **Dividends received from associated companies** | **3.5** | 6.5 | 9.0 |
| 4b | **Returns on investments and servicing of finance** | **(0.1)** | 1.2 | (1.1) |
| | **Taxation** | **(0.5)** | (1.7) | (3.7) |
| 4c | **Capital expenditure and financial investment** | **(13.5)** | 6.9 | (3.7) |
| 4d | **Acquisitions and disposals** | **(4.9)** | (31.4) | (33.4) |
| | **Equity dividends paid** | **(16.2)** | (25.4) | (33.3) |
| | **Net cash inflow/(outflow) before use of liquid resources and financing** | **3.3** | (41.4) | (7.1) |
| 4e | **Management of liquid resources** | **(1.2)** | 43.4 | 28.2 |
| 4f | **Financing** | **(0.8)** | (3.2) | (25.5) |
| | **Increase/(decrease) in cash in the period** | **1.3** | (1.2) | (4.4) |
| | | | | |
| | **Reconciliation of net cash flow to movement in net funds/(debt)** | | | |
| | Increase/(decrease) in cash in the period | **1.3** | (1.2) | (4.4) |
| | Cash outflow/(inflow) from increase/(decrease) in liquid resources | **1.2** | (43.4) | (28.2) |
| | Cash outflow/(inflow) from decrease/(increase) in debt | **1.4** | (28.2) | (11.4) |
| | Change in net funds resulting from cash flows | **3.9** | (72.8) | (44.0) |
| | Translation difference | **1.8** | 1.8 | 2.2 |
| | Movement in net cash/(debt) in the period | **5.7** | (71.0) | (41.8) |
| | Net funds at start of period | **8.2** | 50.0 | 50.0 |
| | **Net funds/(debt) at end of period** | **13.9** | (21.0) | 8.2 |
| | | | | |
| | **Analysis of net funds/(debt)** | | | |
| | Cash | **28.8** | 26.0 | 24.2 |
| | Liquid resources | **28.5** | 12.1 | 27.2 |
| | Overdrafts | **(2.1)** | (0.9) | (0.5) |
| | Other debt due within one year | **–** | (0.8) | – |
| | Other debt due after one year | **(41.3)** | (57.4) | (42.7) |
| | **Net funds/(debt) at end of period** | **13.9** | (21.0) | 8.2 |

# Group Statement of Total Recognised Gains and Losses

**For the half year ended 27 September 2003**

| | | 2003/2004 Half Year £m | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|---|
| (Loss)/profit for the period: | Group | **(8.4)** | (3.8) | (14.8) |
| | Associates | **4.5** | 2.6 | 6.9 |
| | | **(3.9)** | (1.2) | (7.9) |
| Currency translation differences on foreign currency net investments | | **0.3** | (2.9) | 0.5 |
| **Total recognised losses for the period** | | **(3.6)** | (4.1) | (7.4) |

# Reconciliation of Movements in Shareholders' Funds

**For the half year ended 27 September 2003**

| | 2003/2004 Half Year £m | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|
| Loss for the period | **(3.9)** | (1.2) | (7.9) |
| Dividends | **(7.5)** | (8.3) | (24.6) |
| | **(11.4)** | (9.5) | (32.5) |
| Share capital issued | **0.6** | 1.5 | 1.1 |
| Transfer to share premium | **–** | (0.5) | – |
| Shares repurchased | **–** | (32.4) | (38.0) |
| Currency translation differences on foreign currency net investments | **0.3** | (2.9) | 0.5 |
| Net decrease in shareholders' funds | **(10.5)** | (43.8) | (68.9) |
| Opening shareholders' funds | **243.9** | 312.8 | 312.8 |
| **Closing shareholders' funds** | **233.4** | 269.0 | 243.9 |

# Notes to the Interim Statement

## 1. Segmental analysis

| | | 2003/2004 Half Year £m | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|---|
| **Turnover by class of business** | | | | |
| Continuing operations | Cash Systems | **142.2** | 146.6 | 310.9 |
| | Security Paper and Print | **97.5** | 94.3 | 213.8 |
| | Global Services | **35.0** | 29.4 | 59.9 |
| – Less inter-segment sales | | **(1.9)** | (0.7) | (1.9) |
| | | **272.8** | 269.6 | 582.7 |
| Acquisition | Security Paper and Print | **17.3** | – | – |
| | | **290.1** | 269.6 | 582.7 |
| **Operating profit/(loss) by class of business** | | | | |
| Continuing operations | Cash Systems | **2.2** | 5.0 | 11.6 |
| | Security Paper and Print | **13.1** | 12.7 | 30.4 |
| | Global Services | **(2.3)** | (2.8) | (4.0) |
| | | **13.0** | 14.9 | 38.0 |
| – Exceptional costs | Cash Systems | **(1.9)** | (1.0) | (10.5) |
| | Security Paper and Print | **(0.8)** | (17.7) | (18.6) |
| | Global Services | **–** | – | (2.8) |
| | | **(2.7)** | (18.7) | (31.9) |
| – Loss on impairment of investments | Security Paper and Print | **–** | – | (1.3) |
| Acquisition | Security Paper and Print | **1.2** | – | – |
| | | **11.5** | (3.8) | 4.8 |
| Goodwill amortisation | Cash Systems | **(1.6)** | (1.5) | (19.3) |
| | Security Paper and Print | **0.2** | – | 0.2 |
| | Global Services | **(12.9)** | (0.2) | (0.5) |
| | | **(14.3)** | (1.7) | (19.6) |
| | | **(2.8)** | (5.5) | (14.8) |

## 1. Segmental analysis continued

| | 2003/2004 Half Year £m | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|
| **Turnover by geographical area of operation** | | | |
| United Kingdom and Ireland | **161.8** | 145.8 | 320.0 |
| Rest of Europe | **112.9** | 100.0 | 216.5 |
| The Americas | **77.1** | 75.8 | 136.2 |
| Rest of world | **14.3** | 24.1 | 42.8 |
| Less inter-area sales | **(76.0)** | (76.1) | (132.8) |
| | **290.1** | 269.6 | 582.7 |
| **Operating profit/(loss) by geographical area of operation** | | | |
| United Kingdom and Ireland | **(3.9)** | (23.4)* | (17.2) |
| Rest of Europe | **13.9** | 13.4 | 14.5 |
| The Americas | **(11.7)** | 3.8* | (15.6) |
| Rest of world | **(1.1)** | 0.7 | 3.5 |
| | **(2.8)** | (5.5) | (14.8) |
| **Turnover by geographical area of destination** | | | |
| United Kingdom and Ireland | **41.4** | 33.0 | 68.8 |
| Rest of Europe | **84.4** | 83.6 | 174.7 |
| The Americas | **79.9** | 83.5 | 173.0 |
| Rest of world | **84.4** | 69.5 | 166.2 |
| | **290.1** | 269.6 | 582.7 |

*** Operating profit/(loss) for The Americas and UK and Ireland has been restated by £3.5m to reflect a change in the costs allocation basis made in the second half of last year**

The acquisition relates to the Bank of England's banknote printing operations based at Debden in Essex which was purchased by the Group on 31 March 2003. The profit for the period of £1.2m is shown after charging redundancy and other costs incurred in the normal course of business.

# Notes to the Interim Statement continued

## 2. Exceptional items

| | | 2003/2004 Half Year £m | 2002/2003 Half Year £m |
|---|---|---|---|
| Reorganisation costs | – Cash Systems | **(1.9)** | (1.0) |
| | – Security Products | **(0.8)** | (17.7) |
| Loss on disposal of fixed assets | | **(2.6)** | – |
| Sequoia goodwill impairment | | **(12.6)** | – |
| | | **(17.9)** | (18.7) |

Reorganisation costs in Cash Systems relate to the ongoing restructuring announced last year. The Security Products charge is in respect of the closure of High Wycombe which was completed in the first half. The reorganisation costs have been included within operating profit.

The loss on disposal arises from the sale of the IMW property assets announced in August for a net consideration of £6.4m.

As a result of trading experienced since the acquisition of Sequoia, the carrying value of the goodwill relating to the company has been impaired by an exceptional charge of £12.6m.

## 3. Reconciliation of earnings per share

| | 2003/2004 Half Year pence per share | 2002/2003 Half Year pence per share | 2002/2003 Full Year pence per share |
|---|---|---|---|
| As calculated under FRS 14 | **(2.2)** | (0.6) | (4.3) |
| Loss on impairment of investment | **–** | – | 0.7 |
| Loss on disposal of fixed assets and assets held for resale | **1.3** | – | 0.2 |
| Amortisation of goodwill | **7.9** | 0.8 | 10.4 |
| **Headline earnings per share as defined by the IIMR** | **7.0** | 0.2 | 7.0 |
| Reorganisation costs | **1.1** | 7.1 | 11.9 |
| **Headline earnings per share before items above** | **8.1** | 7.3 | 18.9 |

The earnings per share of (2.2)p as calculated under FRS 14 is the £3.9m loss for the period divided by 176,792,599 shares in issue.

## 4. Notes to Group cash flow statement

| | | 2003/2004 Half Year £m | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|---|
| a | **Reconciliation of operating loss to net cash inflow from operating activities** | | | |
| | Operating loss | **(2.8)** | (5.5) | (14.8) |
| | Depreciation and amortisation | **26.8** | 18.5 | 49.4 |
| | (Increase)/decrease in stocks | **(11.3)** | (6.8) | 8.6 |
| | Decrease in debtors | **0.6** | 12.2 | 15.9 |
| | Increase/(decrease) in creditors | **30.5** | (26.5) | (9.8) |
| | (Decrease)/increase in reorganisation provisions | **(8.1)** | 10.0 | 7.4 |
| | Other items | **(0.7)** | 0.6 | 2.4 |
| | **Net cash inflow from operating activities** | **35.0** | 2.5 | 59.1 |
| b | **Returns on investments and servicing of finance** | | | |
| | Interest received | **0.8** | 3.7 | 4.2 |
| | Interest paid | **(0.9)** | (2.5) | (3.8) |
| | Dividends paid to minority shareholders | **–** | – | (1.5) |
| | **Net cash (outflow)/inflow from returns on investments and servicing of finance** | **(0.1)** | 1.2 | (1.1) |
| c | **Capital expenditure and financial investment** | | | |
| | Purchase of tangible fixed assets | **(13.1)** | (7.6) | (20.7) |
| | Purchase of intangible fixed assets | **(0.9)** | – | (0.6) |
| | Sale of tangible fixed assets | **0.5** | 0.1 | 1.7 |
| | Sale of investments | **–** | 14.4 | 15.9 |
| | **Net cash (outflow)/inflow for capital expenditure and financial investment** | **(13.5)** | 6.9 | (3.7) |
| d | **Acquisitions and disposals** | | | |
| | Purchase of subsidiary undertakings | **(9.3)** | (31.4) | (33.6) |
| | Net (overdraft)/cash acquired with subsidiary undertakings | **(1.2)** | – | 0.2 |
| | Sale of subsidiary undertakings | **6.4** | – | – |
| | Net cash sold with subsidiary undertaking | **(0.8)** | – | – |
| | **Net cash outflow for acquisitions and disposals** | **(4.9)** | (31.4) | (33.4) |

# Notes to the Interim Statement continued

| **4. Notes to Group cash flow statement** continued | **2003/2004 Half Year £m** | 2002/2003 Half Year £m | 2002/2003 Full Year £m |
|---|---|---|---|
| e **Management of liquid resources** | | | |
| Net (increase)/decrease in short term deposits | **(1.2)** | 43.4 | 28.2 |
| f **Financing** | | | |
| Debt due within one year: | | | |
| Loans raised | **–** | 0.7 | – |
| Loans repaid | **–** | (0.1) | (7.0) |
| Debt due beyond one year: | | | |
| Loans raised | **–** | 28.2 | 24.1 |
| Loans repaid | **(1.4)** | – | (5.0) |
| Capital element of finance lease rental repayments | **–** | (0.6) | (0.7) |
| Shares repurchased | **–** | (32.4) | (38.0) |
| Share capital issued | **0.6** | 1.0 | 1.1 |
| **Net cash outflow from financing** | **(0.8)** | (3.2) | (25.5) |

**5.** This interim statement has been prepared in accordance with the guidelines published by the Accounting Standards Board.

**6.** The statement has been prepared applying the accounting policies described in pages 48 and 49 of the 2003 Annual Report and Accounts, and should be read in conjunction with the Report and Accounts.

**7.** The results for the half years to 27 September 2003 and 28 September 2002 are unaudited and do not constitute the Group's statutory accounts.

**8.** The statutory accounts for the year ended 29 March 2003 have been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain a statement under either section 237(2) or 237(3) of the Companies Act 1985.

**9.** This interim statement was approved by the Board on 24 November 2003 and is being posted to all shareholders. Copies are available from the Company Secretary, De La Rue plc, De La Rue House, Jays Close, Viables, Basingstoke, Hampshire RG22 4BS.

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**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 may be found on your share certificate. Shareholders who elect this may vary their instruction or request a paper copy of any shareholder document at any time in the future.

**Internet**
Visit our home page at *www.delarue.com*

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