De La Rue Interim Statement 2004/2005

Just a banknote?

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.

Contents

Trading Summary

	Half Year 2004/2005 £m	Half Year 2003/2004** £m
Sales	318.3	290.1
Profit before tax, exceptional items and goodwill amortisation*	25.8	19.8
Profit before tax	12.0	0.2
Headline earnings per share*	10.1p	8.1p
Earnings per share	2.8p	(2.2)p
Cash inflow from operating activities	39.5	35.0
Net cash at end of period	61.6	13.9
Dividends per share	4.7p	4.4p

*before exceptional charges of £13.1m (2003/2004 £17.9m) and goodwill amortisation of £0.7m (2003/2004 £1.7m).

**restated for the adoption of UITF Abstract 38 (Accounting for ESOP Trusts). This has resulted in an increase in the previously reported operating profit by £0.1m.

Trading Highlights

- Strong half year performance underpinned by the exceptionally strong Currency order book at the beginning of the year
- Continued excellent cash flow generation with a net cash inflow from operating activities of £39.5m (2003/2004 £35.0m) aided by good working capital management. The Group ended the first half with net cash of £61.6m
- An increase in the Interim dividend of 6.8 per cent to 4.7p per share.

Strategic Review

A strategy to deliver enhanced value to shareholders through:

- Simplifying the Group structure
- Focusing De La Rue on businesses where we have a strong competitive advantage
- Lowering the Group’s cost base – annualised cost savings of £8m in Cash Systems targeted from restructuring costs of £17.5m (including severance costs of £14.0m)
- Driving productivity improvement
- Eliminating current year losses in the Sequoia Voting Systems business from 2005/2006 at an anticipated cost of £6.0m (including deferred consideration of £2.0m)
- At the appropriate time, surplus cash to be returned to shareholders.

Directors' Review

A Strategy to Deliver Enhanced Value to Shareholders

The Board is today outlining its strategy to deliver enhanced value to shareholders. The strategic review undertaken in the first half of 2004/2005 has allowed us to define those areas where we have a strong competitive advantage and can simplify the Group. These activities, we believe, can also deliver superior and sustained cash generation. The focus of our activities going forward will be on products and services for which we can establish, or maintain and build upon, our strong competitive position.

Future Strategy

Following the restructuring actions identified below, De La Rue will comprise two principal areas of activity, Security Paper and Print and Cash Systems, with strong market positions and attractive cash generation characteristics. The Group's principal efforts will be in generating organic growth and operational improvements.

It is the Board's intention that surplus cash will be returned to shareholders through a combination of progressive dividends and, at the appropriate time, capital returns.

Outcome of the Strategic Review

The Board's principal conclusions and the consequent future strategic focus of the Group's activities are summarised below:

- Build on the Currency business – by maintaining its market leadership position through selective investment in R&D. The Currency business, while mature, provides attractive returns, is cash generative and has a strong competitive position
- Continue to improve the quality of earnings in Security Products – following the consolidation of the business around a core manufacturing base and high value added products, the Board believes there is further potential to develop this business. The focus will be on the authentication labels, passport and fiscal stamps markets and a broadening of the current customer base
- Support and develop strong position in Teller Automation – De La Rue has a strong market position as the global market leader in Teller Automation products serving the retail bank sector. The Board believes there is further potential to develop this business through a greater focus on the key growth markets, particularly North America, together with driving further operational productivity improvements
- Revitalise the Sorter business – there are attractive segments of this market where De La Rue can compete successfully and which complement the Group's Currency operations
- Optimising earnings for the OEM Mechanisms and Desktop Products businesses – through the rationalisation of the manufacturing capacity and optimising the supply chain.

In line with this strategy the Board is today announcing the following immediate actions:

A streamlining of Cash Systems

- Removing a layer of management
- Implement a simplified organisation structure
- A cessation of trials/support to large retail stores
- A phased exit from Portsmouth UK manufacturing site by 2006
- Implementation of a cost reduction programme – annualised cost savings of approximately £8m are targeted from cash restructuring costs in the order of £17.5m (primarily severance costs of £14.0m) from 350 redundancies, subject to employee consultation
- The majority of the costs are anticipated to be charged in the second half of 2004/2005 and are expected to be incurred over the next 18 months.

In addition to the cash costs identified above, the goodwill of £11.5m relating to the acquisition of the Portuguese ATM business, acquired from Papelaco in 2002, has been written off in the first half. This arises from an anticipated loss of a significant portion of service revenue in 2005/2006 following a recent tender from a key customer. Steps will now be taken to ensure the business trades at broadly a break even position in 2005/2006 and the costs associated with these actions are included in the restructuring costs outlined above.

Eliminate Sequoia Voting Systems Losses by Financial Year End

- The Board has decided to exit the Sequoia business by the year end 2004/2005, which will be achieved either through a sale or a significant repositioning and downsizing of its activities.
- Total costs of £6.0m are anticipated to be charged in the second half. This includes an amount for the acquisition of the remaining 15 per cent of the business from Jefferson Smurfit Group Ltd in accordance with the original purchase agreement. These proposals are subject to employee consultation, which has now begun. In the event a sale is not successfully completed, the operating losses in Sequoia are expected to be substantially eliminated from 2005/2006.

Group Actions

In addition to the immediate actions announced today, steps are being taken to simplify De La Rue’s structure and to further invigorate management throughout the Group. In particular:

- Accountability for business units will be clearly defined;
- Productivity improvements will become an area of key focus; and
- Controls over working capital and capital expenditure will be further emphasised.

Directors' Review continued

Group Results

Turnover increased by 9.7 per cent from £290.1m to £318.3m and profit before tax, exceptional items and goodwill amortisation was also strongly ahead at £25.8m* (2003/2004: £19.8m*). The excellent first half result shows the benefit of an exceptional opening order book in Currency and, importantly, the benefits of previous reorganisation programmes.

Headline earnings per share increased by 2.0p to 10.1p. Basic earnings per share were 2.8p compared with a loss per share of 2.2p last year.

An excellent first half in Currency was the key contributor to the strong operating result in the Security Paper and Print activities, where operating profits (before exceptional income of £0.4m and goodwill amortisation credit of £0.3m) were up £7.1m to £20.9m. This was primarily due to the benefit from the unwinding of an exceptionally good Currency order book at the beginning of the year. The business goes into the second half with a strong order book in both papermaking and print. The successful implementation of the rationalisation programme in the Security Print business, initiated last year and now largely complete, coupled with strong volumes of authentication labels and fiscal stamps also contributed to a significantly improved first half performance in the Security Products business.

In Cash Systems, first half revenues of £142.0m and operating profit of £2.4m** were in line with our expectations and last year. The impact of foreign exchange, in particular a weakening US Dollar, had a negative impact of £3m on operating profit compared to the first half of 2003/2004. The result reflected good teller automation volumes in the first half, offset by lower than anticipated large sorter volumes. Overall, revenues continue to reflect low growth outside North America, but cost reduction and productivity benefits are expected to make an impact on bottom line margins in the second half. We are announcing today a reorganisation of the division, which will result in a lower cost base and a clear focus on those profitable products and services.

Cash flow remains a key strength of the Group with a net cash inflow from operating activities of £39.5m representing a further improvement on the good performance achieved in the first half of last year (2003/2004: £35.0m) and reflecting increased profits and improved working capital management, principally debtors and stock. The unusually high level of customer advance payments did not unwind as quickly as had been anticipated and was at £33.6m compared to £33.1m at the start of the year. This is now expected to return to more historical trading levels over the course of the second half. The Group ended the half-year with net cash of £61.6m, compared with net cash of £41.1m at the start of the year.

*before exceptional charges of £13.1m (2003/2004 £17.9m) and goodwill amortisation of £0.7m (2003/2004 £1.7m)
**before exceptional charges of £13.5m and goodwill amortisation of £1.0m

Dividend

In line with the Group's progressive dividend policy and the Board's continued confidence in the cash generation of the business, an increased interim dividend of 4.7p will be paid on 19 January 2005 to shareholders on the register on 17 December 2004, representing an increase of 6.8 per cent on the interim 2003/2004.

Board Changes

As previously announced, Nicholas Brookes succeeded Sir Brandon Gough as non-executive Chairman after the Annual General Meeting on 22 July 2004. Leo Quinn was appointed as Group Chief Executive on 31 May 2004. In addition, following these changes, Michael Jeffries became Chairman of the Remuneration Committee and the Company's senior independent non-executive director.

UK Pension Scheme

The Group accounts for pensions in accordance with SSAP24. The charge in the first half of this year was £5.4m compared with £5.0m in 2003/2004.

As previously announced, the Company is introducing a series of structural changes to the UK Pension Scheme. This includes a revised investment strategy to increase progressively the proportion of Scheme investments in bonds. The Company closed the final salary section of the Scheme to new entrants from 1 July 2004. Company contribution rates were 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, with Company cash contributions reducing accordingly. In addition, the Company made a lump sum contribution to the Pension Scheme of £6.5m in 2003/2004.

We believe that these actions 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 on an ongoing actuarial basis.

Security Paper and Print	2004/2005 Half Year £m	2003/2004 Half Year £m	2003/2004 Full Year £m
Sales	167.8	130.0	335.7
Operating profit*	20.9	13.8	42.4

*before exceptional income of £0.4m (2003/2004 £(0.8)m and goodwill amortisation credit of £0.3m (2003/2004 £0.2m).

Directors' Review continued

Currency

Operating profits in the Currency business were significantly ahead of the equivalent period last year, driven by a 51 per cent increase in banknote volumes. This reflected the strong order book, with which the banknote business began the financial year and a continued high level of overspill activity. The high order book reflected a backlog of orders arising from the processing of the exceptional Iraq contract during the second half of last year. The banknote paper business, which benefited significantly during the first half of last year from the Iraq order, in contrast had a weaker first half in the current year, volumes down 11 per cent and some pressure on input prices.

Responsibility for the De La Rue Tapes business located in West Houghton, UK, was transferred to Currency division in April 2004. The trading name has been changed to De La Rue Security Threads to reflect the new strategic emphasis on threads for currency and high security documents. The business has exited its non-security markets over the past six months. The former Bank of England printing works at Debden continues to perform in line with our expectations. After the initial integration and restructuring phase, the focus is now on driving operational performance while continuing to meet the Bank of England's banknote requirements.

The Currency business enters the second half with a good order book, particularly in banknotes where there has been a steady order input to the business in the first half. The business therefore has good visibility for the second half and anticipates a performance in line with historic phasing, but well down on last year's exceptional second half result.

Security Products

The key actions announced in November 2003, are now largely complete. The closure of the Peterborough cheque printing operation was completed during the first half and the closure of the Byfleet site is on course to complete before the end of the calendar year. Operational cost savings and a focus on higher margin products are now starting to show through and, together with strong volumes of authentication labels and fiscal stamps and passports, resulted in a year on year improvement in Security Products performance at the half year.

Cash Systems	2004/2005 Half Year £m	2003/2004 Half Year £m	2003/2004 Full Year £m
Sales	142.0	142.2	302.6
Operating profit*	2.4	2.2	8.8

*before exceptional items of £13.5m (2003/2004 £1.9m) and goodwill amortisation of £1.0m (2003/2004 £1.6m)

In Cash Systems, first half revenues of £142.0m were in line with last year. Operating profits of £2.4m (before exceptional charges of £13.5m and goodwill amortisation of £1.0m) were marginally ahead of last year's result of £2.2m and in line with our expectations. This primarily reflected savings from the ongoing cost reductions and was achieved despite the negative impact of foreign exchange on operating profit, which was £3m higher in the first half compared with 2003/2004. Divisional revenues continue to reflect low growth outside North America, but cost reduction and productivity benefits are expected to make a positive impact on bottom line margins in the second half. Delays in ordering decisions for several major projects by commercial banks affected volumes in the sorter business. The OEM, Desktop Products and service businesses performed in line with our expectations. We are announcing today a major reorganisation of the division, which will result in a lower cost base and a clear focus on profitable products and services.

Sequoia Voting Systems

	2004/2005 Half Year £m	2003/2004 Half Year £m	2003/2004 Full Year £m
Sales	8.5	17.9	44.2
Operating loss*	(2.7)	(1.7)	(1.9)

*before exceptional items of £nil (2003/2004: £12.6m) and goodwill amortisation of £nil (2003/2004 : £0.3m)

As expected, the Sequoia Voting Systems business saw significantly reduced sales volumes in the run up to the US Presidential Election on 2 November 2004. Consequently, the business reported a first half operating loss of £2.7m reflecting the lower sales volumes and the need to provide higher levels of support to our customers during the November election process. However, the loss was smaller than the Board had anticipated at the start of the year, and reflects tighter cost control across the business.

Associates

Profit from associates before interest and tax was £4.2m in the first half of 2003/2004 compared with £5.6m in the prior period. The main associated company is Camelot, the UK lottery operator, which reported an improved sales performance up 5 per cent on the previous half year, reflecting the introduction of new games and sales channels. Profits were lower due to the phasing of marketing expenditure in 2003/2004.

Interest

The Group's net interest income of £1.0m reflected the Group's strong cash position and compared with a net charge of £0.1m last year.

Taxation

The underlying effective tax rate excluding exceptional items and goodwill amortisation was 27.4 per cent (2003/04: 26.0 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	Cash £m	Non Cash £m	Total £m
Reorganisation costs – Cash Systems	2.0	–	2.0
Income from investment previously impaired	(0.4)	–	(0.4)
Goodwill impairment – Portuguese ATM business	–	11.5	11.5
Exceptional pre-tax costs	1.6	11.5	13.1

Cash Flow

The net cash inflow from operating activities was £39.5m in the first half, compared with £35.0m in the first half of 2003/04 due to increased profits and favourable working capital movements. Capital expenditure of £8.7m was £4.4m lower than last year.

During the first half the Company completed the disposal of the freehold of its High Wycombe facility in the UK. This follows the previously announced restructuring of manufacturing facilities in Security Products, as a result of which the company ceased production at the site last year. The net proceeds, including the sale of a small amount of land at Overton also completed in the first half, were £6.2m in cash and serve to reduce the net cost of the restructuring programme.

The overall net cash flow was positive by £20.5m (2003/2004: £5.7m inflow), resulting in closing net cash of £61.6m at the end of the period compared with £13.9m net cash at the end of the first half of last year, and £41.1m at the start of the year.

Outlook

Given the strong first half and good visibility in our principal markets the Board remains confident of the full year outlook for the Group.

Nick Brookes
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, Reconciliation of movements in shareholders' funds and associated notes to the interim statement. 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.

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 25 September 2004.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
02 December 2004

Notes

(a) 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.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Group Profit and Loss Account

For the half year ended 25 September 2004

	Notes	2004/2005 Half Year £m	2003/2004 (restated) Half Year £m	2003/2004 Full Year £m
Turnover				
Continuing operations	1	318.3	290.1	682.5
Operating profit				
Continuing operations	1	20.6	14.3	49.3
– Exceptional costs	2	(2.0)	(2.7)	(15.2)
– Income from investments previously impaired	2	0.4	–	–
Operating profit before goodwill amortisation		19.0	11.6	34.1
Goodwill amortisation				
– Exceptional costs	2	(11.5)	(12.6)	(18.7)
– Other		(0.7)	(1.7)	(2.5)
Group operating profit/(loss)	1	6.8	(2.7)	12.9
Share of profits of associated companies		4.2	5.6	10.0
Total operating profit		11.0	2.9	22.9
(Loss)/profit on disposal of fixed assets	2	–	(2.6)	0.2
Profit on ordinary activities before interest		11.0	0.3	23.1
Net interest: Group		1.0	(0.2)	(0.6)
Associates		–	0.1	–
		1.0	(0.1)	(0.6)
Profit on ordinary activities before taxation		12.0	0.2	22.5
Tax on profit on ordinary activities		(6.3)	(3.7)	(10.0)
Profit/(loss) on ordinary activities after taxation		5.7	(3.5)	12.5
Equity minority interests		(0.8)	(0.3)	(0.4)
Profit/(loss) for the period		4.9	(3.8)	12.1
Dividends		(8.4)	(7.5)	(24.8)
Transferred from reserves		(3.5)	(11.3)	(12.7)
Earnings per ordinary share	3	2.8p	(2.2)p	6.8p
Diluted earnings per ordinary share		2.8p	(2.2)p	6.8p
Headline earnings per ordinary share before exceptional items & goodwill amortisation	3	10.1p	8.1p	24.2p
Dividends per ordinary share		4.7p	4.4p	14.2p

Group Balance Sheet

At 25 September 2004

	2004/2005 Half Year £m	2003/2004 (restated) Half Year £m	2003/2004 Full Year £m
Fixed assets			
Intangible assets	16.4	36.1	28.2
Tangible assets	160.2	164.5	164.4
Investments: Associates	13.5	13.9	13.2
Other investments	0.2	0.2	0.2
	190.3	214.7	206.0
Current assets			
Stocks	96.5	112.1	99.7
Debtors	96.0	118.7	116.6
Deferred taxation	35.2	31.1	33.1
Cash at bank and in hand	101.9	57.3	85.5
	329.6	319.2	334.9
Creditors: amounts falling due within one year			
Short-term borrowings	(5.3)	(2.1)	(8.3)
Other creditors	(200.8)	(227.2)	(214.5)
Net current assets	123.5	89.9	112.1
Total assets less current liabilities	313.8	304.6	318.1
Creditors: amounts falling due after more than one year			
Long-term borrowings	(35.0)	(41.3)	(36.1)
Other creditors	(11.0)	(0.5)	(13.6)
Provisions for liabilities and charges	(50.7)	(44.7)	(50.8)
	217.1	218.1	217.6
Capital and reserves			
Called up share capital	45.8	45.5	45.8
Share premium account	14.8	13.0	14.6
Revaluation reserve	1.8	1.8	1.8
Capital redemption reserve	3.5	3.5	3.5
Other reserve	(83.8)	(83.8)	(83.8)
Profit and loss account	230.8	234.4	232.2
Shareholders' funds	212.9	214.4	214.1
Equity minority interests	4.2	3.7	3.5
	217.1	218.1	217.6

Group Cash Flow Statement

For the half year ended 25 September 2004

	Notes	2004/2005 Half Year £m	2003/2004 Half Year £m	2003/2004 Full Year £m
Net cash inflow from operating activities	4a	39.5	35.0	92.1
Dividends received from associated companies		2.7	3.5	7.2
Returns on investments and servicing of finance	4b	0.5	(0.1)	(1.5)
Taxation		(3.7)	(0.5)	(11.2)
Capital expenditure and financial investment	4c	(1.4)	(13.5)	(31.8)
Acquisitions and disposals	4d	–	(4.9)	(5.1)
Equity dividends paid		(17.4)	(16.2)	(24.1)
Net cash inflow before use of liquid resources and financing		20.2	3.3	25.6
Management of liquid resources	4e	(17.2)	(1.2)	(30.3)
Financing	4f	(5.8)	(0.8)	7.6
(Decrease)/increase in cash in the period		(2.8)	1.3	2.9

	2004/2005 Half Year £m	2003/2004 Half Year £m	2003/2004 Full Year £m
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the period	(2.8)	1.3	2.9
Cash outflow from increase in liquid resources	17.2	1.2	30.3
Cash outflow/(inflow) from decrease/(increase) in debt	6.0	1.4	(5.1)
Change in net funds resulting from cash flows	20.4	3.9	28.1
Translation difference	0.1	1.8	4.8
Movement in net cash in the period	20.5	5.7	32.9
Net funds at start of period	41.1	8.2	8.2
Net funds at end of period	61.6	13.9	41.1

	2004/2005 Half Year £m	2003/2004 Half Year £m	2003/2004 Full Year £m
Analysis of net funds			
Cash	27.2	28.8	28.0
Liquid resources	74.7	28.5	57.5
Overdrafts	(2.4)	(2.1)	(1.0)
Other debt due within one year	(2.9)	–	(7.3)
Other debt due after one year	(35.0)	(41.3)	(36.1)
Net funds at end of period	61.6	13.9	41.1

Group Statement of Total Recognised Gains and Losses

For the half year ended 25 September 2004

	2004/2005 Half Year £m	2003/2004 (restated) Half Year £m	2003/2004 Full Year £m
Profit/(loss) for the period: Group	2.0	(8.3)	5.0
Associates	2.9	4.5	7.1
	4.9	(3.8)	12.1
Currency translation differences on foreign currency net investments	2.1	0.3	(0.5)
Total recognised gains/(losses) for the period	7.0	(3.5)	11.6
Prior year adjustment	–	–	0.6
Total recognised gains/(losses) since last annual report	7.0	(3.5)	12.2

Reconciliation of Movements in Shareholders' Funds

For the half year ended 25 September 2004

	2004/2005 Half Year £m	2003/2004 (restated) Half Year £m	2003/2004 Full Year £m
Profit/(loss) for the period	4.9	(3.8)	12.1
Dividends	(8.4)	(7.5)	(24.8)
	(3.5)	(11.3)	(12.7)
Share capital issued	0.2	0.6	2.5
Currency translation differences on foreign currency net investments	2.1	0.3	(0.5)
Net decrease in shareholders' funds	(1.2)	(10.4)	(10.7)
Opening shareholders' funds	214.1	224.8	224.8
Closing shareholders' funds	212.9	214.4	214.1

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

The Group adopted the requirements of the Urgent Issues Task Force Abstract 38 in the financial statements for the year ended 27 March 2004 and own shares held by the De La Rue employee share ownership trusts were reclassified from fixed asset investments to a reduction in shareholders' funds. Prior half year comparatives have been restated to reflect the change of accounting policy, leading to an increase in the previously reported operating profit for the period ended 27 September 2003 by £0.1m.

Notes to the Interim Statement

1. Segmental analysis

		2004/2005 Half Year £m	2003/2004 (restated) Half Year £m	2003/2004 (restated) Full Year £m
Turnover by class of business				
Continuing operations	Cash Systems	142.0	142.2	302.6
	Security Paper and Print	167.8	130.0	335.7
	Voting Systems	8.5	17.9	44.2
		318.3	290.1	682.5
Operating profit/(loss) by class of business				
Continuing operations	Cash Systems	2.4	2.2	8.8
	Security Paper and Print	20.9	13.8	42.4
	Voting Systems	(2.7)	(1.7)	(1.9)
		20.6	14.3	49.3
– Reorganisation costs	Cash Systems	(2.0)	(1.9)	(5.2)
	Security Paper and Print	–	(0.8)	(10.0)
		(2.0)	(2.7)	(15.2)
– Income from investments previously impaired	Security Paper and Print	0.4	–	–
		19.0	11.6	34.1
Goodwill amortisation	Cash Systems	(12.5)	(1.6)	(8.7)
	Security Paper and Print	0.3	0.2	0.5
	Voting Systems	–	(12.9)	(13.0)
		(12.2)	(14.3)	(21.2)
		6.8	(2.7)	12.9

1. Segmental analysis continued

	2004/2005 Half Year £m	2003/2004 (restated) Half Year £m	2003/2004 (restated) Full Year £m
Turnover by geographical area of operation			
United Kingdom and Ireland	198.4	161.8	406.1
Rest of Europe	116.3	112.9	232.8
The Americas	66.3	77.1	161.8
Rest of world	22.8	14.3	39.3
Less inter-area sales	(85.5)	(76.0)	(157.5)
	318.3	290.1	682.5
Operating profit/(loss) by geographical area of operation			
United Kingdom and Ireland	6.0	(3.8)	9.7
Rest of Europe	1.5	13.9	20.7
The Americas	(2.4)	(11.7)	(18.3)
Rest of world	1.7	(1.1)	0.8
	6.8	(2.7)	12.9
Turnover by geographical area of destination			
United Kingdom and Ireland	35.4	41.4	83.1
Rest of Europe	88.3	84.4	179.0
The Americas	81.1	79.9	178.9
Rest of world	113.5	84.4	241.5
	318.3	290.1	682.5

Notes to the Interim Statement continued

2. Exceptional items

	2004/2005 Half Year £m	2003/2004 Half Year £m	2003/2004 Full Year £m
Reorganisation costs – Cash Systems	(2.0)	(1.9)	(5.2)
– Security Products	–	(0.8)	(10.0)
Income from investments previously impaired	0.4	–	–
(Loss)/profit on disposal of fixed assets	–	(2.6)	0.2
Goodwill impairment	(11.5)	(12.6)	(18.7)
	(13.1)	(17.9)	(33.7)

Reorganisation costs in Cash Systems relate to restructuring of the retail business.

Income from investments relates to a £0.4m loan repayment from the Group's associate holding in Valora.

As a result of reassessment of future prospects, the carrying value of the goodwill relating to De La Rue Systems – Automatizacao S.A. has been impaired by an exceptional charge of £11.5m.

3. Reconciliation of earnings per share

	2004/2005 Half Year pence per share	2003/2004 Half Year pence per share	2003/2004 Full Year pence per share
As calculated under FRS 14	2.8	(2.2)	6.8
Income from investment previously impaired	(0.2)	–	–
Profit on disposal of fixed assets and assets held for resale	–	1.3	(0.1)
Amortisation of goodwill	6.6	7.9	11.7
Headline earnings per share as defined by the IIMR	9.2	7.0	18.4
Reorganisation costs	0.9	1.1	5.8
Headline earnings per share before items above	10.1	8.1	24.2

The earnings per share of 2.8p as calculated under FRS 14 is the £4.9m profit for the period divided by the average number of shares in issue (178,051,608). The prior year adjustment described before has not changed the prior half year earnings per share figure.

4. Notes to Group cash flow statement

	2004/2005 Half Year £m	2003/2004 (restated) Half Year £m	2003/2004 Full Year £m
a Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit/(loss)	6.8	(2.7)	12.9
Depreciation and amortisation	24.8	26.7	45.3
Decrease/(increase) in stocks	3.5	(11.3)	(3.8)
Decrease in debtors	14.6	0.6	10.2
(Decrease)/increase in creditors	(6.9)	30.5	30.0
Decrease in reorganisation provisions	(2.8)	(8.1)	(2.5)
Other items	(0.5)	(0.7)	–
Net cash inflow from operating activities	39.5	35.0	92.1
b Returns on investments and servicing of finance			
Interest received	2.4	0.8	2.0
Interest paid	(1.6)	(0.9)	(2.4)
Dividends paid to minority shareholders	(0.3)	–	(1.1)
Net cash inflow/(outflow) from returns on investments and servicing of finance	0.5	(0.1)	(1.5)
c Capital expenditure and financial investment			
Purchase of tangible fixed assets	(8.7)	(13.1)	(33.3)
Purchase of intangible fixed assets	–	(0.9)	–
Sale of tangible fixed assets	6.9	0.5	1.5
Income from investments	0.4	–	–
Net cash outflow for capital expenditure and financial investment	(1.4)	(13.5)	(31.8)
d Acquisitions and disposals			
Purchase of subsidiary undertakings	–	(9.3)	(0.9)
Net (overdraft)/cash acquired with subsidiary undertakings	–	(1.2)	(9.8)
Sale of subsidiary undertakings	–	6.4	6.4
Net cash sold with subsidiary undertaking	–	(0.8)	(0.8)
Net cash outflow for acquisitions and disposals	–	(4.9)	(5.1)

Notes to the Interim Statement continued

4. Notes to Group cash flow statement continued

	2004/2005 Half Year £m	2003/2004 (restated) Half Year £m	2003/2004 Full Year £m
e Management of liquid resources			
Net increase in short-term deposits	(17.2)	(1.2)	(30.3)
f Financing			
Debt due within one year:			
Loans raised	–	–	7.9
Loans repaid	(3.9)	–	–
Debt due beyond one year:			
Loans raised	0.1	–	17.1
Loans repaid	–	(1.4)	(19.0)
Capital element of finance lease rental repayments	(2.2)	–	(0.9)
Share capital issued	0.2	0.6	2.5
Net cash (outflow)/inflow from financing	(5.8)	(0.8)	7.6

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 42 and 43 of the 2004 Annual Report and Accounts, and should be read in conjunction with the Report and Accounts.

7. The results for the half years to 25 September 2004 and 27 September 2003 are unaudited and do not constitute the Group's statutory accounts.

8. The statutory accounts for the year ended 27 March 2004 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 1 December 2004 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.

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