Focus on delivery
Interim Statement 2005/2006

DeLaRue

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Since December 2004, the Group has been focused on delivering a programme of transformation underpinned by a consistent set of core strategies, strong leadership and operational excellence. The key management focus has been to ensure the successful execution of our plans through:

// Simplifying the Group's structure
// Focusing De La Rue on businesses where we have a strong competitive advantage
// Driving productivity improvement
// A focus on cash generation and the return of surplus cash to shareholders

We believe these actions will provide the cornerstones to delivering high levels of customer satisfaction and attractive financial returns to our shareholders.

Trading Summary

	Half Year 2005/2006	Half Year 2004/2005	Change
Continuing Operations			
Sales	**£290.7m**	£309.8m	**–6.2%**
Profit before tax and exceptional items*	**£30.6m**	£28.8m	**+6.3%**
Profit before tax	**£27.6m**	£15.7m	**+75.8%**
Group headline earnings per share*	**11.8p**	10.6p	**+11.3%**
Group earnings per share	**10.6p**	3.6p	
Group cash inflow from operating activities	**£46.5m**	£40.8m	**+14.0%**
Net cash at end of period	**£61.6m**	£61.6m	
Dividends per share	**5.2p**	4.7p	**+10.6%**

* Before exceptional charges of £3.0m (2004/2005 : £13.1m)

Trading Highlights

// Profit before tax and exceptional items from continuing operations was up 6.3 per cent to £30.6m* (2004/2005 : £28.8m), primarily arising from restructuring benefits and productivity improvements which more than offset a return to more historic banknote volumes.

// Operating margins improved by 1.6 per cent to 9.4 per cent (2004/2005 : 7.8 per cent).

// Strong cash generation. Net cash inflow from operating activities of £46.5m (2004/2005 : £40.8m) aided by good working capital management.

// £67.8m capital return completed on 1 August 2005 through a special dividend accompanied by a corresponding share consolidation.

// Increase in the interim dividend of 10.6 per cent to 5.2p per share.

// As a result of the continued strong funding position of the Company, the Board is announcing today plans to use surplus cash, within its existing authority, to purchase the Company's own shares for cancellation.

Directors' review

Group Results

De La Rue is pleased to report a strong performance for the half year ended 24 September 2005. Profit before tax and exceptional items from continuing operations was up 6.3 per cent to £30.6m* (2004/2005 : £28.8m). The result was achieved from a combination of a more favourable customer mix and the benefits from restructuring activities and productivity improvements currently being implemented across the Group. This more than offset a return of banknote volumes to more historical levels in the first half, following exceptional volumes in the corresponding period last year. After charging exceptional items, profit before tax on continuing activities was £27.6m (2004/2005 : £15.7m).

The Group also benefited from the elimination of losses from the disposal of Sequoia Voting Systems (2004/2005 : first half loss of £2.7m) which was sold in March last year.

Headline earnings per share increased by 11.3 per cent to 11.8p. Basic earnings per share were 10.6p compared with 3.6p last year.

Cash flow remains a key strength of the Group. Net cash inflow from operating activities of £46.5m represented a further improvement on the performance achieved in the first half of last year (2004/2005 : £40.8m) and reflected increased profits and improvements in working capital. The Group ended the half-year with net cash of £61.6m, compared with net cash of £106.5m at the start of the year. This was achieved despite payment in the first half of the special dividend and the 2004/2005 final dividend which together totalled £86.9m.

Returns to Shareholders

Interim Dividend

In line with the Board's continued confidence in the cash generation characteristics of the business, an interim dividend of 5.2p, representing an increase of 10.6 per cent on the interim 2004/2005, will be paid on 18 January 2006 to shareholders on the register on 16 December 2005.

Share Buy Back

As a consequence of the Group's strong funding position the Board has decided to use the existing authorities granted to it at the 2005 Extraordinary General Meeting (EGM) to use surplus cash to purchase the Company's own shares for cancellation. The upper limit of the Board's existing authority is 14.99 per cent of issued capital. The exact amount and timing of purchases will be dependent on market conditions and ongoing cash generation.

Special Dividend

De La Rue completed the return of £67.8m to shareholders on 1 August 2005, equivalent to 38.0p per share, through a special dividend accompanied by a corresponding share consolidation. The capital return was consistent with the Board's strategy to return surplus cash to shareholders.

* Before exceptional charges of £3.0m (2004/2005 : £13.1m)

Operating Reviews

Security Paper and Print

	2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Sales	**149.7**	167.8	317.9
Operating profit*	**21.1**	21.2	45.4
Operating profit margin	**14.1%**	12.6%	14.3%

* Before exceptional income of £0.4m (2004/2005 : income of £0.4m).

Underlying operating profits for the Security Paper and Print division of £21.1m were in line with last year (2004/2005 : £21.2m)*.

During the first half banknote volumes decreased by 25 per cent (2004/2005: increase of 42 per cent), in part reflecting lower overspill levels at 21 per cent compared to 28 per cent from the corresponding period last year. This was partially offset by margin improvements arising from more favourable customer mix, principally in banknote paper and Security Threads, together with productivity improvements.

In addition, authentication labels, fiscal stamps and passports performed well during the first half where the division continued to benefit from a focus on higher margin products and a lower cost base achieved through the restructuring actions completed last year.

Cash Systems

	2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Sales	**141.0**	142.0	302.2
Operating profit*	**6.2**	2.9	9.4
Operating profit margin	**4.4%**	2.0%	3.1%

* Before exceptional items of £3.4m (2004/2005 : £13.5m)

In Cash Systems, first half revenues of £141.0m were in line with last year and operating profits of £6.2m* were ahead of last year (2004/2005 : £2.9m). Foreign exchange effects were £2.2m favourable on sales and £0.7m adverse on operating profits. Improved trading margins included £2.0m savings from restructuring and the one-off benefit of £0.6m from the settlement of an outstanding customer dispute, previously fully provided.

Teller Cash Recycler volumes were up on the same period last year driven principally by continued growth in North America. This offset the decline of volumes of the mature Teller Cash Dispensers market, particularly in Europe. The Sorter business continued to be affected by the competitive environment and our focus remains on achieving operational improvements and targeting the emerging markets in Russia, India and China. The OEM (ATM mechanisms) and Desktop Products businesses had a good first half with strong volume growth benefiting from the pull forward of orders associated with outsourcing of manufacturing to China.

Restructuring Update

In Cash Systems, the major focus continues to be the implementation of the manufacturing rationalisation outlined in December 2004. Closure of both the Portsmouth (UK) and Eskilstuna (Sweden) manufacturing facilities and associated relocation of manufacturing to lower cost economies is on schedule. We continue to adopt a cautious approach in the execution of the programme to ensure continuity of supply of products to our customers. We expect to complete the closure of the Portsmouth facility by the end of 2005/2006 and Eskilstuna during the first half of 2006/2007.

As previously announced, these actions will result in annualised cost savings of approximately £9m by the end of 2006/2007 from total restructuring costs of £18.5m, in line with our previously announced expectations. Of the total headcount reduction of 480 arising from these actions, to date, 230 people have left the business.

International Financial Reporting Standards (IFRS)

De La Rue plc is today publishing its results under IFRS for the half year ended 24 September 2005. All comparatives have been appropriately restated. A full report, which contains detailed explanations of the IFRS and UK GAAP numbers and discusses the impact of the adoption of IFRS on De La Rue, was published in July 2005 and is available on the Company's website, www.delarue.com. The notes to the attached financial statements reconcile the previously reported UK GAAP results to the restated position in accordance with IFRS for the opening balance sheet at 27 March 2004, the unaudited results for the six months ended 25 September 2004 under IFRS as well as the unaudited financial position for the year ended 26 March 2005.

As outlined in the report, the adoption of IFRS in the Group accounts represents an accounting change only and will not affect the operations or cash flows of the Group. The principal areas of impact are in relation to Pensions accounting (IAS 19), Research and Development costs (IAS 38) and share option accounting (IFRS 2). The Group has adopted IAS 39 (Financial Instruments: Recognition and Measurement) from 27 March 2005 and adjustments to prior periods do not include any effects of that standard.

UK Pension Scheme

The Group accounts for pensions in accordance with IAS 19 as set out in the attached note of accounting policies. The charge to operating profit in respect of the UK pension scheme for the first half of 2005/2006 was £4.8m (2004/2005 : £5.4m). In addition, under IAS 19 there is a finance charge of £0.7m arising from the interest liabilities less the expected return on assets (2004/2005 : £0.8m credit). The pension deficit, net of deferred tax assets, recorded under IAS 19 at the half-year was £92.6m (March 2005 : £84.7m). The increase was primarily due to a change in the discount rate from 5.5 per cent to 5 per cent in line with the movement of the AA corporate bond rate.

Associates

Profit from associates after tax was at the same level of the last half-year at £2.9m in the period. The main associated company is Camelot, the UK lottery operator.

Interest

The Group's net interest income of £1.1m (2004/2005 : £1.0m) reflected the strong cash position. In addition a charge of £0.7m has been made for the pension scheme as noted above (2004/2005 : £0.8m credit).

Taxation

The underlying effective tax rate excluding exceptional items was 29.4 per cent (2004/2005 full year : 26.4 per cent). This increase in the effective rate arises from a combination of changes to the country origin of profits and the release last year of tax provisions relating to settlement of prior year issues. We expect that, in the absence of unforeseen events, the tax rate for the full year will remain at a similar level.

Exceptional Items

	£m
Reorganisation Costs – Cash Systems	(4.2)
Income from investment previously impaired	0.4
Income from disposal of investment	0.8
Exceptional pre-tax costs	(3.0)

Reorganisation costs in Cash Systems relate to the fundamental restructuring of the business which commenced during 2004/2005. A charge of £14.3m was taken in the second half of 2004/2005 with a further charge of £4.2m booked in the first half of 2005/2006.

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

Profit from disposal of investments arises from the sale of the Group's stake in a small distributor in South Africa.

Cash Flow

The net cash inflow from operating activities in the first half was £46.5m (2004/2005 : £40.8m) as a result of the rise in operating profits and the successful drive to reduce working capital. The positive working capital flows were primarily due to an increase in advance payments and improved trade creditor terms. This was offset in part by expected higher inventory levels due our supply chain strategy in relation to a build up of buffer stocks as a consequence of the restructuring activities in Cash Systems. Inventory levels should reduce as these activities are completed. Capital expenditure of £9.7m was £1.0m higher than last year (2004/2005 : £8.7m).

After payment in the first half of the special dividend (£67.8m) and the 2004/2005 final dividend (£19.1m), closing net cash was £61.6m compared with £106.5m at last year end.

Outlook

As previously indicated, trading in the second half is not expected to benefit from the high levels of banknote overspill and favourable customer mix experienced in the second half of 2004/2005. However, given the strong first half, good visibility in our principal markets and the benefits from ongoing restructuring activities, the Board's expectations for the year as a whole remain unchanged.

Nicholas K Brookes

Nicholas Brookes Chairman

Independent review report to De La Rue plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 24 September 2005 which comprises the Group income statement, the Group balance sheet, Group cash flow statement, Group statement of total recognised income and expense and 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.

As disclosed in the accounting policies note, the next annual financial statements of the Group will be prepared in accordance with accounting standards adopted for use in the European Union. This interim report has been prepared in accordance with the basis of preparation and accounting policies stated in the interim report.

The accounting policies are consistent with those that the Directors intend to use in the next annual financial statements. As explained in the basis of preparation, there is, however, a possibility that the Directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with accounting standards adopted for use in the European Union. The IFRS standards and IFRIC interpretations that will be applicable and adopted for use in the European Union at 25 March 2006 are not known with certainty at the time of preparing this interim financial information.

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 disclosed accounting policies have been applied. 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 and therefore provides a lower level of assurance. 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 24 September 2005.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
29 November 2005

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 income statement – unaudited

For the half year ended 24 September 2005

	Notes	2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Continuing operations				
Revenue	4	**290.7**	309.8	620.1
Operating profit before exceptional items		**27.3**	24.1	54.8
– Exceptional costs	6	**(4.2)**	(13.5)	(25.0)
– Income from investments	6	**1.2**	0.4	0.4
		(3.0)	(13.1)	(24.6)
Operating profit from continuing operations	4	**24.3**	11.0	30.2
Share of profits of associated companies after taxation		**2.9**	2.9	6.4
Profit on continuing activities before finance costs		**27.2**	13.9	36.6
Interest expense		**(1.6)**	(1.7)	(3.2)
Interest income		**2.7**	2.7	5.7
Retirement benefit obligation net finance cost		**(0.7)**	0.8	1.5
		0.4	1.8	4.0
Profit on continuing activities before taxation		**27.6**	15.7	40.6
Taxation		**(8.1)**	(6.7)	(12.9)
Profit from continuing operations		**19.5**	9.0	27.7
Discontinued operations	5	**–**	(1.8)	6.9
Profit for the period		**19.5**	7.2	34.6
Profit attributable to minority interests		**0.9**	0.8	1.6
Profit attributable to equity shareholders		**18.6**	6.4	33.0
		19.5	7.2	34.6
Basic earnings per ordinary share	7	**10.6p**	3.6 p	18.5p
Diluted earnings per ordinary share		**10.6p**	3.6 p	18.4p

The directors propose a dividend of 5.2p per share for the half year ended 24 September 2005 which will utilise an estimated £8.5m of shareholders' funds. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 25 March 2006.

Group balance sheet – unaudited

At 24 September 2005

	2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Assets			
Non-current assets			
Property, plant and equipment	**144.0**	155.3	148.7
Intangible assets	**23.8**	22.9	24.0
Investments: Associates	**12.8**	13.5	14.0
Other investments	**0.4**	0.2	0.3
Deferred tax assets	**55.8**	54.7	53.5
Other receivables	**1.4**	0.5	1.1
	238.2	247.1	241.6
Current assets			
Deferred tax assets	**2.0**	4.5	3.6
Inventories	**81.0**	96.5	73.8
Trade and other receivables	**91.6**	95.5	88.7
Derivative financial instruments	**2.6**	–	–
Cash and cash equivalents	**374.3**	101.9	140.7
	551.5	298.4	306.8
Total assets	**789.7**	545.5	548.4
Liabilities			
Current Liabilities			
Trade and other payables	**(164.7)**	(164.6)	(152.1)
Current tax liabilities	**(10.4)**	(12.9)	(10.7)
Borrowings	**(295.3)**	(5.3)	(17.8)
Derivative financial instruments	**(4.2)**	–	–
Other creditors	**(17.3)**	(16.4)	(14.2)
Provisions for liabilities and charges	**(26.8)**	(25.3)	(24.0)
	(518.7)	(224.5)	(218.8)
Non-current liabilities			
Long-term borrowings	**(17.4)**	(35.0)	(16.4)
Deferred tax liabilities	**(1.3)**	(1.4)	(1.4)
Other non-current liabilities	**(17.3)**	(11.0)	(12.8)
Defined benefit pension deficit	**(129.3)**	(109.3)	(119.9)
	(165.3)	(156.7)	(150.5)
Total liabilities	**(684.0)**	(381.2)	(369.3)
Net assets	**105.7**	164.3	179.1
Equity			
Capital and reserves attributable to equity holders			
Called up share capital	**46.2**	45.8	46.1
Share premium account	**19.0**	14.8	17.0
Revaluation reserve	**1.8**	1.8	1.8
Capital redemption reserve	**3.5**	3.5	3.5
Fair value and other reserves	**(1.4)**	–	–
Cumulative translation adjustment	**2.7**	2.1	3.4
Other reserve	**(83.8)**	(83.8)	(83.8)
Retained earnings	**113.7**	175.9	187.4
Total shareholders' funds	**101.7**	160.1	175.4
Equity minority interests	**4.0**	4.2	3.7
Total equity	**105.7**	164.3	179.1

Group cash flow statement – unaudited

For the half year ended 24 September 2005

	Notes	2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Cash flows from operating activities				
Cash generated from operations	9	**46.5**	40.8	98.7
Tax paid		**(0.8)**	(3.7)	(7.6)
Net cash inflow from operating activities		**45.7**	37.1	91.1
Cash flows from investing activities				
Disposal of subsidiary undertaking		**–**	–	7.2
Proceeds from sale of investment		**0.8**	–	–
Acquisition of minority interests		**–**	–	(2.2)
Purchases of property, plant and equipment (PPE) & software intangibles		**(9.7)**	(8.7)	(20.5)
Development assets capitalised		**(0.2)**	(1.3)	(2.6)
Proceeds from sale of PPE		**1.7**	6.9	7.1
Income from investments		**0.4**	0.4	0.4
Interest received		**2.3**	2.4	5.7
Interest paid		**(1.9)**	(1.6)	(3.1)
Dividends received		**4.2**	2.7	5.6
Net cash (outflow)/inflow from investing activities		**(2.4)**	0.8	(2.4)
Net cash inflow before financing activities		**43.3**	37.9	88.7
Cash flows from financing activities				
Proceeds from issue of share capital		**2.1**	0.2	2.7
Increase in borrowings		**2.4**	0.1	3.1
Finance lease principal payments		**(2.1)**	(2.2)	(4.3)
Repayment of borrowings		**(1.1)**	(3.9)	(23.1)
Dividends paid to shareholders		**(86.9)**	(17.4)	(25.8)
Dividends paid to minority interests		**(0.9)**	(0.3)	(0.5)
Net cash outflow from financing activities		**(86.5)**	(23.5)	(47.9)
Net increase in cash and cash equivalents in the period		**(43.2)**	14.4	40.8
Cash and cash equivalents at the beginning of the period		**126.3**	84.5	84.5
Exchange rate effects		**(2.0)**	0.6	1.0
Cash and cash equivalents at the end of the period		**81.1**	99.5	126.3
Cash and cash equivalents consists of:				
Cash and cash equivalents		**374.3**	101.9	140.7
Overdrafts		**(293.2)**	(2.4)	(14.4)
		81.1	99.5	126.3

Group statement of recognised income and expense – unaudited

For the half year ended 24 September 2005

	2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Exchange differences	**(0.7)**	2.1	3.4
Actuarial loss on retirement benefit obligations	**(8.2)**	(11.4)	(22.1)
Tax on actuarial loss on retirement benefit obligations	**2.5**	3.7	6.7
Cash flow hedges	**(1.8)**	–	–
Tax on share options	**0.2**	0.1	0.2
Net loss recognised directly in equity	**(8.0)**	(5.5)	(11.8)
Profit for the financial period	**19.5**	7.2	34.6
Restatement for the effects of IAS 32 and IAS 39	**(0.2)**	–	–
Total recognised income and expense for the period	**11.3**	1.7	22.8

Notes to the interim statement – unaudited

1. Basis of presentation

The unaudited financial information for the half years ending 24 September 2005 and 25 September 2004, and for the full year ending 26 March 2005, has been prepared in accordance with the accounting policies as set out in note 2. These policies reflect the International Financial Reporting Standards and interpretations that are expected to be in effect and endorsed by the EU for the year ended 25 March 2006. However, these standards are subject to ongoing review and may therefore be subject to change either due to the process of EU endorsement, as new or revised standards are issued by the IASB or as interpretations develop and change. The policies assume that the amendments to IAS 19 'Employee Benefit' published in December 2004 by the International Accounting Standards Board, allowing actuarial gains and losses to be recognised in full through reserves, will be endorsed by the EU.

2. Accounting policies

The principal accounting policies adopted in the preparation of this interim financial information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The consolidated accounts have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below.

Transitional arrangements

The consolidated financial statements for the year ended 25 March 2006 will be the Group's first full IFRS statements. The date of transition to IFRS is 27 March 2004. Comparative information at 26 March 2005 and for the year then ended and for the period ended 25 September 2004 has been restated under IFRS, with the exception of IAS 32 and IAS 39. These two standards, which cover the recognition, measurement, disclosure and presentation of financial instruments, have been applied prospectively from 27 March 2005. Prior to this date, financial instruments have been accounted for under UK generally accepted accounting principles.

In addition to the exemption taken not to apply IAS 32 and 39 retrospectively before 27 March 2005, the Group has taken the following optional exemptions contained in IFRS 1 'First-time Adoption of International Financial Reporting Standards' in preparing the Group's balance sheet on transition to IFRS:

// IFRS 3 'Business Combinations' has been applied prospectively from 27 March 2004 and consequently, acquisitions prior to the date of transition to IFRS have not been restated.

// Cumulative translation differences on net investments in foreign subsidiaries have been set at zero at the date of transition to IFRS.

// The Group's policy for share-based payments has been applied to options granted after 7 November 2002 and not vested by 1 January 2005.

The Group has chosen to adopt early the amendment to IAS 19 'Employee Benefits' issued by the IASB on 16 December 2004 which permits the recognition of annual actuarial gains and losses in full outside of the income statement in the statement of recognised income and expense.

The reconciliations of total equity and reserves and income from UK GAAP to IFRS as required by IFRS 1 are set out in note 13 to this report.

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 interim financial information to 24 September except for certain associated companies and one subsidiary whose year end is 30 June. In the case of the subsidiary, whose financial statements are made up to 30 June, results for the period to 24 September 2005 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 consolidated profit and loss account. Its interest in their net assets is included as an investment in the consolidated balance sheet at the Group's share of the net assets at acquisition plus the Group's share of retained profits.

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in sterling, which is De La Rue plc's functional and presentational currency.

In individual entities, transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the dates of the individual transactions. Monetary assets and liabilities denominated in foreign currencies are subsequently retranslated at the rate of exchange ruling at the balance sheet date. Such exchange differences are recorded within general and administrative costs within the income statement.

All exchange differences are taken to the income statement, except those arising on long-term foreign currency borrowings used to finance or hedge foreign currency investments which on consolidation are taken directly to shareholders' equity.

The assets and liabilities of subsidiaries denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Income statements of overseas subsidiaries are taken directly to equity via the cumulative translation adjustment. On disposal of a subsidiary such amounts are recycled to the income statement. As permitted by IFRS 1, the balance on the cumulative translation adjustment on retranslation of subsidiaries net assets has been set to zero at the date of transition to IFRS.

Revenue

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 income statement to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group and the amount can be reliably measured. In practise this means that revenue is recognised when goods or services are supplied to external customers in accordance with the terms of sale.

When goods are supplied, this is when the significant risks and rewards of ownership are transferred to the buyer.

Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any impairment losses. Goodwill is not amortised and is stated at cost less any accumulated impairment losses.

Goodwill

Goodwill represents the excess of the cost of acquisition of a business combination over the Group's share of the fair value of identifiable net assets of the business acquired at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. At the date of acquisition the goodwill is allocated to cash generating units for the purpose of impairment testing and is tested at least annually for impairment.

Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business sold except for goodwill deducted from shareholders' equity. Goodwill arising on the acquisition of subsidiaries is presented in goodwill and goodwill arising on the acquisition of associates is presented in investments in associates. Internally generated goodwill is not recognised as an asset.

Goodwill arising on acquisitions before 27 March 2004 (the date of transition to IFRS) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Development costs

Expenditure incurred in the development of products or enhancements is capitalised as an intangible asset only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured. Development costs not meeting these criteria are expensed in the income statement as incurred. Capitalised development costs are amortised on a straight line basis over their estimated useful economic lives once the product or enhancement is available for use. Product research costs are written off as incurred.

Other intangible assets

Intangible assets purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost and amortised over their useful economic life.

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

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation, less accumulated depreciation and any accumulated impairment losses. No depreciation is provided on freehold land. Freehold and long leasehold buildings are depreciated over their estimated useful economic lives of 50 years. Other leasehold interests are depreciated over the lesser of the unexpired period of the lease and 50 years. 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 10 per cent on plant and machinery, 10 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.

Residual values and useful lives are reviewed at least at each financial year end.

Asset impairment

Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. In addition, goodwill is tested at least annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount, the latter being the higher of the assets fair value less costs to sell and value in use. Value in use calculations are performed using cash flow projections for the asset (or group of assets where cash flows are not identifiable to specific assets), discounted at a rate which reflects the asset specific risks and the time value of money.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as property, plant and equipment at an amount equal to the fair value of the leased asset or, if lower, the present value of minimum lease payments at the inception of the lease, and then depreciated over their useful economic lives. Lease payments are apportioned between repayment of capital and interest. The capital element of future lease payments is included in the balance sheet as a liability. Interest is charged to the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term. Operating lease incentives are recognised as a reduction in the rental expense over the lease term.

Taxation
The tax expense included in the income statement comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted by the balance sheet date.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date and that are expected to apply when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Employment benefits
Pensions
The Group operates a number of retirement benefit schemes.

The major schemes are defined benefit pension funds with assets held separately from the Group. The cost of providing benefits under each scheme is determined using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in operating costs in the consolidated income statement. Past service costs are similarly included where the benefits have vested, otherwise they are amortised on a straight line basis over the vesting period. The expected return on assets of funded defined benefit pension schemes and the imputed interest on pension scheme liabilities comprise the pension element of the net finance cost/income in the income statement.

Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the statement of recognised income and expense in full in the period in which they arise.

The liability recognised on the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of the scheme assets at the balance sheet date.

The Group's contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

Share-based payments

The Group operates various equity settled and cash settled option schemes. For equity settled share options, the services received from employees are measured by reference to the fair value of the share options. The fair value is calculated at grant date and recognised in the consolidated income statement, together with a corresponding increase in shareholders' equity, on a straight line basis over the vesting period, based on an estimate of the numbers of options that will actually vest. Vesting conditions, other than market based conditions, are not taken into account when estimating the fair value. For cash settled share options, the services received from employees are measured at the fair value of the liability and recognised in the consolidated income statement on a straight line basis over the vesting period. The fair value of the liability is remeasured at each reporting date and at the date of settlement with changes in fair value recognised in the consolidated income statement. IFRS 2 'Share-based payment' has been applied to equity settled share options granted after 7 November 2002 not yet vested at 1 January 2005 and to outstanding cash settled share options as at 1 January 2005.

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 own shares held by the trust are shown as 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.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, short-term deposits and other short-term liquid investments, with original maturities of three months or less and bank overdrafts.

Provisions

Provisions are recognised when the Group has a present obligation in respect of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and where the amount can be reliably estimated. Provisions are discounted where the time value of money is considered material.

Exceptional items

Items which are both material by size and/or by nature and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items charged to operating profit helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, restructuring of businesses and asset impairments.

Dividends

Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting and paid. Interim dividends are recognised in the period that they are paid.

Derivative financial instruments (IFRS accounting policies applicable from 28 March 2005)

The Group uses derivative financial instruments such as foreign currency contracts to hedge risks associated with foreign currency fluctuations. Such derivative financial instruments are measured at fair value. The gains or losses on remeasurement are taken to the income statement except where the derivative is designated as a cash flow hedge. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the forward rates of exchange prevailing at the balance sheet date.

For cash flow hedges that meet the conditions for hedge accounting, the portion of the gains or losses on the hedging instrument that are determined to be an effective hedge are recognised directly in shareholders' equity and the ineffective portion is recognised in the income statement. When the hedged forecast transaction/firm commitment results in the recognition of a non-financial asset or liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in shareholders' equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in shareholders' equity are transferred to the income statement in the same period in which the hedged forecast transaction/firm commitment affects the income statement.

Hedge accounting is discontinued when the hedging instrument is sold, terminated, exercised or no longer qualifies for hedge accounting. At that point in time any cumulative gains or losses on the hedging instrument which have been recognised in shareholders' equity are kept in shareholders' equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the cumulative gains or losses that have been recognised in shareholders' equity are transferred to the income statement for the year.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. To the extent embedded derivatives are not considered closely related to the host contract they are recognised at fair value through the income statement.

From time to time, the Company enters into sales and purchase contracts denominated in a currency that is neither the functional currency of the Company, the functional currency of the customer/supplier or a currency that is not deemed to be a commonly used currency of the country in which the customer/supplier is based. Where there are uninvoiced amounts of firm commitments on such contracts, a derivative is recognised at fair value through the income statement. The movement in the fair value of the derivative asset or liability is recognised in the income statement under general and administrative costs.

Notes to the interim statement – unaudited continued

3. Statement of changes in shareholders' equity – unaudited

	Attributable to equity shareholders										
	Share capital £m	Treasury shares £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Fair value and other reserve £m	Cumulative translation adjustment £m	Other reserve £m	Profit and loss account £m	Minority interest £m	Total equity £m
Balance at 28 March 2004	45.8	(19.1)	14.6	1.8	3.5	–	–	(83.8)	213.1	3.8	179.7
Exchange differences	–	–	–	–	–	–	2.1	–	–	–	2.1
Actuarial loss on retirement benefit obligations	–	–	–	–	–	–	–	–	(11.4)	–	(11.4)
Tax on actuarial loss on retirement benefit obligations	–	–	–	–	–	–	–	–	3.7	–	3.7
Tax on share options	–	–	–	–	–	–	–	–	0.1	–	0.1
Net profit/(loss) recognised directly in equity	–	–	–	–	–	–	2.1	–	(7.6)	–	(5.5)
Profit for the period	–	–	–	–	–	–	–	–	6.4	0.8	7.2
Total income recognised for the period	–	–	–	–	–	–	2.1	–	(1.2)	0.8	1.7
Share capital issued	–	–	0.2	–	–	–	–	–	–	–	0.2
Employee share scheme:											
– value of services provided	–	–	–	–	–	–	–	–	0.6	–	0.6
Dividend	–	–	–	–	–	–	–	–	(17.5)	(0.4)	(17.9)
Balance at 25 September 2004	45.8	(19.1)	14.8	1.8	3.5	–	2.1	(83.8)	195.0	4.2	164.3

3. Statement of changes in shareholders' equity – unaudited continued

	Attributable to equity shareholders										
	Share capital £m	Treasury shares £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Fair value and other reserve £m	Cumulative translation adjustment £m	Other reserve £m	Profit and loss account £m	Minority interest £m	Total equity £m
Balance at 26 September 2004	45.8	(19.1)	14.8	1.8	3.5	–	2.1	(83.8)	195.0	4.2	164.3
Exchange differences	–	–	–	–	–	–	1.3	–	–	–	1.3
Actuarial loss on retirement benefit obligations	–	–	–	–	–	–	–	–	(10.7)		(10.7)
Tax on actuarial loss on retirement benefit obligations	–	–	–	–	–	–	–	–	3.0	–	3.0
Tax on share options	–	–	–	–	–	–	–	–	0.1	–	0.1
Net profit/(loss) recognised directly in equity	–	–	–	–	–	–	1.3	–	(7.6)	–	(6.3)
Profit for the period	–	–	–	–	–	–	–	–	26.6	0.8	27.4
Total income recognised for the period	–	–	–	–	–	–	1.3	–	19.0	0.8	21.1
Share capital issued	0.3	–	2.2	–	–	–	–	–	–	–	2.5
Employee share scheme:											
– value of services provided	–	–	–	–	–	–	–	–	0.8	–	0.8
Dividend	–	–	–	–	–	–	–	–	(8.3)	(1.3)	(9.6)
Balance at 26 March 2005	46.1	(19.1)	17.0	1.8	3.5	–	3.4	(83.8)	206.5	3.7	179.1
Adoption of IAS 32 and IAS 39	–	–	–	–	–	0.4	–	–	(0.6)	–	(0.2)
Balance at 26 March 2005	**46.1**	**(19.1)**	**17.0**	**1.8**	**3.5**	**0.4**	**3.4**	**(83.8)**	**205.9**	**3.7**	**178.9**

Notes to the interim statement – unaudited continued

3. Statement of changes in shareholders' equity – unaudited continued

	Attributable to equity shareholders										
	Share capital £m	Treasury shares £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Fair value and other reserve £m	Cumulative translation adjustment £m	Other reserve £m	Profit and loss account £m	Minority interest £m	Total equity £m
Balance at 27 March 2005	**46.1**	**(19.1)**	**17.0**	**1.8**	**3.5**	**0.4**	**3.4**	**(83.8)**	**205.9**	**3.7**	**178.9**
Exchange differences	–	–	–	–	–	–	(0.7)	–	–	–	(0.7)
Actuarial loss on retirement benefit obligations	–	–	–	–	–	–	–	–	(8.2)	–	(8.2)
Tax on actuarial loss on retirement benefit obligations	–	–	–	–	–	–	–	–	2.5	–	2.5
Tax on share options	–	–	–	–	–	–	–	–	0.2	–	0.2
Fair value gains/(losses) net of tax:											–
– cash flow hedges	–	–	–	–	–	(1.8)	–	–	–	–	(1.8)
Net profit/(loss) recognised directly in equity	–	–	–	–	–	(1.8)	(0.7)	–	(5.5)	–	(8.0)
Profit for the period	–	–	–	–	–	–	–	–	18.6	0.9	19.5
Total income recognised for the period	–	–	–	–	–	(1.8)	(0.7)	–	13.1	0.9	11.5
Share capital issued	0.1	–	2.0	–	–	–	–	–	–	–	2.1
Employee share scheme:											
– value of services provided	–	–	–	–	–	–	–	–	0.7	–	0.7
Dividend	–	–	–	–	–	–	–	–	(86.9)	(0.6)	(87.5)
Balance at 24 September 2005	**46.2**	**(19.1)**	**19.0**	**1.8**	**3.5**	**(1.4)**	**2.7**	**(83.8)**	**132.8**	**4.0**	**105.7**

4. The Group's primary reporting format is by business segment. The Group is organised on a worldwide basis into two business segments: Cash Systems and Security Paper and Print. The secondary reporting format is by geographical segment.

Segmental analysis		2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Turnover by class of business				
Continuing operations	Cash Systems	**141.0**	142.0	302.2
	Security Paper and Print	**149.7**	167.8	317.9
		290.7	309.8	620.1
Operating profit by class of business				
Continuing operations	Cash Systems	**6.2**	2.9	9.4
	Security Paper and Print	**21.1**	21.2	45.4
		27.3	24.1	54.8
Exceptional items				
Reorganisation costs	Cash Systems	**(4.2)**	(2.0)	(14.3)
	Security Paper and Print	**–**	–	0.8
		(4.2)	(2.0)	(13.5)
Income from disposal of investments	Cash Systems	**0.8**		
Income from investments previously impaired	Security Paper and Print	**0.4**	0.4	0.4
Goodwill impairment	Cash Systems	**–**	(11.5)	(11.5)
		(3.0)	(13.1)	(24.6)
		24.3	11.0	30.2
Turnover by geographical area of operation				
United Kingdom and Ireland		**164.6**	198.4	380.4
Rest of Europe		**103.3**	116.3	247.9
The Americas		**61.7**	57.8	119.4
Rest of World		**26.6**	22.8	47.3
Less inter-area sales		**(65.5)**	(85.5)	(174.9)
		290.7	309.8	620.1
Operating profit by geographical area of operation				
United Kingdom and Ireland		**2.2**	6.8	13.0
Rest of Europe		**10.3**	2.0	8.8
The Americas		**5.5**	0.5	3.8
Rest of World		**6.3**	1.7	4.6
		24.3	11.0	30.2
Turnover by geographical area of destination				
United Kingdom and Ireland		**37.5**	35.4	70.0
Rest of Europe		**87.7**	88.3	182.2
The Americas		**62.8**	72.6	153.6
Rest of World		**102.7**	113.5	214.3
		290.7	309.8	620.1

Notes to the interim statement – unaudited continued

5. Discontinued operations

The Group's investment in Sequoia Voting Systems Inc was disposed of in March 2005.

	2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Turnover – Voting Systems	**–**	8.5	23.1
Operating profit – Voting Systems	**–**	(2.7)	(0.2)
Profit on disposal – Voting Systems	**–**	–	6.0
Warranty provisions no longer required on businesses previously disposed	**–**	–	2.9
Taxation on discounted activities	**–**	0.9	(1.8)
	–	(1.8)	6.9

6. Exceptional items

	2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Continuing operations			
Reorganisation costs – Cash Systems	**(4.2)**	(2.0)	(14.3)
– Security Products	**–**	–	0.8
Income from investments previously impaired	**0.4**	0.4	0.4
Profit on disposal of investments	**0.8**	–	–
Goodwill impairment	**–**	(11.5)	(11.5)
	(3.0)	(13.1)	(24.6)
Discontinued operations			
Profit on disposal of Sequoia Voting Systems	**–**	–	6.0
Warranty provisions no longer required on businesses previously disposed	**–**	–	2.9
	–	–	8.9

Reorganisation costs in Cash Systems relate to the fundamental restructuring of the business which commenced during 2004/2005.

Income from investments arises from loan repayments from the Group's associate holding in Valora.

Profit from disposal of investments arises from the sale of the Group's stake in a small distributor in South Africa.

As a result of reassessment of future prospects, the carrying value of the goodwill relating to De La Rue Systems – Automatizacao S.A. was impaired by an exceptional charge of £11.5m during the first half of 2004/2005.

7. Earnings per share

	2005/2006 Half Year pence per share	2004/2005 Half Year pence per share	2004/2005 Full Year pence per share
Basic earnings per share	**10.6**	3.6	18.5
Diluted earnings	**10.6**	3.6	18.4
Headline earning per share	**11.8**	10.6	25.9

Earnings per share are based on the profit for the period attributable to ordinary shareholders of £18.6m (2004/2005 : £6.4m) as shown in the Group income statement. The weighted average number of ordinary shares used in the calculations is 174,774,959 (2003/2004 : 178,051,608) for basic earnings per share and 176,329,061 (2004/2005 : 179,190,699) for diluted earnings per share after adjusting for dilutive share options.

Reconciliation of earnings per share			
Basic earnings per share	**10.6**	3.6	18.5
Income from investment previously impaired	**(0.2)**	(0.2)	(0.2)
Profit on disposal of investments	**(0.4)**	–	–
Profit on disposal of discontinued operations	**–**	–	(5.0)
Impairment of goodwill	**–**	6.4	6.4
Reorganisation costs	**1.8**	0.8	6.2
Headline earnings per share before items above	**11.8**	10.6	25.9

The Directors are of the opinion that the publication of the headline earnings is useful to readers of interim statements and annual accounts as they give a more meaningful indication of underlying business performance.

8. Equity dividends

	2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Final dividend for the year ended 26 March 2005 of 10.6p paid on 5.8.2005	**19.1**	–	–
Special dividend of 38.0p paid on 5.8.2005	**67.8**	–	–
Final dividend for the year ended 27 March 2004 of 9.8p paid on 6.8.2004	**–**	17.5	17.5
Interim dividend for the period ended 25 September 2004 of 4.7p paid on 19.1.2005	**–**	–	8.3
	86.9	17.5	25.8

In accordance with IFRS the interim dividend has not been accrued in these interim consolidated financial statements.

Notes to the interim statement – unaudited continued

9a. Notes to Group cash flow statement

	2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Cash generated from operations			
Profit before tax	**27.6**	13.0	49.3
Adjustments for:			
Finance income and expense	**(0.4)**	(1.8)	(4.0)
Depreciation and amortisation	**13.6**	13.2	28.6
Goodwill impairment	**–**	11.5	11.5
(Increase)/decrease in stocks	**(6.7)**	3.5	25.5
(Increase)/decrease in debtors	**(6.5)**	14.6	22.7
Increase/(decrease) in creditors	**22.0**	(7.2)	(20.7)
Increase/(decrease) in reorganisation provisions	**1.0**	(2.8)	(0.9)
Profit on the disposal of discontinued operations	**–**	–	(8.9)
Share of income from associates after tax	**(2.9)**	(2.9)	(6.4)
Income from investments	**(1.2)**	(0.4)	(0.4)
Other non–cash movements	**–**	0.1	2.4
Cash generated from operations	**46.5**	40.8	98.7

9b. Notes to Group cash flow statement

	2005/2006 Half Year £m	2004/2005 Half Year £m	2004/2005 Full Year £m
Analysis of net cash			
Cash and cash equivalents	**374.3**	101.9	140.7
Borrowings due within one year	**(295.3)**	(5.3)	(17.8)
Borrowings due after one year	**(17.4)**	(35.0)	(16.4)
Net cash at end of period	**61.6**	61.6	106.5

10. This financial information does not constitute the Group's statutory accounts within the meaning of s.240 of the Companies Act 1985.

11. The statutory accounts for the year ended 26 March 2005 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.

12. This interim statement was approved by the Board on 28 November 2005 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.

13. Transition from UK GAAP to IFRS

Presented below are the reconciliations of profit for the year ended 26 March 2005 and for the half year to 25 September 2004 between the previously published UK GAAP results and IFRS as required by IFRS 1. Also presented are the reconciliations of equity as at the date of transition (28 March 2004), 25 September 2004 and 26 March 2005, again as required by IFRS 1. For explanations of the nature of the reconciling items, refer to the IFRS restatement information issued on 13 July 2005 (available on the De La Rue website). Since publication of that document a further adjustment to recognise an increase in the IAS 19 pension deficit has been made in relation to death in service benefits. The impact of this change is to increase the net pension deficit previously disclosed by £5.7m at 26 March 2005 and by £5.8m at 25 September 2004 and 28 March 2004.

Total equity and reserves	26 Mar 2005 £m	25 Sep 2004 £m	28 Mar 2004 £m
Total equity and reserves under UK GAAP	228.4	217.1	217.6
Adjustments to conform to IFRS			
Additional pension deficit	(66.4)	(59.4)	(52.2)
Other employee benefits	(2.2)	(2.0)	(2.4)
Capitalisation of development costs	6.6	6.2	5.5
Share based payments	–	–	–
Property, plant and equipment	(2.7)	(2.7)	(2.7)
Goodwill	(0.6)	(1.3)	(2.0)
Dividends	19.0	8.4	17.7
Taxation	(3.0)	(2.3)	(1.8)
Other	–	0.3	–
Total equity and reserves under IFRS	179.1	164.3	179.7

Profit for the period	Year ended 26 Mar 2005 £m	Half Year to 25 Sep 2004 £m
Profit for the period under UK GAAP	33.5	5.7
Adjustments to conform to IFRS		
Pension costs – IAS 19	1.9	1.0
Other employee benefits	(0.1)	0.3
Capitalisation of development costs	1.1	0.7
Share based payments	(1.4)	(0.6)
Goodwill	1.4	0.7
Taxation on above	(1.8)	(0.8)
Other	–	0.2
Profit for the period under IFRS	34.6	7.2

Under IAS 7 'Cash Flow Statements', movements in cash and cash equivalents are reconciled; under UK GAAP the statement reconciles cash only. The change to the IAS 7 approach makes no difference to the levels of free cash generated by the Group.

14. Reconciliation of the consolidated balance sheet at 27 March 2005 on adoption of IAS 32 and IAS 39

	Under IFRS at 26.03.05 £m	Impact of adoption of IAS 32 and IAS 39: Foreign exchange swaps £m	Forward foreign exchange contracts £m	Embedded derivatives £m	Cash offset £m	Under IFRS at 27.03.05 £m
Assets						
Non-current assets						
Property, plant and equipment	148.7					148.7
Intangible assets	24.0					24.0
Investments: Associates	14.0					14.0
Other investments	0.3					0.3
Deferred tax assets	53.5					53.5
Other receivables	1.1					1.1
	241.6	–	–	–	–	241.6
Current assets						
Deferred tax assets	3.6					3.6
Inventories	73.8					73.8
Trade and other receivables	88.7		(0.3)			88.4
Derivative financial instruments	–		2.1	0.5		2.6
Cash and cash equivalents	140.7				237.2	377.9
	306.8	–	1.8	0.5	237.2	546.3
Total assets	**548.4**	–	1.8	0.5	237.2	**787.9**
Liabilities						
Current liabilities						
Trade and other payables	(152.1)					(152.1)
Current tax liabilities	(10.7)					(10.7)
Borrowings	(17.8)				(237.2)	(255.0)
Derivative financial instruments	–	(0.5)	(1.1)	(0.2)		(1.8)
Other creditors	(14.2)		(0.7)			(14.9)
Provisions for liabilities and charges	(24.0)					(24.0)
	(218.8)	**(0.5)**	**(1.8)**	**(0.2)**	**(237.2)**	**(458.5)**
Non-current liabilities						
Long-term borrowings	(16.4)					(16.4)
Deferred tax liabilities	(1.4)					(1.4)
Other non-current liabilities	(12.8)					(12.8)
Defined benefit pension deficit	(119.9)					(119.9)
	(150.5)	–	–	–	–	(150.5)
Total liabilities	**(369.3)**	(0.5)	(1.8)	(0.2)	(237.2)	**(609.0)**
Net assets	**179.1**	(0.5)	–	0.3	–	**178.9**

14. Reconciliation of the consolidated balance sheet at 27 March 2005 on adoption of IAS 32 and IAS 39 continued

	Under IFRS at 26.03.05 £m	Impact of adoption of IAS 32 and IAS 39: Foreign exchange swaps £m	Forward foreign exchange contracts £m	Embedded derivatives £m	Cash offset £m	Under IFRS at 27.03.05 £m
Equity						
Capital and reserves attributable to equity holders						
Called up share capital	46.1	–	–	–	–	46.1
Share premium account	17.0					17.0
Revaluation reserve	1.8					1.8
Capital redemption reserve	3.5					3.5
Fair value and other reserves	–	(0.5)	1.0	(0.1)		0.4
Cumulative translation adjustment	3.4					3.4
Other reserve	(83.8)					(83.8)
Retained earnings	187.4		(1.0)	0.4		186.8
Total shareholders' funds	175.4	(0.5)	–	0.3	–	175.2
Equity minority interests	3.7					3.7
Total equity	**179.1**	**(0.5)**	**–**	**0.3**	**–**	**178.9**

14. Reconciliation of the consolidated balance sheet at 27 March 2005 on adoption of IAS 32 and IAS 39 continued

An explanation of the impact of the principal differences and adjustments resulting from the adoption of IAS 32 and IAS 39 as they apply to De La Rue's balance sheet at 27 March 2005 is set out below.

Foreign exchange swaps

Under UK GAAP, cross currency swaps were recognised at the rates of exchange ruling at the balance sheet date together with accrued interest. Under IAS 39, the fair value of foreign exchange swaps is recognised.

The impact of the above is a reduction in net assets of £0.5m.

Forward foreign exchange contracts

Under UK GAAP forward foreign exchange contracts were generally only recognised on settlement. Under IAS 39, the fair value of all foreign exchange contracts is recognised.

On adoption of IAS 39, forward foreign exchange contracts with a net fair value of £1m have been recognised on the balance sheet, increasing net assets accordingly by £1m.

In addition, £1.0m of closing exchange rate to forward exchange rate adjustments made under UK GAAP have been reversed to comply with IAS 39. The impact of this is a decrease in net assets of £1m.

Embedded derivatives

Under UK GAAP, embedded derivatives were not recognised. Under IAS 39, the fair value of embedded derivatives not closely related to their host contracts is recognised.

A net embedded derivative financial asset of £0.3m has been recognised as at 27 March 2005.

Cash offset

Under UK GAAP, cash and overdraft balances maintained in notional pooling cash management arrangements with banks were offset so that only the net amounts were shown in the consolidated balance sheet. Under IAS 32, the requirements to show a net balance presentation also include the intention to settle all such balances on a net basis. As a result, cash and cash equivalents and borrowings both increase by £237.2m, with no effect on net assets.

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Electronic communications
You can also 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 subscribe for electronic communications can revert to postal communications or request a paper copy of any shareholder document at any time in the future.

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