Annual Report 2002

De La Rue

Secure transactions for governments, banks and commercial institutions

Financial Highlights

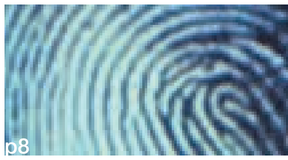
		2002	2001
Turnover	– continuing operations	**£641.7m**	£517.4m
	– discontinued operations	**£9.5m**	£7.4m
		£651.2m	£524.8m
Operating profit*	– continuing operations	**£77.6m**	£68.4m
	– discontinued operations	**(£1.4m)**	(£1.5m)
		£76.2m	£66.9m
Profit before tax* and exceptional items		**£90.6m**	£78.3m
Headline earnings per share**		**34.4p**	30.9p
Dividend per share		**13.4p**	12.6p
Net funds		**£50.0m**	£36.1m

- Profit before taxation* and exceptional items up 15.7 per cent at £90.6m.
- Strong cash generation with £88.3m of cash inflow from operating activities. Net cash position ahead of last year at £50.0m, an increase of £13.9m.
- Excellent performance from Cash Systems with operating profits up £19.0m to £36.0m, and division hits 10 per cent margin target for the year (excluding acquisitions).
- Security Paper and Print operating profits down £9.3m to £41.1m. Solid performance from Currency division but results depressed by previously flagged absence of large Indian paper contract. Security Products results disappointed and preliminary actions taken have resulted in 90 redundancies at a cost of circa £1.3m.
- Global Services has reversed the losses of the first half despite costs of £1.1m incurred on the rationalisation of Interclear operation and management structure.
- Headline earnings per share of 34.4p, up 3.5p or 11.3 per cent on last year.
- Recommended seven per cent increase in the final dividend to 9.2p.
- As a result of the strong funding position the Company plans to use its existing authority to purchase for cancellation up to 10 per cent of issued share capital.

*Before goodwill amortisation of £2.8m charged to operating profits

**Before exceptional items

Contents



A major force in **secure transactions** around the world, De La Rue played a key role in preparations for the launch of the euro on 1 January 2002. Our involvement in the project demonstrated two of our core competencies: **securing monetary value** – as a producer of euro banknotes (p4); and enabling **efficiency and security of the money cycle** – a challenge that involved the upgrading of over 20,000 cash machines across the eurozone (p6). Outside Europe, another major project demonstrated our third core activity: **securing the identity of the individual** – in this instance through the development of a secure passport and card solution for the Chilean government (p8).

The World of De La Rue

Secure transactions for governments, banks and commercial institutions

De La Rue's business is all about secure transactions. Whether we are working with the world's governments or central banks, retail banks or commercial institutions we offer innovative solutions allowing our customers to operate securely and efficiently where they are managing transactions of value. As a result we are the driving force behind many of the world's transactions and security solutions producing a range of products and services. Our focus is in three distinct areas:

● Securing monetary value De La Rue has long been involved in the manufacture of banknotes and many other tokens of monetary value such as vouchers or travellers cheques. Our aim is simple – to make life easier for our customers and more difficult for the counterfeiter.

■ Enabling the efficiency and security of the money cycle As money flows around the world's economies, cash is an expensive commodity for organisations both to process and authenticate. Our aim is to provide cash handling solutions to enable our customers to do this efficiently and securely, helping them to reduce their cash handling costs. ▲ Securing the identity of the individual The world's governments need total security for their national identity systems. De La Rue assists in the design, implementation and operation of high security national identity, driver's licence and passport issuing schemes enabling both convenience and speed of movement of their citizens.

Making this happen is a major undertaking and we employ almost 7,000 people operating in 32 countries to ensure that De La Rue is at the forefront of technological developments in our chosen fields. We are constantly applying our knowledge of secure transactions to help our customers provide a framework which enables individuals the freedom to do more, access more and buy more, but always in a safe and secure environment. Our customers trust in De La Rue technology to offer this stability in an ever-changing and uncertain world.

This is De La Rue: Divisional Overview

Profile

Cash Systems

De La Rue is a world leader in the provision of cash handling equipment, offering solutions to manage and support cash and other value transactions. Structured around three market-facing business streams of Financial Institutions, Currency Systems and Retail Payment Solutions, the division offers a full set of solutions which incorporate hardware, application software and systems integration capabilities as well as services such as maintenance, facilities management and consultancy.

Security Paper and Print

Currency

De La Rue is the world's leading commercial producer of banknotes and aims to be the preferred partner of central banks for banknotes and paper worldwide. We invest significantly to deliver the most appropriate and advanced security features, tailored to meet our customers' individual needs.

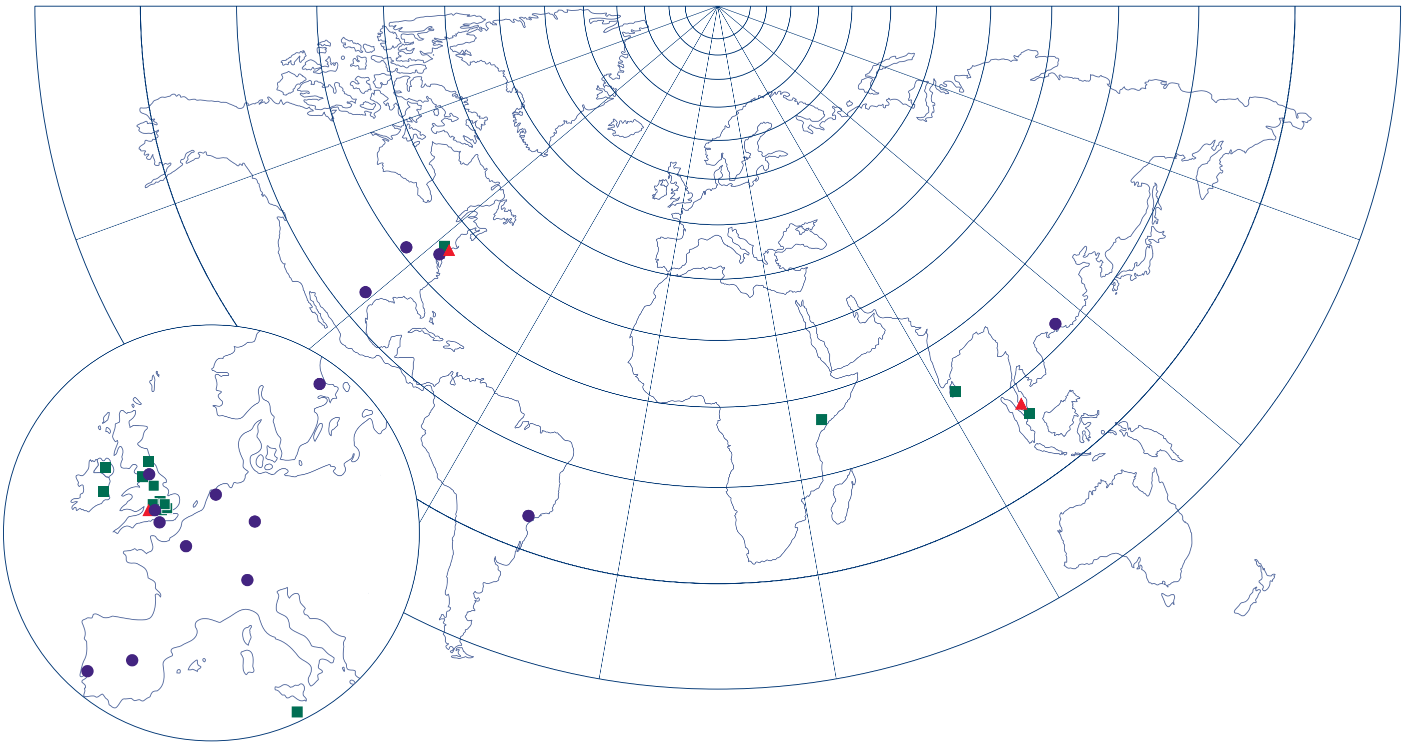
Security Products

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

Global Services

Global Services focuses on the two key growth markets of Identity Systems and Brand Protection and brings together De La Rue's secure technologies expertise in print, high-security paper, holographics and tapes. This approach allows us to offer secure end-to-end solutions to governments and brand owners worldwide.

Global Reach



● Cash Systems

Headquarters: Basingstoke, UK.

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

Key Sales & Service Centres: Sao Paulo, Brazil; Laval, Canada; Hong Kong, China; Paris, France; Frankfurt, Germany; Vianen, Netherlands; Madrid, Spain; Bern, Switzerland; Knutsford, UK; Chicago, USA; Dallas, USA.

Also 33 local (sales and service) offices worldwide.

■ Security Paper and Print

Currency

Headquarters: Overton, UK.

Key locations: Nairobi, Kenya; Zejtun, Malta; Jurong, Singapore; Malawana, Sri Lanka; Gateshead, UK; Overton, UK.

Security Products

Headquarters: Basingstoke, UK.

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

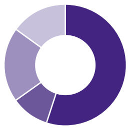
▲ Global Services

Headquarters: Basingstoke, UK.

Key locations: Kuala Lumpur, Malaysia; Basingstoke, UK; Albany, USA.

Products and Solutions

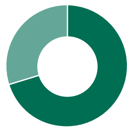
Cash Systems



Sales breakdown
by business stream

Security Paper and Print

Currency



Sales breakdown
by business stream

Security Products

Sales breakdown
by business stream

The business has three primary segments: Financial, e.g. travellers cheques, cheques; Government, e.g. passports, visas; Commercial, e.g. vouchers, prepay stamps.

Global Services

Sales breakdown
by business stream

Cash Systems

Financial Institutions

Self-service automation solutions, Teller assisted dispense and deposit systems, Banknote and coin processing equipment and software for the back office, Branch automation consultancy.

Currency Systems

Automated banknote handling, Facilities management, Cash handling consultancy, Cash management application software, Integrated cash management solutions and networking.

Retail Payment Solutions

Providing total solutions for managing cash, cheques, coupons and other payment media. From cheque dispensing and security and point of sale, through to cash preparation and payment management in the cash office.

Security Paper and Print

Currency

Anti-counterfeit consultancy, Banknotes, Banknote paper, Coins, Currency management, Design and origination service.

Security Products

Bonds & bearer securities, Certificates of origin, Cheques & drafts, Holograms on cards, Motor vehicle titles, Postage, revenue & fiscal stamps, Secure substrates, Security labels, Signature panels, Tax discs, Travellers cheques, Vital records, Vouchers.

Global Services

Identity Systems

Drivers' licences & issuing systems, National identity cards and issuing systems, Secure passports & issuing systems, Visas.

Brand Protection

Anti-counterfeit & authentication, Anti-tamper Brand enhancement, Secure supply chain (anti-diversion), Security shrink sleeves, Speciality tear tapes, Tamper evident holographic labels.

Both the Holographics business and Portals Bathford, in addition to supplying the Identity Systems and Brand Protection businesses, also provide component supply direct to external markets.

Did you Know?

De La Rue installed the world's first Automated Teller Machine (ATM) at Barclays Bank, in London, in 1967.

De La Rue's cash handling solutions enable 12m transactions in financial institutions every day.

Over 2,000 financial institutions in more than 60 countries rely on De La Rue to secure their cash transactions.

Cash is still the preferred global payment method with an estimated 180-190bn notes in circulation.

By value over 50 per cent of all payments are made with notes and coins.

De La Rue is the industry leader in the fields of research and development of new technologies, security features and print capabilities.

The world's population carries 5bn government identity documents.

Global counterfeiting, diversion and tampering costs industry between \$80bn-\$200bn per year.

De La Rue works closely with organisations such as Interpol, the United Nations and the International Civil Aviation Organisation (ICAO).

In 2001, the De La Rue UK print facility at Gateshead was selected as the only production plant outside the eurozone to produce the new banknotes, which incorporated state-of-the-art security features. To win the contract, new finishing machines and procedures were introduced at the plant to meet the European Central Bank's stringent quality standards.

Securing monetary value

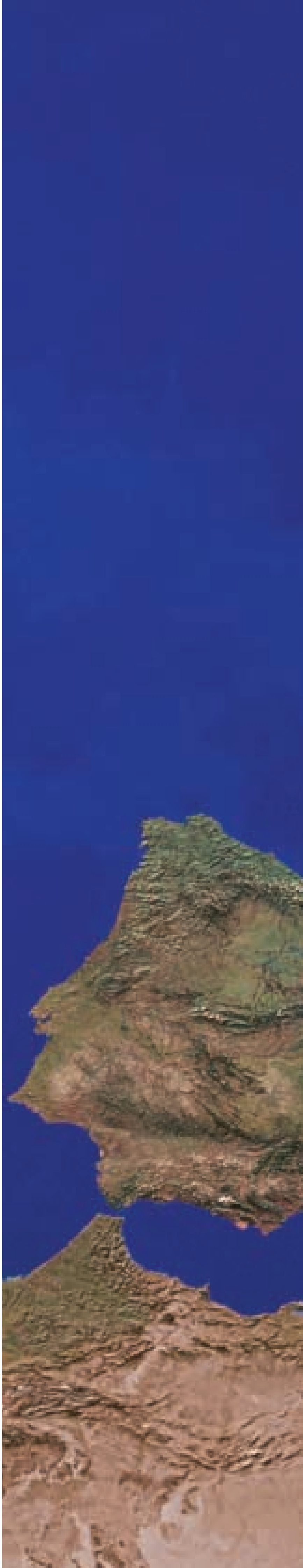
De La Rue's reputation for securing monetary value has been built up over many years, since Thomas de la Rue founded the Company in 1813. Indeed operations through our Portals banknote papermaking company go back even further, and we have supplied the Bank of England with banknote paper since 1724. From these beginnings De La Rue today has grown to become the world's largest commercial security printer, ensuring that around the world our banknotes can be spent with confidence.

With the proliferation of payment instruments and tokens of value we also now apply our knowledge of security print to other areas. We are, for example, one of the world's major producers of travellers cheques and also supply a range of other secure documents such as vouchers, cheques and stamps to governments, banks and other commercial institutions. Underpinning all of these activities is the knowledge that the fight against counterfeiting is an unceasing one. We are constantly developing new anti-counterfeit technologies to keep our customers ahead of the counterfeiter providing them with a secure medium of exchange.

Efficiency and security of the money cycle

Cash is the preferred method of payment all over the world with over 50 per cent of all payments by volume made with notes and coins. With an estimated 180-190 billion banknotes in circulation around the world today, money flows around the world's economies in set cycles or patterns. The movements of cash from individuals to commercial organisations, from banks to regional sorting centres and central banks, ebb and flow in a continuous cycle. Irrespective of size, all organisations have a common objective when processing cash – they must do it efficiently and securely.

De La Rue works with all organisations that process cash to reduce their total cash handling costs. By understanding how our customers' cash cycle operates, we aim to save them time and money. With over 100 years' experience in helping our customers manage their cash more efficiently, our solutions and services have a role to play in every marketplace which has a requirement to handle cash.



Throughout the year, De La Rue has helped customers across the eurozone to upgrade more than 20,000 cash machines to "euro-ready" status. During the same period over 120,000 replacement cassettes were shipped to customers in time for launch on 1 January, while the following month saw us deal with 30,000 customer queries and complete more than 20,000 successful service visits.

In South America, a project for the Chilean government will see De La Rue's secure identity card technology Fortas® used for 13 million new, durable identity cards. In addition, nearly one million new digital Chilean passports will be personalised and issued using De La Rue technology that provides highly secure, internationally-compliant machine-readable passports.

Identity of the individual

Since the terrorist attacks on the USA on 11 September 2001, the changes being made by the world's airlines and airport authorities to security arrangements both on the ground and in the air have been high profile. The long-term effects on passenger numbers remain unclear but before the attacks the Airports Council International (ACI) and the International Civil Aviation Organisation estimated that in 2000 some 1.7 billion passengers travelled on scheduled flights. ACI also forecast that an astonishing 4.6 billion passengers would be passing through its 1,400 airports by 2020 – all carrying passports, visas and other documentation in need of authentication.

While the growth of international travel is an ongoing security problem, governments today also need advice on issuing and administering a range of other schemes such as drivers' licences and secure national identification. De La Rue is a trusted partner in more than 50 government national identity schemes and we advise governments on all aspects by which individuals apply for, obtain and verify their personal identification in order to obtain access, goods and services. This is vital as any weak links in this cycle can compromise the whole process.

Sir Brandon Gough
Chairman

Chairman's Statement

Group Results

De La Rue is pleased to report another strong performance for the year ended 30 March 2002, showing substantial improvements in sales and operating profits, which underlines the continued progress in the revitalisation of De La Rue. Profits before tax (before goodwill amortisation of £2.8m charged to operating profits) and exceptional items increased by £12.3m to £90.6m and overall trading performance was strong with operating profit from continuing operations of £77.6m up £9.2m compared to last year. The main driver behind this increase has been a dramatic improvement in the operating performance of Cash Systems with operating profits up £19.0m to £36.0m. Compared with last year, headline earnings per share increased by 11.3 per cent to 34.4p.

As indicated a year ago, the absence of India banknote paper orders within our Currency business has impacted profits in the Security Paper and Print division despite a stronger second half, underpinned by a buoyant banknote business. The performance of our non-banknote Security Products business was a major disappointment and we are undertaking a review of manufacturing operations. It is pleasing to report a turnaround in the loss-making position of Global Services since the half year with the division reporting a modest profit of £0.5m for the year.

Cash flow continues to be a key strength with £88.3m being generated by operations during the period, and the overall net cash position was £50.0m, £13.9m ahead of last year.

Dividend

The Board is recommending an increased final dividend of 9.2p per share, up seven per cent on last year's, which, subject to shareholders' approval, will be paid on 9 August 2002 to shareholders on the register on 12 July 2002. This will give a total dividend for the year of 13.4p, an overall increase of 6.3 per cent on last year. Next year the timing of the interim dividend payment will be brought forward from April to January to spread payments more equally over the year. As a result, subject to unforeseen circumstances, the Company will be making three dividend payments in the year ending 29 March 2003.

Share Buy Back

As a consequence of the strong funding position (net cash at the year end of £50.0m) the Board has decided to use, where appropriate, the existing authorities granted to it at the 2001 Annual General Meeting (AGM) to acquire for cancellation up to 10 per cent of the issued share capital in the market place. The Board will be seeking to renew this authority at the AGM on 17 July 2002. The Board believes that after taking into account the cash balance currently in the business and committed facilities available to the Company of just over £200m, a share repurchase programme will not restrict the Company's ability to grow the business both organically and by acquisition. The exact amount and timing of purchases is dependent on market conditions and other factors.

Board Changes

In September 2001, we announced the appointment of Dr Philip Nolan as a non-executive Director of the Company. Dr Nolan, 48, is Chief Executive of Eircom Ltd, the Irish telecoms network.

In April 2002, we announced that Paul Hollingworth, Group Finance Director, would be leaving the Group at the end of June to take up the position of Finance Director with BPB plc. We would like to thank Paul for his substantial contribution to the Group and wish him every success in his new role at BPB plc. We are actively recruiting a replacement.

Outlook

Looking to the future, our underlying business remains strong, particularly Cash Systems, but any earnings progress for 2002/2003 will be modest as the results will not benefit from the exceptional level of euro-related business we secured this year and the contribution from Camelot, under the terms of the second lottery licence, will decline.

Sir Brandon Gough
Chairman

"Looking to the future we continue to see good opportunities for growth within all our businesses."

Ian Much
Chief Executive

Chief Executive's Review

Group Results

Our results for the year ended 30 March 2002 show good progress with Cash Systems, in particular, performing strongly. The full benefits of the reorganisation of the Cash Systems division, initiated by the Board in 1999, are now coming through and our target for the division of £400m revenue for the 2003/2004 financial year underlines the Board's confidence in its future growth prospects.

While our core businesses are performing well, with the emphasis clearly on growth, we are also turning our attention to making operational improvements within our Security Products business, which has had a disappointing year.

Business Development

Much work has already been undertaken in identifying the broad focus for the Group's activities in the future, which will enable us to grow our core businesses. In addition, our aim is to also maintain a common focus to our operations through leveraging our competencies in secure transactions. Over the past year the emphasis has moved to exploiting a number of opportunities which have presented themselves within Cash Systems. We believe that there are significant opportunities to grow the Cash Systems division further through expanding its geographical reach and introducing new products that match the markets' requirements. Underpinning this expansion is a continued commitment to growing our Customer Services business, which accounts for almost 30 per cent of divisional revenues. This commitment to growth has been underlined this year by our investment of £57.6m on acquisitions within the division.

To further underline our confidence in the growth potential that exists within Cash Systems we have set an objective of £400m revenue for the year ending 2003/2004 and we are confident of achieving this with an operating margin better than 10 per cent.

In addition to the opportunities that are emerging within Cash Systems we remain committed to investment in growth within Global Services, although we now believe this will take more time to cultivate.

The Euro

The launch of the new euro currency on 1 January 2002 presented a significant opportunity for many of De La Rue's businesses, benefiting Group revenues in 2001/2002 by about nine per cent. In Cash Systems, as well as providing cash processing products, our service and support teams across Europe successfully upgraded more than 20,000 machines and shipped more than 120,000 replacement ATM cassettes before the end of December. In the month after the launch of the currency, it also dealt with more than 30,000 customer queries and made 20,000 service visits. Our Currency division also performed exceptionally well, successfully delivering a substantial order from the European Central Bank in just four months. The euro projects were a major management and logistical challenge for our customers and it is pleasing to be able to report that De La Rue successfully delivered on its commitments to them.

Acquisitions

During the year Group expenditure on acquisitions was £57.6m (including debt acquired) all within Cash Systems. There were several bolt-on acquisitions including ATS Money Systems Inc., a US-based cash handling organisation for the retail market, and Ascom's cash handling service businesses in Belgium and Switzerland. In May 2001, Cash Systems also acquired for US$55m Currency Systems International Inc. (CSI), the US-based manufacturer of large sorting equipment and software. More recently, in March 2002, the division announced the acquisition of the banking automation business of Papelaco, a leading manufacturer of self-service banking technology based principally in Portugal and Spain. The purchase consideration is €26m (£16m) with a further payment of up to €10.5m (£6.5m) dependent on certain performance criteria being met, linked to sales and margin growth. Completion is subject to regulatory approval.

We also announced on 29 May 2002 the acquisition of 85 per cent of the issued share capital of Sequoia Voting Systems Inc, one of the largest providers of voting equipment, software, ballot printing and election services in the USA. The election systems market has strong potential for growth with Sequoia well positioned to take advantage as the US market moves increasingly to automated voting systems. Cash consideration was US$23m (£15.8m) with a further payment of up to US$12m (£8.3m) dependent on certain performance criteria being met, linked to sales growth. For financial reporting purposes the business will report within the Global Services division.

Disposals

In October 2001, we announced the disposal of our Transaction Services business to alphyra group plc which resulted in a pre-tax exceptional gain of £1.5m. As announced in May 2001 we completed the CHF 50m (£20m) disposal of our 50 per cent shareholding in De La Rue Giori SA, the leading supplier of currency printing presses, to Koenig & Bauer AG, the German manufacturer of printing presses. In addition, De La Rue also reached a settlement of the arbitration claim with M. Roberto Giori, Chairman of De La Rue Giori, and Dynavest Holding & Cie SCA, the other shareholder. The net cost of settling the arbitration claim was £5.9m compared to the original claim of £125m. On 28 March 2002 we announced the disposal of our entire stake in Koenig & Bauer AG for a gross consideration of £13.7m (proceeds received in April) resulting in a pre-tax exceptional gain of £9.5m.

Associates

Following the disposal of our stake in De La Rue Giori the main associate is Camelot, the UK lottery operator. Profit before tax and exceptionals from associates rose by £2.2m to £14.8m mainly because of the absence of losses incurred by De La Rue Giori in the first half last year. De La Rue's share of operating profits (before exceptional items) from Camelot was higher than last year at £14.7m (2000/2001: £13.9m).

The second lottery licence commenced on 27 January 2002 when De La Rue's effective shareholding decreased from 26.67 per cent to 20 per cent. The new lottery licence will reduce the shareholders' potential return from each 100p collected from around 1.0p to just under 0.5p. The impact on overall profitability will, of course, depend on actual lottery ticket sales levels.

Dividends received from associates of £28.3m were at an exceptionally high level, mainly because Camelot has been paying out retained surpluses which arose over the first licence period. There is a further dividend to be paid by Camelot in June, mainly relating to the first licence of which De La Rue's share is estimated at £5.4m.

Security Products Manufacturing Review

The recent poor operating performance of Security Products, the non-banknote side of Security Paper and Print, has highlighted the need for us to reappraise its operations with a view to improving the focus and competitiveness of the business. Many of the markets served are mature, competitive and fragmented and the business serves geographically diverse, multiple customer groups often requiring entirely bespoke solutions. In response, we have initiated a strategic review of our manufacturing operations in Security Products to better align the manufacturing cost base with business requirements of capacity and capability. We intend to make sure that we continue to manufacture

"Our target for the Cash Systems division of £400m revenue for the 2003/2004 financial year, underlines the Board's confidence in its future growth prospects."

only where we can do so cost effectively and where we can provide customers with a clearly differentiated product offering. Local actions to increase efficiencies and improve operating performance have recently taken place at our High Wycombe (UK) and Dulles (USA) sites. These initiatives have resulted in the loss of 70 jobs at High Wycombe and 20 at Dulles. We expect to be able to announce the results of the wider strategic review by the time of the interim results in late November.

Cash Systems Management Changes

Pietro Armanini, 59, managing director of Cash Systems has, over the past three years, overseen the successful transformation of the business. We are pleased to announce that Pietro has agreed to stay on at De La Rue for a further year and will now leave the Company on 31 March 2003 when he will be succeeded by Germain Roesch, currently managing director of Cash Systems' Financial Institutions business.

Environment and Health and Safety Report (EHS)

I am delighted to be able to present our first combined report on our EHS performance on pages 22 to 24. It marks a significant step in communicating our EHS values both to our employees and to our stakeholders in accordance with current corporate governance requirements.

Outlook

Looking to the future we continue to see good opportunities for growth within all our businesses and in 2003/2004 India is expected to return to normal paper ordering patterns and we are confident of achieving sales of £400m in our Cash Systems business.

Ian Much
Chief Executive

Currency Systems International's range of high-performance currency processing systems (CPS) provide advanced solutions in high-speed and medium-speed currency processing applications. To complement the seven CPS 1500 and 1800 systems installed at two of their major cash processing sites, South African Reserve Bank has installed two additional CPS 1800 systems at Pretoria. For the Reserve Bank counting speed, accuracy and repeatability is of the essence and the systems deliver production volumes in the region of 95 per cent of nominal throughputs.

Cash Systems

	2002 £m	2001 £m	change £m
Sales			
continuing operations	319.5	262.4	
acquisitions	51.0	–	
	370.5	262.4	+108.1
Operating profit*			
continuing operations	32.6	17.0	
acquisitions	3.4	–	
	36.0	17.0	+19.0

*before goodwill amortisation of £2.2m and reorganisation costs of £3.8m.

The profit of £36.0m for the year was a substantial improvement on the £17.0m recorded in 2000/2001. The division has had an excellent year with revenue increasing from £262.4m to £370.5m whilst meeting our margin objective (excluding acquisitions) of 10 per cent for the 2001/2002 financial year. The quality of the result shows through in cash generation which has been very strong.

The launch of the euro in January 2002 represented a significant opportunity in the year providing an estimated benefit for the division of approximately eight per cent of sales. Excluding the impact of the euro we estimate underlying sales growth was 10 per cent.

Branch Cash Solutions

Branch Cash Solutions' (BCS) performance has again been excellent this year and the business continues to thrive in all regions. Orders and sales for both Teller Cash Dispensers (TCD) and Teller Cash Recyclers were again encouraging and ahead of last year. Most importantly recycler sales have not eroded sales of our TCD range, with sales increasing. During the first half, BCS also benefited from increased revenue via the new sales and distribution networks in Switzerland and Belgium, and in particular from sales of Twinsafe units. These businesses were acquired from Ascom Autelca AG in May 2001 and are now bedded in.

In March 2002, we announced the acquisition of the banking automation business of Papelaco, a leading manufacturer of self-service banking technology, based principally in Portugal and Spain. We are acquiring the business as part of our strategy to offer customers a complete cash handling solution for their bank branches. Completion is subject to regulatory approval.

Currency Systems

Much emphasis this year has been on the integration of Currency Systems International (CSI), the US-based provider of wholesale cash processing systems and software with our own cash processing business. Whilst the acquisition of CSI got off to a slow start, overall the combined operation performed satisfactorily with sales improving in the second half. We appointed Jonathan Ward, managing director of De La Rue's existing Cash Processing business to lead the combined operation and the integration and savings plans are progressing well. To date, we have announced the senior management team; integrated the sales and marketing organisations; finalised the product integration and development plans; and refocused the manufacturing base. It has been necessary to rationalise the cost base as part of this process resulting in the closure of seven offices and the loss of 110 jobs, about 20 per cent of the original workforce.

We completed the review of our manufacturing operations during the second half and as a result have decided to relocate production of the 6000 large sorter, currently manufactured at Portsmouth in the UK, to Dallas, USA later this year. In addition, we have finalised the combined product range successfully integrating our best in class technologies throughout our offerings. The total pre-tax cost of the integration is estimated at £5.1m, of which £3.6m has been incurred in 2001/2002 and has been

De La Rue's conditional acquisition of Papelaco's banking automation business, a leading manufacturer of self-service banking technology, enhances our strategy of offering customers a complete end-to-end cash handling solution for their branches. It also further develops our position as one of the leading cash handling solutions suppliers to financial institutions. We see self-service as an important component of our future customer offering in this market.

shown as an exceptional item (out of a total £3.8m charge). The new year has got off to a good start with several orders received for large sorters.

OEM

The Original Equipment Manufacture (OEM) business, which makes dispensing mechanisms for automated teller machines (ATM), had a good second half with performance in line with expectations. Sales of euro cassettes were strong with over 120,000 cassettes shipped to customers in the run up to the euro launch. In March 2002, we announced a ten year technology agreement with Itautec Philco, the technology division of Itaúsa, Brazil's second largest private group specialising in financial, insurance and industrial activities. Under the technology agreement De La Rue licenses technology to allow Itautec to manufacture De La Rue's notes and media dispenser (NMD) 100 platform in Brazil.

Desktop Products

The Desktop Products business has had an extremely successful year and performed considerably ahead of expectations. Strong euro sales were supplemented by increased revenue in a number of the business's more traditional markets. A number of improvements in the cost base and the launch of a new range of note and coin sorters, including a euro-ready platform, provide a strong base for future success.

Customer Service

The division's Customer Service business, which continues to be a key component of Cash Systems' strategy, performed strongly with good underlying sales growth and now accounts for 30 per cent of total sales and employs a worldwide network of some 1,600 service personnel. In August 2001 we acquired the service business of the Canadian company Haliburton & White. We have also further expanded our geographic network and invested in our operational capability. We see an increasing number of opportunities to expand our service operations further through bolt on acquisitions and geographical expansion.

Market Facing Organisation Structure

The business stream organisational structure has been successful in returning the division to profitability through clear focus and accountability. However, in the long term we realise that the market dynamics are changing with different segments and geographical regions requiring different solutions. Therefore, following discussion with our customers, we have decided to refocus Cash Systems predominantly on three market-facing business units with effect from the start of the 2002/2003 year. These are:

Financial Institutions – will provide solutions to manage and support cash and other value transactions for retail financial institutions (mainly commercial banks).

Currency Systems – will address central banks and commercial cash centres and cash-in-transit companies, assisting them to optimise their internal cash logistics.

Retail Payment Solutions – will address all markets outside of the financial area, focusing on the retail sector, but also serving markets such as gaming, vending and transportation.

The three streams will be supported by a central product supply business, whilst OEM will continue to be managed as a separate revenue stream. The Customer Services business will continue to serve the customers of all the business units to ensure we maximise the strategic and operational opportunities that exist worldwide and across the market facing businesses.

De La Rue has created an innovative colour changing thread technology known as StarChrome™. The technology offers high security, particularly against digital reproduction, and uses colours that are exclusive to the currency market. Easily integrated into existing banknote designs, the width of the thread, more than twice that used by most current banknotes, delivers immediate recognition and authentication for both cashiers and members of the public.

Security Paper and Print

	2002 £m	2001 £m	change £m
Sales	**226.8**	212.8	+14.0
Operating profit*	**41.1**	50.4	– 9.3

*before reorganisation costs of £7.3m.

Banknotes

The banknote printing business has performed strongly and we have again concentrated on achieving a better quality mix of business. One of the highlights of the year has been the successful fulfilment of an overspill order from the European Central Bank. The contracts to print around 500m euro banknotes were completed by our Gateshead banknote printing plant ahead of schedule. Cash generation has again been excellent with operating cash flow in excess of operating profits. Valora, our joint venture with the Banco de Portugal for the production of euro banknotes, also successfully completed its first phase of production ahead of the launch of new banknotes in January 2002.

Demand for the latest technology in anti-counterfeit features is still a key driver in the market. The proliferation of colour copying, scanning and printing technologies means that we continue to develop anti-counterfeit solutions such as wide threads, holographic devices and iridescent features for our customers. During the year we launched StarChrome™ a colour-changing thread available at greater widths than was previously the case. The feature builds upon De La Rue's Starwide® and Cleartext® machine readable holographic thread technology and offers high security particularly against digital reproduction. The current order book for banknotes is strong, with over six months' visibility, but there will be a slow down in shipments in the first quarter because of the unusually large number of new designs which, inevitably, take longer to process.

Papermaking

The current strength in the banknote order book is offsetting the continued weakness of the papermaking business. The main reason remains the absence of the India banknote paper order which, in 2000/2001, accounted for about 15 per cent of banknote paper volumes. We expect India to start tendering for paper during 2002 and their paper requirements to return to normal patterns in 2003/2004. However, elsewhere the papermaking business has had a satisfactory year with volumes, excluding India, up on the previous year.

During the year, sales of Platinum™, our durable paper alternative to polymer banknotes have again been encouraging. More generally, sales of high-security, high-value banknote paper continue to rise as customers look for an integrated approach to anti-counterfeit protection from both paper and print. Two years ago nearly 650 tonnes of banknote paper incorporating De La Rue's Colourshift security thread feature were sold. This year sales had grown to 1,500 tonnes of banknote paper with several important new customers placing orders.

Market Overview

Over recent years the traditional distinction between commercially available and state-produced unavailable markets has become progressively less meaningful. This is due to the privatisation of some state-owned producers and the opening up of procurement practices in certain territories which previously only produced their own banknotes. Similarly the boundary between banknote printing and papermaking continues to be eroded as new anti-counterfeiting technologies span the old barriers between the two. As the world's largest commercial banknote papermaker and printer, De La Rue is well positioned to exploit these emerging trends and today we are involved in the production of nearly one in five of the world's banknotes.

Import duties paid before goods are shipped is one of the considerable benefits fiscal stamps offer to governments: a quick and efficient revenue collection. De La Rue has won a five year contract to supply fiscal stamps to the Republic of Kyrgyzstan where the Company has been a supplier since 1996. The contract will involve the provision of a variety of tobacco and alcohol stamps, designed to meet the detailed specification produced by the Kyrgyzstan Ministry of Finance. De La Rue won the contract despite stiff competition thanks to its ability to provide a cost-effective yet upgraded product with a high print specification and proven security features.

Currency Manufacturing Strategy

In March 2002, we announced the decision to close our banknote printing facility in Singapore. This followed a comprehensive review of our global banknote printing operations, which highlighted major advances in efficiency and flexibility that have been achieved in all our plants over the last three years. As a result of the review we decided to focus our printing operations in our other four factories in the United Kingdom, Malta, Sri Lanka and Kenya. By reorganising these locations, four factories will be able to produce the same volume of banknotes as were previously produced by five plants while continuing to provide our worldwide customer base with the highest levels of service and flexibility that they expect and receive from De La Rue.

The estimated cost of closure, which was expensed in 2001/2002, is £7.3m (pre-tax) of which around £3.0m is non-cash. The reorganisation, involving the transfer of capital equipment from Singapore and some additional resourcing at the remaining sites to handle their increased throughput, is well under way and is expected to be completed by the end of December 2002. As a result the main financial benefits of the move will only be felt in the 2003/2004 financial year.

Security Products

As discussed earlier, performance in the non-banknote security printing business was disappointing with results down substantially on last year although this did include a £1.3m rationalisation cost (mainly redundancies at High Wycombe). In response we have initiated a manufacturing review, which we believe will start to deliver major operational improvements, as well as improve the focus and competitiveness of the business going forward. Operational focus for the security print factories has been strengthened by the appointment during last year of an overall Manufacturing Director.

In the UK, performance at our three print manufacturing facilities has been mixed. Our High Wycombe site in particular has given us cause for concern and we have already taken action to improve the operational performance of the business, which is currently loss-making. Elsewhere in the UK, our Peterborough site performed more in line with our expectations and demand at our Dunstable facility was well ahead of last year. At Bathford, our pulp-based security paper facility volumes were similar to last year and the business performed in line with our expectations.

In the USA, our Dulles travellers cheque facility had a disappointing year, compounded by the late delivery of new automated equipment. Performance at De La Rue Tapes, which produces security threads for banknotes was particularly disappointing. The business's move to a new modern facility caused some short-term disruption and projected sales of euro thread to currency manufacturers were affected.

De La Rue's previous track record with Microsoft, particularly in supplying manufacturers worldwide and providing 24-hour customer service, helped secure a new contract to produce labels for the software for their recently launched Xbox™ games console. With counterfeiting a major problem in the computer games industry, the labels feature a hologram designed to prevent piracy and enable Microsoft investigators and customs officials to identify fake products.

Global Services

	2002 £m	2001 £m	change £m
Sales	**48.1**	47.9	+0.2
Operating profit*	**0.5**	1.0	–0.5

*before goodwill amortisation of £0.6m.

The division had a very poor start to the year and we announced a disappointing first half loss of £2.7m at our interim results. It was pleasing to reverse Global Services' first half losses despite incurring £1.1m of rationalisation costs. Overall, however, we still have much to achieve if we are to realise the opportunities that exist to expand the business to its full potential.

Our Identity Systems business has performed well under the new organisation structure and has secured several new contracts. One of the more direct repercussions of the September 11 terrorist attacks is the continuing concern about the need for governments to provide a secure means of identification for their citizens. De La Rue is well positioned to advise our government customers in this area and longer term we see excellent potential for growing our Identity Systems business.

During the year the business won a major contract to supply passports and national identity cards for Chile (sales value of US$23m over eight years). Under the contract De La Rue will supply approximately 13m identity cards and nearly 1m digitally in-filled passports, which will be distributed from over 300 sites across the country. The identity card uses De La Rue's Fortas® technology combining a lifespan of 10 years with anti-tamper and counterfeit protection developed exclusively for government use. This will include a combination of security features and will also incorporate laser engraving for biodata and biometric identification. In addition the Mexico passport issuing systems contract was extended for five years following the successful initial two-year roll out contract.

This year we were also pleased to retain our contract with the New York State Department of Motor Vehicles (NY DMV) to provide its driver's licence solution, following a competitive tender. The new six-year contract (sales value US$22m over six years) is a self-funding programme for the NY DMV and will provide the state with an even more secure driver's licence. This is in line with moves to upgrade driver's licence security across the USA. De La Rue will provide a secure central card production facility for around 25,000 licences a day, as well as automated image-capture systems at 121 NY DMV offices.

Progress in our Brand Protection business, however, has been slower and during the year the business faced difficult trading conditions. While there was some success in securing further small scale or pilot projects we have yet to convert many of these into larger ongoing projects. Development was hindered by the events post September 11 as many brand owners themselves have faced difficult trading environments. It was, however, pleasing to secure our first commercial implementation of De La Rue's track & trace technology solution. This combines a range of hardware and software technologies to give companies secure internet access to comprehensive data about their products. It allows brand owners to know exactly where their products are in the supply chain as well as enable products to be authenticated. Under a scheme funded by the UK government De La Rue will work with Allied Domecq, the drinks manufacturer, and pallet and container operator, CHEP International, to test the new approach.

Our Holographics business had a strong second half, which compensated for a disappointing first half. While we have enjoyed a strong order book on the banknote side of the business, production delays during the first half, related to the supply of optically variable devices to the banknote sector, held back the business's progression this year. It is pleasing that we were able to deliver against these orders in the second half.

Major paper manufacturers have approved De La Rue for the supply of holographic stripes used in the lower denomination euro notes. In addition to the building of a new secure facility for De La Rue's Tapes business, investments have been made in new machinery and new processes have been introduced to reinforce De La Rue's position as a major player in this market.

In February 2002, we decided to cease offering a commercialised Public Key Infrastructure (PKI) service through our Interclear subsidiary. De La Rue acquired the business in 1999 for £1m with a view to developing a commercialised PKI solution for our customers. Unfortunately, uptake of these services was not as we would have hoped and as a result we made 20 people redundant from Interclear.

In October 2001, we disposed of our Transaction Services activities to alphyra group plc, a leading European provider of electronic transaction services and facilities. Transaction Services operated a network of payment terminals located in convenience retail locations supporting prepayments for utility bills and mobile phone electronic top-up. De La Rue sold the business because there was limited strategic and technical overlap between Transaction Services and the rest of De La Rue's businesses.

Paul Hollingworth
Finance Director

Financial Review

Financial Results

The excellent performance of our Cash Systems division, profits up £19.0m, coupled with a marvellous result on cash generation across the Group, were the main drivers behind the strong financial performance of the Group in 2001/2002. Profits before tax were up 15.7 per cent, net cash has increased by £13.9m to £50.0m and the recommended final dividend is up seven per cent. Shareholders' funds increased by £57.9m to £312.8m. For the third consecutive year De La Rue produced double digit returns for shareholders as measured by total shareholder return (TSR). TSR for the 12 months ended 30 March 2002 was 17.9 per cent.

Exceptional Items

The net after tax exceptional gain was £15.1m (2001 gain of £6.2m) and full details are given in note 4 to the accounts. Exceptional pre-tax costs of £11.1m were charged to operating profits and relate to the closure of the Singapore banknote printing factory (announced on 26 March 2002) and the costs of integrating the CSI acquisition (announced on 30 May 2001) into the Currency Systems activity of Cash Systems. Non-operating exceptionals resulted in a pre-tax gain of £24.2m. The two most significant items were the disposal of our 50 per cent stake in De La Rue Giori SA (gain of £9.0m net of arbitration costs) and the disposal of all of our shareholding in Koenig & Bauer AG, the German manufacturer of printing presses (gain of £9.5m).

Cash Flow and Bank Balances

Cash flow continues to be a key strength with £88.3m being generated by operations during the period, and the overall net cash position was £50.0m, a further £13.9m ahead of last year despite £57.6m being spent on acquisitions during the year.

Stock levels were £17.2m higher at the year end, the major element of which, was the impact of acquisitions within Cash Systems. Following the previous year's heavy capital programme, capital expenditure at £21.6m was £4.0m below depreciation and for next financial year is expected to run at a similar level to depreciation.

Disposals during the year raised £3.0m and acquisitions cost £57.6m. The employee share scheme trust and executive share scheme trust both acquired shares during the year at a total cost of £14.9m (representing three million ordinary shares) using monies lent by the Company. After the year end £13.7m was received on the disposal of all of our stake in Koenig & Bauer AG which happened just prior to the year end.

Although tax payments at £11.2m were £5.8m up on 2000/2001, they are at a low level relative to Group profits which continues to reflect utilisation of prior period assessable losses and good tax planning. We do anticipate tax payments moving more into line with the Group's effective tax rate over the next two to three years.

Dividends received from associates of £28.3m were at an exceptionally high level, mainly because Camelot has been paying out retained surpluses which arose over the first licence period. There is a further final dividend, of which De La Rue's share is estimated at £5.4m, to be paid by Camelot in June relating to the first licence.

Share Buy Back

The Company has announced its intention to commence a share buy back programme for up to 10 per cent of the issued share capital. As can be seen from the Company's strong financial situation, coupled with £200.6m of committed facilities, the buy back will not place a strain on the balance sheet.

Interest Charge

The Group's net interest income was £2.6m (including interest received by associates of £3.0m). Excluding interest received by associates, the net interest charge was £0.4m, a £0.8m improvement on the same period last year mainly as a result of interest received on tax repayments and lower interest rates.

Estimated impact of FRS 17

	£m
Operating result	
– current service costs	(9.6)
Finance charges	
– expected return on assets	31.8
– interest on liabilities	(21.8)
	10.0
Profit before tax effect	0.4

Group Assets and Cash/Debt by Principal Currency

	2002 Group Assets £m	2002 Cash/(debt) £m	2002 Net Assets* £m	2001 Net Assets* (restated) £m
UK	152.6	89.3	241.9	188.5
USA	69.9	(62.8)	7.1	15.5
Eurozone	14.4	18.1	32.5	23.7
Rest of World	25.9	5.4	31.3	27.2
Total	262.8	50.0	312.8	254.9

*excluding minority interests

Principal Exchange Rates

	2002 Average	2002 Year End	2001 Average	2001 Year End
US Dollar	1.43	1.42	1.48	1.42
Euro	1.62	1.63	1.64	1.61
Swiss Franc	2.43	2.39	2.52	2.45

Taxation

The adoption of FRS 19 has resulted in the restatement of last year's effective tax rate upwards from 23 per cent to 27 per cent (both half year and full year) as well as a credit to shareholders' funds (as at 31 March 2001) of £43.9m, as a result of bringing on balance sheet a deferred tax asset. The underlying effective tax rate has increased from 27 per cent to 27.6 per cent. The increase in the effective rate is mainly because of the changing geographical mix of the Group's earnings to higher tax rate jurisdictions. The effective tax rate of 27.6 per cent is lower than the standard UK corporate tax rate of 30 per cent because of tax credits in respect of earlier years (£2.6m) and because some of the Group's activities are based in lower rate tax regimes.

FRS 17 – Pension Charge

The Company has adopted the transitional arrangements available under FRS 17 for the year ended 30 March 2002 and has given the relevant disclosures under note 23 to the annual accounts.

However it is the intention to fully adopt FRS 17 for the year ended 29 March 2003. As at 30 March 2002 the estimated impact of FRS 17 on the Group's balance sheet would be to recognise a pre-tax surplus of £63.6m (£44.4m after tax). The estimated impact on the profit and loss account for the year ended 30 March 2002 would have been as shown in the table above.

The net credit of £0.4m under FRS 17 compares to a net charge under SSAP24 for the relevant UK pension schemes of £2.0m as recorded in the accounts for the year ending 30 March 2002.

Borrowing Facilities

As at 30 March 2002, the Group had committed facilities of £200.6m, of which £25.0m expires within the next 12 months and the balance expires on various dates up to 2 October 2006 and have an average remaining life of just over two years. Drawings under these facilities at 30 March 2002 totalled £31.2m. In addition, the Group has uncommitted facilities of £50m.

Treasury Operations

Group Treasury provides a central service to Group companies and conducts its operations in accordance with clearly defined guidelines and policies, which have been reviewed and approved by the Board. Treasury transactions are only undertaken as a consequence of underlying commercial transactions or exposures.

Exchange

Forward exchange contracts are entered into to cover transactional exposures with the emphasis on net cash flow over a rolling 12-month period. Overseas earnings are not hedged. The two main foreign currencies in which the Group transacts are US dollars and euros. As at 30 March 2002 the Group had sold forward US$41.1m at an average rate of $1.42 and €48.5m at an average rate of €1.61. Principal exchange rates used in translating the Group's results are shown in the table above.

The net impact of average exchange rates on translation of foreign earnings has been to depress profits before tax by £0.6m for the year ended 30 March 2002.

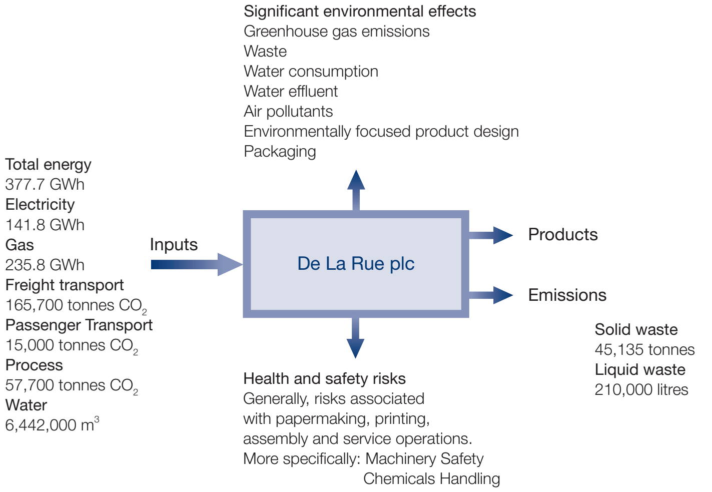
The analysis of the Group's assets and related cash/debt by principal currency is tabulated above. Since 30 March 2002 the Group has converted £14m of euro assets into Sterling following disposal of the investment in Koenig & Bauer.

P L Hollingworth

Paul Hollingworth
Finance Director

Figure 1

Summary of Significant Risks and Effects



Environment and Health and Safety

We have included for the first time a separate report on environmental, health and safety ("EHS") matters. It sets out our key risks and shows the effects of our operations on the environment by measurable data. This will be the benchmark for measuring performance in subsequent years and enables us to set targets for improvements. The report also describes in more detail our objectives and the systems we operate in key areas as well as highlighting developments in the past year and challenges for the future.

Proper management of environmental and health and safety risks is key to any business because it affects not only its stakeholders but also its profitability. De La Rue's impact on the environment is less severe than that of many industries and our processes are for the most part not high risk. However, we recognise our environmental impacts and strive to minimise these and to safeguard the health and safety of our employees.

EHS Policies

The key features of our EHS policies in relation to our stakeholders are:

- A firm commitment to preventing pollution and accidents or ill health and to continuous improvement
- A commitment to identify, control, reduce or eliminate both health and safety risks and significant environmental impacts
- To provide a clear definition of EHS responsibilities throughout the organisation
- An overriding commitment to comply with legislation
- To conduct annual managerial reviews of our progress and review these policies based on findings.

Management Assurance

The Board is ultimately responsible for EHS matters and is committed to ensuring that the Group's policies are implemented. It receives a quarterly report from the Group Risk Committee, details of which are set out on page 30. The Chief Executive is the Board member responsible for EHS matters and chairs the Environmental Steering Group while the Company Secretary chairs the Health and Safety Steering Group.

Management Systems

Implementing our EHS policies and driving continuous improvement depends on leadership from the top, education, training and effective management systems. These allow us to achieve and demonstrate sound performance and control over the impact of our activities. The systems focus on auditing activities, collecting and disseminating information and are supported by a structure of EHS professionals.

EHS information is provided to the Group Risk Committee from quarterly site reports, an annual health and safety self-assessment and environmental questionnaire. All are designed to measure overall performance against corporate standards. This information is analysed on both a scheduled and ad-hoc basis. All reported data must also be verified by site general managers to ensure that information is complete and accurate.

We are continuing to implement an ISO 14001 accredited Environmental Management System (EMS) at our key sites while further integrating our Group-wide procedures to provide an overall framework for EHS management.

We shall continue to refine our EHS benchmarking and audit programme, using the results to review our policies and measure progress. We are also developing an intranet-

Figure 2

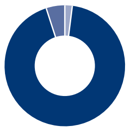
Greenhouse Gas Emission

Freight Transport	50%
Process	17%
Gas	14%
Electricity	13%
Passenger Transport	5%
Other fuels	1%

Total 331.6 tonnes CO_2 (000s)

Figure 3

Water Consumption

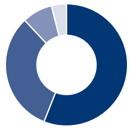


Currency	93%
Global Services and Security Products	5%
Cash Systems	2%

Total 6,442 m^3 (000s)

Figure 4

Total Solid Waste



Cash Systems	56%
Currency	32%
Global Services and Security Products	8%
Group	4%

Total 45,135 tonnes

based information and management tool, which will provide a consistent Group-wide approach to improve EHS management and internal control processes. This will also improve the communication throughout the Group.

EHS professionals are employed at Group, Divisional and site level to provide advice and support in communicating our policies to our employees while exchanging information and best practice between divisions and sites. This is done formally through the Environmental and the Health and Safety Steering Groups.

Awareness and Culture

Prudent EHS management depends on a shared commitment and an understanding of roles and responsibilities by all employees, especially senior management. Line managers, ultimately responsible for EHS matters, receive support from the Group EHS Manager and site EHS professionals. An EHS briefing for all employees is now included in the quarterly business briefings.

In 2001 we held a second Health and Safety conference which was attended by senior management and health and safety representatives worldwide. The theme was improving the safety culture. A pilot project on safety culture and promotion of safe behaviour will begin at our Overton facility in 2002.

An environmental training programme supports the management systems and is undertaken at those sites that have implemented an EMS. Other sites provide training required to meet their specific needs. Appropriate health and safety training is provided to all employees dependent on role and risk exposure. The challenge for 2002/03 is to expand our current corporate EHS standards, including more formalised health and safety training programmes at all levels, throughout the Group.

Identification of EHS Risks and Effects

Figure 1 (page 22) summarises the significant risks and effects.

EHS Performance Indicators

We have introduced various monitoring systems which enable us to measure our EHS performance against specific indicators. We will continue to refine them so specific targets can be set against the four areas reported below.

Environment

Highlights and Challenges

We are pleased that a manufacturing site from each Division achieved ISO 14001 accreditation this year. During 2002/2003 five print locations, the De La Rue Tapes facility in Westhoughton (UK) and the Cash System's assembly operation in Watertown (USA) will start implementing an EMS to obtain ISO 14001 accreditation. We also wish to achieve accreditation at both of our paper mills and at another printing factory in the UK. We shall continue to develop a corporate environmental guidance manual and procedures across De La Rue's operations.

Environmental Indicators

Greenhouse Gases (GHG) – Figure 2 (above). Third-party freight transport contributed to 50 per cent of Carbon Dioxide (CO_2) emissions in 2001/2002. We will be working with our freight forwarders and other suppliers to see how this might be reduced in future. Gas and electricity consumption accounted for 27 per cent of our GHG emission. Key sites are reviewing and implementing energy efficiency measures to reduce this emission. Manufacturing processes generated 17 per cent of our GHG emissions. These are generally associated with combustion of solvent fumes and are strictly controlled through Government agencies.

Figure 5

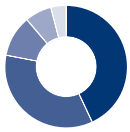
Total Liquid Waste by Division

- Global Services and Security Products 65%
- Currency 35%

Total 210,000 litres

Figure 6

Total Liquid Waste by Type



- Adhesive waste 43%
- Paper-making waste (PVOH/Galantine/Dyes) 35%
- Water inks/Solvent 7%
- Photographic and plating waste (Chrome/Copper/Zinc) 4%
- Other 11%

Water Consumption – Figure 3 (page 23). Currency, and in particular the paper mill at Overton, our largest plant, accounts for the most significant share of water consumption in 2001/2002. We continue to consult with the Environment Agency on possible water efficiency measures. These include process efficiencies, improving housekeeping and recycling more waste waters.

Solid Waste – Figure 4 (page 23). Cash Systems and Currency are the main producers of solid waste. Approximately 1.3 per cent (593 tonnes) of our solid waste is classified as hazardous and consists of dried ink wastes or solvent impregnated rags. Non-hazardous solid wastes comprise mainly paper and cardboard used in packaging, and cotton or wood fibres from the paper mills which are used as an agricultural soil conditioner. We currently recycle 50 per cent of our non-hazardous solid waste and we are developing ways to improve this recycling rate.

Liquid Waste – Figures 5 and 6 (above). This generally results from using chemicals to produce paper or printing plates or for cleaning in the papermaking or printing processes. The sites that generate liquid waste are all included in the ISO 14001 implementation programme. We are currently developing Group guidance on waste management and minimisation to ensure control across all operations.

Health and Safety

Highlights and Challenges

A corporate health and safety guidance manual details expectations and procedures for the management of health and safety across De La Rue's operations. It supports the Group policy and provides detailed guidelines on specific health and safety matters.

Each site now has a health and safety action plan which enables closer monitoring by the Group.

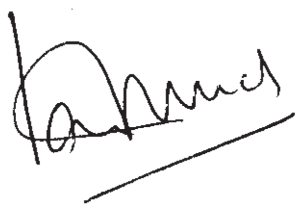
Our aim is to develop an EHS reporting system across the Group which will enable us to address the most important areas in order to reduce accident rates while enabling individual sites to share experiences.

Performance

Accidents – There was a total of 462 incidents worldwide, of which 72 were over-3-day injury accidents for 2001/2002. The most common kinds of accident are slips, trips and falls, and those involving contact with moving or falling objects. The Health and Safety Steering Group now analyses accident statistics in order to reduce accidents and ill health.

Full copies of our EHS policies are available on our website, or from the Company Secretary, details of which are on page 65.

By Order of the Board



Ian Much
Chief Executive

Directors and Secretary

Sir Brandon Gough,
Non-executive Chairman #†‡ 64
was appointed to the Board in February 1994 and became chairman of the Company with effect from 23 July 1997. He is also chairman of the Nomination Committee of the Board. He is currently chairman of Montanaro UK Smaller Companies Investment Trust plc and Montanaro European Smaller Companies plc and a non-executive director of Singer & Friedlander Group plc. He was a non-executive director of Innogy Holdings plc before its takeover by RWE AG and was chairman of Coopers & Lybrand from 1983 until April 1994.

Ian Much,
Chief Executive † 57
joined the Group as chief executive on 1 September 1998. He was formerly with T&N plc for 10 years, 18 months of which he spent as chief executive. He is a non-executive director of Manchester United PLC and was previously a non-executive director of Admiral plc until its acquisition by CMG plc.

Paul Hollingworth,
Group Finance Director Ø 41
joined the De La Rue Board as group finance director on 1 August 1999. He is chairman of the Risk Committee of the Board. Prior to his appointment he was a director of English China Clays plc where he became finance director in March 1999 before its takeover by Imetal. From 1994 to 1997 he was finance director of Ransomes plc and then VP Finance of Textron Turf Care and Speciality Products following Textron's takeover of Ransomes plc. He was previously group financial controller at Unigate PLC. He will resign from the Board on 30 June 2002 in order to become finance director of BPB plc.

Nicholas Brookes,
Non-executive †‡ 54
was appointed to the Board in March 1997. He is chairman of the Remuneration Committee of the Board. He is chief executive of Spirent plc and a director of Corporacion Financiera Alba SA. He was vice president of Texas Instruments Incorporated and president of the Materials and Controls Group. He is the Company's senior independent non-executive director.

Philip Nolan,
Non-executive #‡ 48
was appointed to the Board on 1 September 2001. He is chief executive of Eircom Ltd, the Irish telecom group, a post he has held since January 2002. He was previously chief executive of Lattice Group plc which was demerged from BG Group plc in October 2000, where he held various senior management positions since 1996. He spent 15 years with BP in various operational and strategic roles.

Keith Hodgkinson FCMA,
Non-executive #‡ 58
was appointed to the Board on 19 April 2000. He is chairman of the Audit Committee of the Board. He is chief executive of Chloride Group plc, a post he has held since March 1992. His previous career was with GEC plc (now Marconi plc) where he held a number of senior appointments.

Michael Jeffries,
Non-executive #‡ 57
was appointed to the Board on 19 April 2000. He is chairman of WS Atkins plc, prior to which he was chief executive since 1995. He has held various senior management positions since joining that company in 1975 and has wide ranging business experience, running service operations across Europe, the Middle East, Asia Pacific and Africa. He was appointed chairman of Wembley National Stadium Ltd in April 2002.

Louise Fluker,
General Counsel and Company Secretary Ø 48
joined De La Rue in 1984 from the UK Civil Aviation Authority. She was appointed general counsel and company secretary in April 1999 and is also responsible for non-financial risk management.

Member of the Audit Committee of the Board
† Member of the Nomination Committee of the Board
‡ Member of the Remuneration Committee of the Board
Ø Member of the Risk Committee of the Board
Ages stated are those on 30 March 2002

Directors' Report

The Directors present their annual report together with the audited financial statements of the Group and the Company for the year ended 30 March 2002.

Principal Activities and Business Review

De La Rue is the world's largest commercial security printer and papermaker, involved in the production of over 150 national currencies and a wide range of security documents such as stamps and vouchers as well as brand protection solutions. The Company is also a leading provider of cash handling equipment and solutions to banks and retailers as well as a range of identity systems to governments worldwide. De La Rue also acts as a strategic partner and adviser to customers offering them total solutions in areas of activity that capitalise on De La Rue's reputation for security, integrity and trust. A review of the business is discussed on pages 14 to 19.

Results and Dividends

The Group's profit before taxation including its share of the profits of associated companies amounts to £100.9m. Shareholders' profit for the year was £77.2m after deducting taxation and minority interests. The Directors are recommending a final ordinary dividend for the year of 9.2 pence. Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 9 August 2002 to ordinary shareholders on the register on 12 July 2002. An interim dividend of 4.2 pence per ordinary share was paid on 8 April 2002 making a total of 13.4 pence per share (2001 12.6 pence per share) for the year.

Future Developments

Intended future developments in the Group's business are discussed in the Chief Executive's review on pages 11 to 13.

Post Balance Sheet Events

On 22 March 2002 the Company announced that it had agreed to purchase the banking automation business of Sociedade De Representacoes De Papel E Maquinas De Escritorio, S.A. ("Papelaco"), a leading manufacturer of self-service banking technology based principally in Portugal and Spain. The transaction will complete once it has been approved by the Portuguese competition authorities. The cash consideration will be €26m (£16m), representing estimated net assets of €10.5m (£6.5m) and estimated goodwill of €15.5m (£9.5m) with a further payment of up to €10.5m (£6.5m) dependant on certain performance criteria being met, linked to sales and margin growth. The costs associated with integrating the Papelaco business, mainly concerning systems and processing integration, are not expected to exceed €1.5m (£0.9m).

On 28 March 2002 the Company announced the disposal of its 6.27 per cent interest in Koenig & Bauer AG for a gross consideration of €22.4m (£13.7m). Settlement took place on 12 April 2002.

The Company announced on 16 April 2002 that Paul Hollingworth, group finance director, had decided to accept the job of finance director of BPB plc and consequently he will resign as a Director of De La Rue plc at the end of June 2002.

On 29 May 2002 the Company announced that it had acquired 85 per cent of the share capital of Sequoia Voting Systems Inc., one of the largest providers of voting equipment, software, ballot printing and election services in the USA, from Jefferson Smurfit Group plc, for a cash consideration of US$23m (£15.8m) with a further payment of up to US$12m (£8.3m) dependent on certain performance criteria being met being linked to sales growth.

Share Capital

Details of shares issued during the year are provided in note 19 to the financial statements on pages 52 and 53.

The Companies Act 1985 requires that any shares issued wholly for cash must be offered to existing shareholders in proportion to their existing holdings unless authorised to the contrary by a resolution of the shareholders. Resolutions giving such authority were passed in 2001. Authorities to renew for one year the power of Directors to allot shares pursuant to sections 89 and 95 of the Companies Act 1985 will be sought from the shareholders at the Annual General Meeting.

The Company was granted authority by its shareholders at the 2001 Annual General Meeting to purchase a maximum of 10 per cent of its own shares for cancellation. On 29 May, the Company announced in the Preliminary Statement of its results, that it intended to implement a share buy-back programme within the limits authorised by shareholders. This authority will expire at the forthcoming Annual General Meeting and a resolution will be put to shareholders to renew the authority for a further period of one year.

Further details are contained in the Chairman's letter to shareholders dated 14 June 2002.

Share Option Schemes

The Company currently operates a savings-related share option scheme for all employees, executive and phantom share option schemes for executives, and a share price improvement plan for senior key managers, details of which can be found on pages 33 to 35.

It is intended to introduce, subject to shareholders' approval, new share option schemes to replace the share price improvement plan and executive share option scheme, to modify the phantom share option scheme, to renew the savings-related share option scheme, and to authorise a share incentive plan. Resolutions will also be put to shareholders to establish a matching shares scheme and a new US employee share purchase plan. Details are described in the Chairman's letter to shareholders.

Substantial Shareholdings

As at 28 May 2002 the following persons on the share register had notified the Company of the following interests of three per cent or more in its issued ordinary share capital:

Person notifying	Number of ordinary shares held	Percentage of shares held
Schroders plc	27,883,455	14.27
Silchester International Investors	22,028,343	11.27
Britannic Asset Management	7,403,684	3.79
FMR Corp.	5,965,688	3.05

Going Concern

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

Directors' Responsibilities

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

The Directors consider that in preparing the financial statements on pages 36 to 62 the Group and Company have consistently applied appropriate accounting policies, supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

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

Research and Development

The Company considers that research and development (R&D) aimed at improving and developing innovative solutions to serve our customers better is essential in order to maximise the growth opportunities in our markets. The Company operates a central research and development function with centres of excellence in particular technologies based at various operating units in order to provide a more co-ordinated approach. Already the improved access to all of the Group's technical skills has benefited both the launch of euro products and the development of new products for Global Services. The R&D function agrees an R&D programme with each business as part of the budget and business planning cycle.

Corporate Governance

A report on corporate governance and compliance with the Combined Code appended to the Listing Rules of the Financial Services Authority is set out on pages 29 to 31.

Directors

The names of the Directors at 30 March 2002 are given on page 25. A table giving details of their interests as at 30 March 2002 is shown opposite.

All the Directors held office throughout the entire year except Dr Philip Nolan who was appointed to the Board on 1 September 2001.

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

The non-executive Directors hold letters of appointment which will be displayed at the Annual General Meeting, together with the executive Directors' service contracts. Ian Much and Paul Hollingworth, prior to his resignation, have 12-month rolling contracts.

Lord Wright retired as a Director on 19 July 2000 but continues to provide consultancy services pursuant to an agreement with the Company from 20 July 2000 until 19 July 2002 on an anticipated basis of not more than 20 days during each year. Michael Pugh who retired on 6 April 1999 had a one year consultancy agreement which ran from 7 April 1999 and was renewed twice, on the basis of four working days per month, expiring on 31 March 2002.

Directors' Interests

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

	30 March 2002	1 April 2001 or date of appointment
Brandon Gough	**8,714**	8,714
Ian Much	**38,250**	38,250
Nicholas Brookes	**13,950**	13,950
Keith Hodgkinson	**4,628**	–
Paul Hollingworth	**8,500**	8,500
Michael Jeffries	**10,000**	–
Philip Nolan (appointed 1 September 2001)	**–**	–

There have been no changes in Directors' interests in ordinary shares since 30 March 2002. All interests of the Directors and their families are beneficial.

The market price of the ordinary shares at 30 March 2002 was 463.5 pence and the price range during the year was 400 pence to 535 pence.

Interest in Shares Under Trust

As at 30 March 2002 executive Directors are deemed to have an interest as potential discretionary beneficiaries under the De La Rue Employee Share Ownership Trust (4.1 million ordinary shares) and the De La Rue Qualifying Employee Share Ownership Trust (one million ordinary shares). The shares are held in trust and will be used to satisfy existing options under the De La Rue Share Price Improvement Plan, De La Rue Executive Share Option Schemes and the De La Rue Sharesave Scheme.

Qualifying Employee Share Ownership Trust (QUEST)

The QUEST was established to operate in conjunction with the Company in providing shares to employees under its Sharesave Scheme. During the year, the QUEST subscribed for 874,663 new ordinary shares in De La Rue plc for a total consideration of £3.7m. The shares were all transferred to participants in the Sharesave Scheme who exercised options at a price of 150 pence per share.

Directors' Remuneration

Details of the remuneration and share options of each of the Directors are set out in the Remuneration Report on pages 32 to 35.

Directors' Report

Employees
The Group aims worldwide to employ people of high quality, to encourage creativity and initiative, to recognise individual and team contributions and to give all employees the chance of developing their potential. The Group promotes employee involvement through a policy of communication and consultation. The Company newsletter, the intranet communications channel and a more traditional house notice have been further strengthened by the introduction of quarterly briefings, a two-way communications programme designed to maximise dialogue. In addition, the fifth meeting of the De La Rue European Employee Forum took place in June 2001 for consultation and the exchange of information between senior management and elected employees. Innovation Awards, now in their third year, are presented annually to recognise and reward employees who have the best and most innovative ideas which will benefit the Company.

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

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

Litigation
De La Rue announced the conditional sale of its 50 per cent shareholding in De La Rue Giori SA to Koenig & Bauer AG on 18 May 2001. At the same time, De La Rue announced the agreement with M. Roberto Giori, chairman of De La Rue Giori SA and Dynavest Holding & Cie SCA, the other shareholder, whereby all claims and counter claims by each party against the other were settled conditional upon completion of the disposal of De La Rue Giori SA to Koenig & Bauer AG. On 30 May 2001 the disposal was completed for CHF 50m (£20m).

Payments to Suppliers
Given the international nature of the Group's operations the Group does not operate a standard code for payments to suppliers. Operating companies must agree terms and conditions of business with their suppliers, including payment terms, taking account of any applicable legal requirements. The Group's policy is for suppliers to be paid in accordance with these terms. Creditor days for the Group have been calculated at 40 days (2001 46 days).

Charitable and Political Donations
Donations for charitable purposes amounting to £127,650 (2001 £132,500) were made during the year. The De La Rue Charitable Trust is a registered charity which aims to direct funds to causes around the world in countries where the Company operates, with the emphasis on educational projects which promote relevant skills, international understanding and relief from suffering.

During the same period Camelot Group plc, an associated company, paid £2m to the Camelot Foundation (£3m paid in 2001) and a further £1m (2001 £0.3m) to other community and charitable organisations. The Camelot Foundation is a registered charity set up to support organisations which help disabled and disadvantaged people play a fuller part in the workplace and in the community.

There were no political donations.

Auditors
A resolution to reappoint PricewaterhouseCoopers as auditors of the Company will be put to members at the forthcoming Annual General Meeting.

Annual General Meeting
The Annual General Meeting will be held at 12 noon on Wednesday 17 July 2002 at Winchester Guildhall, The Broadway, Winchester, Hampshire SO23 9LJ. The notice of the Annual General Meeting, including a letter from the Chairman, accompanies this annual report.

By order of the Board

Louise Fluker
Company Secretary
28 May 2002

Corporate Governance

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

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

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

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

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

The Company's auditors, PricewaterhouseCoopers, have reviewed whether the statement reflects compliance with the specified provisions of the Combined Code as required by the Financial Services Authority and their comments on this can be found in the Auditors' Report on page 35.

Principles of Business Conduct

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

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

Board of Directors

The main functions of the Board are to lead and control the Company ensuring a clear division between the management of the Board and the executive Directors' responsibility for managing the Company's business. The Board comprises the non-executive Chairman, the Chief Executive, the Finance Director and four non-executive Directors ensuring a balance exists so that no individual or small group can dominate decision taking. The Directors' biographies appear on page 25.

The non-executive Directors, all of whom are considered by the Board to be independent, have an appropriate range of business, financial and global experience which is relevant to the Company's activities. Nicholas Brookes is the Company's senior independent non-executive Director. During the year no new Director has joined the Board who has not previously been a member of a board of a company which is fully quoted on the London Stock Exchange.

While the Company has no formal external training programme, all new Directors are provided with a full induction programme into the activities of the business and are provided with a comprehensive information pack on joining the Company. Directors are briefed, where appropriate by the Company's external advisers, on changes to legislation or regulation or market practice. At least once a year the Board generally visits one site outside head office and Directors are encouraged to visit other sites and staff.

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

The Board generally meets 10 times a year; during 2001/2002 there were 10 meetings. The Board requires regular reports from management on key issues for which there is a prescribed timetable. Details are set out on page 31.

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

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

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

Committees of the Board

The Board has established Audit, Remuneration, Nomination, General Business and Risk Committees with appointed Chairmen and fixed terms of reference which are reviewed annually. Membership of these Committees is given in the Directors' biographies on page 25. Further details are given below.

Audit Committee

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

Remuneration Committee

Details of the Committee and of the remuneration policy can be found in the Remuneration Report on pages 32 to 35.

Corporate Governance

Nomination Committee
The Committee meets when necessary and makes recommendations to the Board to fill vacancies for executive and non-executive Directors. The Committee reviews the composition of the Board and Committees at least once a year. The Board, as a whole, approves the appointment and removal of Directors. The Committee has the power to employ the services of such advisers as it deems necessary in order to carry out its responsibilities.

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

Risk Committee
The Committee, chaired by the Finance Director, meets at least four times a year. Other members include the heads of key functions and representatives from each division. The core responsibilities are to:
- assist the Board by providing a framework for managing risk throughout the Company;
- provide an appropriate level of reporting of the status of risk management within the Company to the Board;
- enable any corrective actions to be taken.

The Risk Committee is also responsible for promoting awareness of risk management.

There are also various other Group-wide committees which deal with managing different areas of risk such as:
- Environmental Steering Group.
- Health & Safety Steering Group.
- Information Security Committee.

The key elements of risk are rated according to exposure and are then benchmarked through a combination of self audit and surveys by external specialists. Insurance premiums are allocated according to the scores. Benchmarking thus enables closer monitoring of non-financial risk as well as providing an incentive to improve risk management.

The Board delegates to the Chief Executive powers for the day-to-day management of the Company and to assist him in fulfilling his responsibilities he has established Executive and Management Committees.

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

All shareholders are entitled to attend the Annual General Meeting and receive a Notice of Meeting which is posted at least 20 working days before the Annual General Meeting. In 2001/2002 arrangements were made for shareholders to vote electronically.

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

The share register is actively monitored. During the year meetings take place with individual institutional shareholders and analysts and presentations are made at the time of major events.

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

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

In terms of audit and consulting services procured from external sources, De La Rue's procedures are:
- Audit-related services: this covers regulatory and statutory reporting and formalities relating to shareholder and other circulars. In addition to the annual appointment of auditors by the shareholders, the Audit Committee reviews the auditors' performance on an ongoing basis. PricewaterhouseCoopers also provide assistance to the internal audit team in auditing the Company's Group-wide information systems to ensure compliance with best practice and that a consistent approach is applied across the Group.
- Acquisitions and disposals: work related to disposals is usually undertaken by the external auditors due to their knowledge of the business concerned. The selection criteria for acquisition support include: detailed proposals, timescales, local resource and cost. The external auditors are not, therefore, always used for this work.
- Tax and remuneration: this is assessed on a case by case basis, depending on who is best suited to perform the work. The selection criteria are similar to those for acquisition support.
- General consulting: In recognition of increasing public and investor concern over the potential effects of consulting services on auditors' independence, the external auditors have not performed any significant general consulting work in recent years.

These safeguards, which are monitored by the Audit Committee, are regularly reviewed and updated to ensure they remain appropriate.

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

Compliance with Section 1 of the Combined Code on Corporate Governance
As required by the Listing Rules of the Financial Services Authority, the Company has complied throughout 2001/2002 with Section 1 of the Combined Code provisions on internal control by establishing the procedures necessary to implement the guidance issued by the Internal Control Working Party of the Institute of Chartered Accountants in England and Wales issued in September 1999 (the Turnbull Committee report) and reporting in accordance with that guidance.

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Through the Risk and Audit Committees (details of which are set out on pages 29 and 30), there is an established process for identifying, evaluating and managing any significant risks which are faced by the Company. This process has been in place throughout the year and up to the date of approval by the Board of the Annual Report and Accounts, and is regularly reviewed by the Board. The Board has conducted a review of the effectiveness of the Group's system of internal controls in the year. The review process used by the Board includes:

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

The procedures for internal control and internal financial control are set out in manuals distributed to all business units which are required to follow them and are also made available on the Company's intranet. Divisional managing directors, to whom general managers of each business report, are responsible for establishing and maintaining these procedures. A summary of the key procedures is provided to senior managers.

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

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

The financial control framework includes the following key features:

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

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

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

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

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

By order of the Board

Louise Fluker
Company Secretary
28 May 2002

Remuneration Report

The following is a report from the Remuneration Committee which has been approved and adopted by the Board.

Membership and Responsibilities

The Remuneration Committee consists exclusively of independent non-executive Directors. The members are: Nicholas Brookes (Chairman), Sir Brandon Gough, Keith Hodgkinson, Michael Jeffries and Dr Philip Nolan. Their biographical details appear on page 25. The Chief Executive is requested to attend meetings on an ad-hoc basis.

The Committee is authorised to and uses independent consultants to provide advice on remuneration levels among comparator companies, design of bonus incentive schemes and share option schemes and whether performance targets for share option schemes have been achieved. Watson Wyatt Partners, Monks Partnership and New Bridge Street Consultants have provided advice during 2001/2002.

The Chief Executive is consulted on the remuneration for the Chief Executive's direct reports and other senior executives. No executive Director or employee is present when his remuneration is being discussed.

The Committee is required by its terms of reference to determine Company policy for executive remuneration for approval by the Board.

Remuneration for Non-Executive Directors

The Board determines the fees paid to the Chairman and other non-executive Directors taking into account market norms, comparisons with companies of equivalent size and the duties required of non-executive Directors. The Board was advised by Monks Partnership during 2001/2002. Details of fees to the Chairman and other non-executive Directors are set out on page 33. The Chairmen of the Audit and Remuneration Committees each receive an additional fee of £5,000 for this responsibility. Non-executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's bonus or share option schemes.

Remuneration Policy for Executive Directors and Senior Executives

The Remuneration Committee takes into account the need to attract, retain and motivate executive Directors and senior executives of the right quality, while also avoiding paying more than is required. Performance-related elements of remuneration form a significant proportion of total remuneration packages. In particular the Committee approves:

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

The Committee regularly benchmarks key jobs and obtains detailed information from external and internal sources about current practices in a selected comparator group of companies in order to achieve its policy. The objective is to ensure that total remuneration packages are fair and competitive and reflect the responsibilities, experience and market value of each Director or senior executive. The Committee also seeks to ensure that the interests of the executives are aligned with those of the shareholders.

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

Salaries for Executive Directors and Senior Executives

Details of each individual executive Director's remuneration are set out on page 33.

Basic salaries reflect the responsibilities, market value and sustained performance level of executive Directors and senior executives. Individuals who sustain a superior level of performance will have a higher market value which is taken into account. Basic salaries are normally reviewed annually by the Remuneration Committee.

Annual Incentive Award

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

Executive Directors and senior executives are eligible to receive an annual incentive award which is paid as a percentage of basic salary and is based on achieving targets for the year set by the Remuneration Committee. For the financial year 2001/2002 the maximum incentive award for executive Directors was 80 per cent of basic salary and for direct reports of the Chief Executive up to 50 per cent of basic salary. The Committee considers each year what are appropriate performance measures to align the reward strategy with the business strategy and these will vary according to division in the case of divisional schemes or executive in the case of executive Directors and senior executives. Typical measures will include headline earnings per share, operating cash flow and operating profit together with specific personal objectives set for each individual. The incentive plan is structured so that there is no payment unless a minimum performance threshold has been achieved and the maximum payout will only be made if truly stretching and challenging targets are met.

The Committee has used a combination of these measures for the past three years and for the annual bonus scheme of 2002/2003. Once the design of the bonus scheme has been approved by the Committee it is then introduced throughout the business to eligible employees where participation is calculated by a percentage of their annual salary determined by their seniority.

Service Contracts

Non-executive Directors have letters of appointment specifying fixed terms of office. They do not have service contracts. The executive Directors have service contracts with a 12-month notice period and provision for compensation on termination not exceeding 12 months' remuneration.

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

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

As announced Paul Hollingworth will resign as an executive Director at the end of June 2002.

Benefits

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

Pension

All executive Directors and senior executives in the UK may join the senior section of the De La Rue Pension Scheme. The Scheme has an employee contribution rate of five per cent of basic capped salary (£95,400 for 2001/2002) for all salary levels. Members are provided with a pension of up to two-thirds of pensionable salary on retirement. The actual level of pension depends upon the number of years' service with the Group. The normal retirement age is 62 (except for Ian Much whose normal retirement age is 60) although accrued pensions may be drawn in full from age 60. The Scheme also provides a lump sum death in service benefit and pensions for dependants of members on their death. Executive Directors and certain senior executives for whom a personal pension arrangement is more appropriate as an alternative to joining the Company scheme can receive a Company contribution subject to Inland Revenue rules. In addition they may receive a payment into a Funded Unapproved Retirement Benefit Scheme ("FURBS").

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

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

Paul Hollingworth is eligible for a target pension from all sources of two-thirds of basic salary at the age of 62. Part of this benefit arises from previous employment. His target pension is provided through a combination of a FURBS and membership of the senior section of the De La Rue Pension Scheme. He is required to make a contribution of five per cent of basic capped salary to his pension arrangement and is covered for a lump sum on death in service based on four times basic salary, with a widow's pension of 40 per cent of basic salary in the event of death in service. The Company's external actuary assesses the Company's contributions to the scheme.

Share Schemes

Sharesave Scheme

All UK employees of the Company may join its Inland Revenue approved SAYE Scheme. Options are granted over De La Rue plc shares, at the prevailing market price at the time of grant (with a discretionary discount to the market price), to employees who agree to save between £5-£250 per month over a period of three or five years. A grant was made in December 2001 at a price of 434.10 pence which was a 10 per cent discount.

The Remuneration Committee believes that it is desirable to introduce all employee share schemes to appropriate jurisdictions outside the UK, subject to evaluating the financial, tax and legal implications and dilution limits.

Executive Scheme

The Company runs an Inland Revenue approved Executive Share Option Scheme which will expire in 2004. It also established an unapproved section to enable the grant of options to an individual

Directors' emoluments	2002 £'000	2001 £'000
Non-executive Chairman		
Sir Brandon Gough	111	106
Non-executive Directors		
Brian Birkenhead (resigned 19 July 2000)	–	9
Nicholas Brookes	30	28
Keith Hodgkinson	30	25
Michael Jeffries	25	22
Philip Nolan (appointed 1 September 2001)	15	–
Lord Wright (resigned 19 July 2000)	–	8
	211	198

	Salary 2002 £'000	Salary Increase %	Benefits 2002 £'000	Bonus 2002 £'000	Total 2002 £'000	Total 2001 £'000
Executive Directors						
Ian Much (highest paid Director)	385	6.94	54	188	627	650
Paul Hollingworth	225	7.14	20	128	373	369
	610		74	316	1,000	1,019
Non-executive Directors' fees					211	198
Aggregate emoluments					1,211	1,217

Directors' pension entitlements	Age at 30 March 2002	Years of pensionable service	Defined benefit scheme (£'000): Accrued benefit at 31 March 2001	Increase during year (excluding inflation)	Accrued benefit at 30 March 2002	Transfer value of increase in accrued benefit during year	Defined contribution schemes (£'000): Contributions over year to 30 March 2002	Contributions over year to 31 March 2001
Ian Much	57	4	4	2	6	26	174	151
Paul Hollingworth	41	3	5	3	8	19	53	50
			9	5	14	45	227	201

where the cumulative value of the employee's subsisting options at the date of a grant exceeds £30,000. Options granted under the Scheme since July 1996 can only be exercised if performance targets are met. The performance condition that has been applied to the 1997 grant and to all subsequent grants of options is that options can only be exercised if the total return of a share over a consecutive three-year period exceeds the total return of the median ranked company in the FTSE Mid-250 Index over the same period. Options granted in 1996 are normally exercisable only if over a rolling three-year period the total return of a share exceeds the average total return of the FTSE All Share Index. A Phantom Share Option Scheme is operated under similar rules to provide an equivalent cash incentive to some overseas employees in jurisdictions where the tax or securities laws make it impracticable to operate a share option scheme. The Phantom Scheme operates the same performance targets as the Executive Share Option Scheme.

The Company's policy is to grant share options under the Company's Executive Share Option Scheme in phases within 42 days after either the preliminary announcement of the year's results or the announcement of the interim results. Occasionally the Remuneration Committee needs to approve the grant of options at other times in order to attract a Director or senior executive to join the Company.

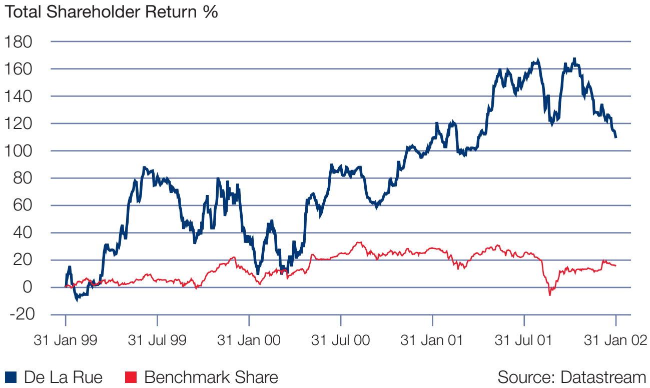
Executive share options are not granted at a discount to market price.

Share Price Improvement Plan

The Company established the Share Price Improvement Plan in July 1999. The objective of the Plan has been to achieve improvement in the Company's value by aligning shareholders' interests with those of senior employees. Twenty-three current employees have received options under the Plan and grants during the year were capped at a maximum of one times annual salary. The performance targets are challenging and measure the Company's progress over a number of specified periods. Options are exercisable on a sliding scale related to the Company's share price improvement over the performance period. In respect of the first, second and final annual grants of options under the Plan, unless the share price achieves a minimum target price of 322.95 pence, 392.22 and 557.06 pence respectively no options become exercisable. In addition, options may only be exercised if the Company's percentage increase in share price has equalled or exceeded the percentage increase in the FTSE 250 index (excluding investment companies) over the same performance period. If the share price performance permits options to be exercised they must be exercised within 12 months of vesting and optionholders must retain a proportion of shares for a minimum period of three years. There will be no further grants of options under the Plan.

During 2001/2002 no executive Director exercised any share options although options granted in September 1998 vested as the performance targets under the Executive Share Option Scheme were met. The performance chart on page 35 illustrates De La Rue's total shareholder return (TSR) compared to that of the median company within the FTSE 250 over the performance period.

Directors' share options	Date of grant	Number of options: 1 April 2001	Exercised during year	Granted during year	Lapsed during year	30 March 2002	Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date
Ian Much										
Executive Share Options	Sep '98	301,600	–	–	–	301,600	218.333	–	Sep '01	Sep '08
	Nov '99	204,002	–	–	–	204,002	333.330	–	Nov '02	Nov '09
Share Price										
Improvement Plan	Nov '99	315,800	–	–	–	315,800	215.300	–	Nov '02	Nov '03
	Jul '00	105,600	–	–	–	105,600	340.900	–	Jul '03	Jul '04
	Jun '01	–	–	76,000	–	76,000	506.420	–	Jun '04	Jun '05
		927,002		76,000	–	1,003,002				
Paul Hollingworth										
Executive Share Options	Nov '99	120,001	–	–	–	120,001	333.330	–	Nov '02	Nov '09
	Jul '00	60,200	–	–	–	60,200	348.330	–	Jul '03	Jul '10
	Jul '01	–	–	43,000	–	43,000	522.300	–	Jul '04	Jul '11
		180,201	–	43,000	–	223,201				



The Company is proposing to introduce new share option plans, details of which are set out in the Chairman's letter to shareholders which accompanies this annual report.

By order of the Board

Nicholas Brookes Chairman of the Remuneration Committee
28 May 2002

Auditors' Report

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

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the Statement of Accounting Policies.

Respective Responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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

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

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

Basis of Audit Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 March 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
28 May 2002

Note

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

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

Group Profit and Loss Account

For the year ended 30 March 2002

	Notes	2002 £m Before exceptionals	2002 £m Exceptional items	2002 £m Total	2001 (restated) £m Before exceptionals	2001 (restated) £m Exceptional items	2001 (restated) £m Total
Turnover							
Continuing operations		590.7		590.7	517.4		517.4
Acquisitions		51.0		51.0	–		–
		641.7		641.7	517.4		517.4
Discontinued operations		9.5		9.5	7.4		7.4
	1	651.2		651.2	524.8		524.8
Operating profit							
Continuing operations		74.2		74.2	68.4		68.4
Reorganisation costs			(7.3)	(7.3)		(0.8)	(0.8)
		74.2	(7.3)	66.9	68.4	(0.8)	67.6
Acquisitions		3.4		3.4	–		–
Reorganisation costs			(3.8)	(3.8)		–	–
		3.4	(3.8)	(0.4)	–	–	–
		77.6	(11.1)	66.5	68.4	(0.8)	67.6
Discontinued operations		(1.4)	–	(1.4)	(1.5)	–	(1.5)
Operating profit/(loss) before goodwill amortisation		76.2	(11.1)	65.1	66.9	(0.8)	66.1
Goodwill amortisation		(2.8)		(2.8)	(0.5)		(0.5)
Group operating profit/(loss)	1, 2, 3	73.4	(11.1)	62.3	66.4	(0.8)	65.6
Share of operating profits of associated companies	1	11.8		11.8	8.2	(3.4)	4.8
Total operating profit/(loss)		85.2	(11.1)	74.1	74.6	(4.2)	70.4
Loss on the disposal of continuing operations	4		–	–		(3.0)	(3.0)
Profit on the disposal of discontinued operations	4		1.5	1.5		–	–
Profit on sale of investments	4		22.7	22.7		–	–
Non-operating items		–	24.2	24.2		(3.0)	(3.0)
Profit/(loss) on ordinary activities before interest		85.2	13.1	98.3	74.6	(7.2)	67.4
Net interest: Group	5	(0.4)		(0.4)	(1.2)		(1.2)
Associates		3.0		3.0	4.4		4.4
		2.6		2.6	3.2		3.2
Profit/(loss) on ordinary activities before taxation		87.8	13.1	100.9	77.8	(7.2)	70.6
Tax on profit/(loss) on ordinary activities	6	(24.2)	2.0	(22.2)	(20.9)	13.4	(7.5)
Profit on ordinary activities after taxation		63.6	15.1	78.7	56.9	6.2	63.1
Equity minority interests		(1.5)		(1.5)	(0.2)		(0.2)
Profit for the financial year		62.1	15.1	77.2	56.7	6.2	62.9
Dividends	8	(25.5)		(25.5)	(24.0)		(24.0)
Transferred to reserves	18	36.6	15.1	51.7	32.7	6.2	38.9
Earnings per ordinary share	7	32.7p	8.0p	40.7p	29.8p	3.3p	33.1p
Diluted earnings per ordinary share		32.2p	7.8p	40.0p	29.4p	3.2p	32.6p
Headline earnings per ordinary share	7	34.4p	(5.0)p	29.4p	30.9p	4.9p	35.8p
Dividends per ordinary share	8	13.4p		13.4p	12.6p		12.6p

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

Balance Sheets

At 30 March 2002

	Notes	2002 Group £m	2001 Group (restated) £m	2002 Company £m	2001 Company £m
Fixed assets					
Intangible assets	9	**45.7**	4.9	**–**	–
Tangible assets	10	**167.7**	177.0	**–**	–
Investments: Associates	11	**17.6**	43.3	**–**	–
Other investments	11	**2.4**	4.8	**151.6**	152.5
Own shares	11	**19.8**	5.6	**19.8**	5.6
		253.2	235.6	**171.4**	158.1
Current assets					
Stocks	12	**97.3**	80.1	**–**	–
Debtors	13	**138.6**	114.6	**151.9**	30.0
Deferred taxation	14	**30.5**	43.9	**–**	–
Cash at bank and in hand		**87.2**	89.5	**48.3**	68.0
		353.6	328.1	**200.2**	98.0
Creditors: amounts falling due within one year					
Short term borrowings	15	**(12.4)**	(27.7)	**(82.8)**	(88.4)
Other creditors	15	**(203.4)**	(206.8)	**(27.1)**	(24.5)
		(215.8)	(234.5)	**(109.9)**	(112.9)
Net current assets/(liabilities)		**137.8**	93.6	**90.3**	(14.9)
Total assets less current liabilities		**391.0**	329.2	**261.7**	143.2
Creditors: amounts falling due after more than one year					
Long term borrowings	16	**(24.8)**	(25.7)	**–**	(24.7)
Other creditors	16	**(2.7)**	(0.7)	**(49.3)**	(47.6)
		(27.5)	(26.4)	**(49.3)**	(72.3)
Provisions for liabilities and charges	17	**(47.6)**	(45.3)	**–**	–
		315.9	257.5	**212.4**	70.9
Capital and reserves					
Called up share capital	18	**48.8**	48.2	**48.8**	48.2
Share premium	18	**11.5**	3.3	**11.5**	3.3
Revaluation reserve	18	**1.8**	1.8	**–**	–
Other reserve	18	**(83.8)**	(83.8)	**–**	–
Profit and loss account	18	**334.5**	285.4	**152.1**	19.4
Shareholders' funds		**312.8**	254.9	**212.4**	70.9
Equity minority interests		**3.1**	2.6	**–**	–
		315.9	257.5	**212.4**	70.9

Approved by the Board on 28 May 2002

Brandon Gough

P R Hollingworth

Sir Brandon Gough Chairman

Paul Hollingworth Finance Director

Group Cash Flow Statement

For the year ended 30 March 2002

	Notes	2002 £m	2001 £m
Net cash inflow from operating activities	20a	**88.3**	68.6
Dividends received from associated companies		**28.3**	21.2
Returns on investments and servicing of finance	20b	**(1.0)**	(1.6)
Taxation		**(11.2)**	(5.4)
Capital expenditure and financial investment	20c	**(22.0)**	(20.8)
Acquisitions and disposals	20d	**(38.0)**	(4.2)
Equity dividends paid		**(24.1)**	(24.1)
Net cash inflow before use of liquid resources and financing		**20.3**	33.7
Management of liquid resources	20e	**8.7**	0.3
Financing	20f	**(23.9)**	(31.4)
Increase in cash in the period		**5.1**	2.6
Reconciliation of net cash flow to movement in net debt	20g		
Increase in cash in the period		**5.1**	2.6
Cash inflow from decrease in liquid resources		**(8.7)**	(0.3)
Cash inflow from increase in funds		**30.3**	34.2
Increase in funds resulting from cash flows		**26.7**	36.5
Loans and finance leases acquired with subsidiary		**(12.8)**	–
Translation difference		**–**	(2.5)
Movement in net funds in the period		**13.9**	34.0
Net funds at start of period		**36.1**	2.1
Net funds at end of period		**50.0**	36.1
Analysis of net funds			
Cash		**31.8**	25.4
Liquid resources		**55.4**	64.1
Overdrafts		**(4.8)**	(3.3)
Other debt due within one year		**(7.6)**	(24.4)
Other debt due after one year		**(24.8)**	(25.7)
Net funds at end of period		**50.0**	36.1

Group Statement of Total Recognised Gains and Losses

For the year ended 30 March 2002

	2002 £m	2001 (restated) £m
Profit for the financial year: Group	**66.7**	60.7
Associates	**10.5**	2.2
	77.2	62.9
Currency translation differences on foreign currency net investments	**(0.2)**	3.0
Total recognised gains for the year	**77.0**	65.9
Prior year adjustment (note 6)	**43.9**	–
Total gains recognised since last annual report	**120.9**	65.9

There is no material difference between the reported profit shown in the consolidated profit and loss account and the profit for the relevant periods restated on an historical cost basis.

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 March 2002

	2002 £m	2001 (restated) £m
Profit for the financial year	**77.2**	62.9
Dividends	**(25.5)**	(24.0)
	51.7	38.9
Share capital issued	**8.8**	3.1
Transfer to share premium	**(2.4)**	–
Currency translation differences on foreign currency net investments	**(0.2)**	3.0
Goodwill: Cash Systems South Africa disposal	**–**	3.8
Net increase in shareholders' funds	**57.9**	48.8
Opening shareholders' funds	**254.9**	206.1
Closing shareholders' funds	**312.8**	254.9

The opening shareholders' funds of £254.9m includes a prior year adjustment of £43.9m (note 6).

Accounting Policies

For the year ended 30 March 2002

Changes in accounting policies

The Group has adopted FRS 19 “Deferred Tax” in these financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly.

FRS 18 has been adopted in the current year but this did not require any change in accounting policy.

Basis of preparation

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

The consolidated accounts have been prepared as at 30 March 2002. The comparatives for the 2001 financial year are for the year ended 31 March 2001.

Basis of consolidation

The results of all of the subsidiaries of the Company have been fully consolidated. All of these subsidiaries and the material associated companies prepare their annual financial statements to 30 March except for certain associated companies whose year end is 31 December. The results of businesses acquired are included from the effective date of acquisition and the results of businesses sold are included up to the date of disposal.

Associated companies

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

The Group’s share of the profits less losses of associated companies is included in the 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

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

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

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

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

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

Turnover

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

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

Goodwill amortisation

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

Other intangible assets

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

Tangible fixed assets and depreciation

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

The Group's policy is to write off the cost or valuation of all other plant and equipment evenly over their estimated remaining useful life at rates which vary between eight per cent and 50 per cent per annum. The principal annual rates of depreciation used are 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.

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

Leasing

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

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

Research and development

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

Taxation

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

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

Stocks

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

Pensions

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

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

Cash Flow Statement

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

Share option schemes

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

Notes to the Accounts

1 Segmental analysis

Class of business	2002 Turnover £m	2002 Profit before tax £m	2002 Net assets £m	2001 Turnover £m	2001 Profit before tax £m	2001 Net assets £m
Continuing operations						
Cash Systems	**319.5**	**32.6**	**44.0**	262.4	17.0	56.0
Reorganisation					(0.8)	
	319.5	**32.6**	**44.0**	262.4	16.2	56.0
Acquisitions	**51.0**	**3.4**	**63.5**			
Reorganisation		**(3.8)**				
	51.0	**(0.4)**	**63.5**	–	–	–
	370.5	**32.2**	**107.5**	262.4	16.2	56.0
Security Paper & Print	**226.8**	**41.1**	**93.2**	212.8	50.4	108.5
Reorganisation		**(7.3)**				
	226.8	**33.8**	**93.2**	212.8	50.4	108.5
Global Services	**48.1**	**0.5**	**21.0**	47.9	1.0	14.3
Less inter-segment sales	**(3.7)**			(5.7)		
	641.7	**66.5**	**221.7**	517.4	67.6	178.8
Discontinued operations						
Global Services	**9.5**	**(1.4)**		7.4	(1.5)	
	9.5	**(1.4)**		7.4	(1.5)	
Goodwill amortisation						
Cash Systems		**(2.2)**			(0.2)	
Global Services		**(0.6)**			(0.3)	
		(2.8)			(0.5)	
	651.2	**62.3**	**221.7**	524.8	65.6	178.8
Associated companies (analysed on page 43)		**11.8**	**17.6**		4.8	43.3
Non-operating items (note 4)		**24.2**			(3.0)	
Net interest including associates		**2.6**			3.2	
Profit before taxation		**100.9**			70.6	
Unallocated net assets/(liabilities)			**26.6**			(0.7)
Capital employed			**265.9**			221.4
Net funds			**50.0**			36.1
Net assets			**315.9**			257.5
Geographical area by operation						
United Kingdom and Ireland	**350.5**	**14.7**	**92.0**	335.2	44.2	91.8
Rest of Europe	**251.5**	**41.9**	**60.2**	162.5	19.4	44.3
The Americas	**134.5**	**6.9**	**49.0**	101.8	0.3	19.9
Rest of World	**52.6**	**(1.2)**	**20.5**	49.8	1.7	22.8
Less inter-area sales	**(137.9)**	**–**		(124.5)		
	651.2	**62.3**	**221.7**	524.8	65.6	178.8

The profit before tax in 2002 is shown after reorganisation costs of £11.1m (2001 £0.8m) comprising UK and Ireland £2.7m (2001 £Nil), Rest of Europe £0.2m (2001 £0.8m), Americas £0.9m (2001 £Nil), Rest of World £7.3m (2001 £Nil).

1 Segmental analysis continued

	2002 Turnover £m	2002 Profit before tax £m	2002 Net assets £m	2001 Turnover £m	2001 Profit before tax £m	2001 Net assets £m
Geographical area by destination						
United Kingdom and Ireland	79.1			66.0		
Rest of Europe	277.9			170.0		
The Americas	162.6			135.2		
Rest of World	131.6			153.6		
	651.2			524.8		
Associated companies are analysed as follows:						
Security paper and print		0.1	1.6		(2.2)	14.9
UK lottery		11.7	16.0		7.0	28.4
		11.8	17.6		4.8	43.3
Geographical area by operation						
United Kingdom and Ireland		11.7	15.9		7.0	28.4
Rest of Europe		0.1	1.4		(2.7)	14.7
Rest of World		–	0.3		0.5	0.2
		11.8	17.6		4.8	43.3

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

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

2 Operating costs (excluding amortisation of goodwill)

	2002 £m	2001 £m
Cost of sales		
Continuing operations	392.4	343.0
Reorganisation costs	7.3	0.8
	399.7	343.8
Acquisitions	31.0	
Reorganisation costs	3.8	
	34.8	
Discontinued operations	7.7	5.1
	442.2	348.9
Distribution costs		
Continuing operations	19.5	18.1
Acquisitions	3.4	
	22.9	18.1
Discontinued operations	–	–
	22.9	18.1
Administration and other expenses		
Continuing operations	104.6	88.0
Acquisitions	13.3	
	117.9	88.0
Discontinued operations	3.1	3.7
	121.0	91.7
	586.1	458.7

Notes to the Accounts

3 Operating profit

	2002 £m	2001 £m
Operating profit is stated after charging/(crediting) the following:		
Employee costs (note 24)	**203.7**	181.4
Depreciation of tangible fixed assets		
– purchased	**25.5**	22.6
– leased	**0.1**	0.4
Amortisation of goodwill and other intangible assets	**3.5**	1.3
Operating leases		
– hire of plant and machinery	**1.5**	2.4
– other	**5.7**	4.4
Auditors' remuneration		
– audit fees	**0.7**	0.6
– UK non-audit related fees	**0.2**	0.2
– overseas non-audit related fees	**–**	0.3
Research and development	**24.5**	15.9
Reorganisation costs	**11.1**	0.8
Net (profit)/loss on disposal of fixed assets/assets held for resale	**(0.1)**	0.6

Reorganisation costs of £3.8m are in respect of the CSI acquisition. £1.5m is carried forward within provisions and accruals. Reorganisation costs of £7.3m are for the closure of the banknote printing factory in Singapore, which was announced in March 2002 and is due to be completed by December 2002. £5.2m of reorganisation costs are carried forward within provisions for liabilities and charges.

Cash expended in 2002 in respect of reorganisation costs amounted to £3.9m. A further £2.8m was utilised in respect of asset write-downs.

4 Non-operating items

	2002 £m	2001 £m
Loss on the disposal of continuing operations	**–**	(3.0)
Profit on the disposal of discontinued operations	**1.5**	–
Profit on sale of investments	**22.7**	–
	24.2	(3.0)

The profit on disposal of discontinued operations of £1.5m arose from the disposal of the Transaction Services business to alphyra group plc on 19 October 2001 (note 22).

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

The disposal of the Group's 50% holding in De La Rue Giori SA, a security printing machinery manufacturer, incorporated in Switzerland; The £9.0m profit on sale is after deducting £5.9m net costs in respect of settling the arbitration claim brought by our joint venture partner in the business;

£9.5m for the disposal of the Group's total holding in the ordinary share capital of Koenig & Bauer AG, an engineering company incorporated in Germany and quoted on the Frankfurt Stock Exchange;

£4.2m for the disposal of 6.67 per cent of the Group's 26.67 per cent holding in the ordinary share capital of Camelot Group plc, a lottery operator incorporated in the UK, to Consignia Enterprises Limited.

The loss on disposal of continuing operations of £3.0m in 2001 arose on disposal of the assets of Cash Systems' South Africa business for net proceeds of £0.6m. The loss was after charging £3.8m of goodwill to the profit and loss account. This was written off directly to reserves when the business was originally acquired.

5 Net interest payable

	2002 £m	2001 £m
Interest payable on bank loans and overdrafts, and on other loans repayable within five years	**(3.7)**	(3.4)
Interest element of finance lease charges	**–**	(0.1)
Interest receivable	**3.3**	2.3
	(0.4)	(1.2)

6 Taxation

	2002 £m	2001 (restated) £m
Tax on profit on ordinary activities		
United Kingdom		
Corporation tax at 30% (2001 30%)	**2.2**	29.0
Double taxation relief	**–**	(7.3)
ACT write back	**–**	(6.4)
Deferred taxation	**3.6**	3.9
	5.8	19.2
Overseas		
Taxation payable	**7.0**	3.3
Deferred taxation	**9.7**	(2.3)
	16.7	1.0
Total UK and Overseas	**22.5**	20.2
Adjustments in respect of prior years	**(2.6)**	(4.0)
Tax on share of profits of associated companies	**4.3**	4.7
	24.2	20.9
Exceptional items	**(2.0)**	(13.4)
Total taxation charge	**22.2**	7.5

The exceptional tax credit of £2.0m, comprises net credits of £1.3m relating to De La Rue Giori SA disposal and arbitration costs, and £1.6m relating to reorganisation costs, offset by a £0.9m charge in relation to the Koenig & Bauer investment sale.

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

	2002 £m	2001 (restated) £m
Profit before tax on ordinary activities	**87.8**	77.8
Expected tax charge at 30%	**26.3**	23.3
Rate adjustments relating to overseas profits	**(1.9)**	(3.1)
Overseas dividends	**1.5**	16.0
Disallowables and other items	**0.9**	2.6
Current and deferred – prior years	**(2.6)**	(11.5)
ACT written back	**–**	(6.4)
Tax charge (excluding exceptional items)	**24.2**	20.9

The comparative figures for the 2000/2001 full year have been restated to reflect the effects of FRS 19, Deferred Tax as follows:

Profit and Loss Account	Previously Reported £m	Adjustment £m	Restated £m
Profit on ordinary activities before taxation	70.6	–	70.6
Tax on profit on ordinary activities	(4.6)	(2.9)	(7.5)
Profit on ordinary activities after taxation	66.0	(2.9)	63.1
Equity minority interests	(0.2)	–	(0.2)
Profit for the period	65.8	(2.9)	62.9
Dividends	(24.0)	–	(24.0)
Transferred to reserves	41.8	(2.9)	38.9
Balance sheet			
Current assets – Deferred taxation	–	43.9	43.9
Profit and Loss Account	241.5	43.9	285.4

Notes to the Accounts

7 Earnings per share

	2002	2001 (restated)
Basic	**40.7p**	33.1p
Fully diluted	**40.0p**	32.6p

Earnings per share are based on the profit for the year attributable to ordinary shareholders of £77.2m (2001 £62.9m) as shown in the Group profit and loss account. The weighted average number of ordinary shares used in the calculations is 189,886,749 (2001 190,152,358) for basic earnings per share and 193,267,705 (2001 193,177,069) for diluted earnings per share after adjusting for dilutive share options.

Reconciliation of earnings per share	pence per share	pence per share (restated)
As calculated under FRS 14	**40.7**	33.1
Loss on the disposal of continuing operations	**–**	1.6
Profit on the disposal of discontinued operations	**(0.7)**	–
Profit on sale of investments	**(12.0)**	(0.1)
Profit/(loss) on the disposal of fixed assets and assets held for resale	**(0.1)**	0.1
Amortisation of goodwill	**1.5**	1.1
Headline earnings per share as defined by the IIMR	**29.4**	35.8
Reorganisation costs	**5.0**	0.4
Share of associated company's exceptional items	**–**	1.3
Exceptional release of tax provision	**–**	(6.6)
Headline earnings per share before items shown above	**34.4**	30.9

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

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

8 Dividends

	2002 £m	2001 £m
Ordinary shares		
Interim	**8.0**	7.6
Final proposed	**17.5**	16.4
	25.5	24.0
Net dividend per ordinary share	pence	pence
Interim	**4.2**	4.0
Final proposed	**9.2**	8.6
	13.4	12.6

9 Intangible assets

Group	Goodwill £m	Development costs £m	IPR £m	Distribution rights £m	Total £m
Cost or valuation					
At 1 April 2001	3.6	0.1	–	2.5	6.2
Additions	43.9	–	0.3	0.5	44.7
Disposals	–	(0.1)	(0.3)	–	(0.4)
At 30 March 2002	47.5	–	–	3.0	50.5
Amortisation					
At 1 April 2001	0.5	–	–	0.8	1.3
Provision for the year	2.8	–	–	0.7	3.5
At 30 March 2002	3.3	–	–	1.5	4.8
Net book value					
At 1 April 2001	3.1	0.1	–	1.7	4.9
At 30 March 2002	44.2	–	–	1.5	45.7

Details of goodwill in respect of acquisitions are included in note 22.

Goodwill amortisation all relates to continuing businesses.

10 Tangible assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	In course of construction £m	Total £m
Cost or valuation					
At 1 April 2001	72.6	204.2	48.0	10.4	335.2
Exchange adjustments	(0.3)	(0.8)	(0.1)	–	(1.2)
Acquisitions	2.8	0.8	0.6	0.2	4.4
Additions	0.2	4.5	4.4	7.2	16.3
Transfers from assets in the course of construction	3.6	10.1	1.6	(15.3)	–
Disposals	(0.4)	(4.8)	(2.7)	–	(7.9)
At 30 March 2002	78.5	214.0	51.8	2.5	346.8
Representing					
Valuation in 1988/89	3.7				3.7
Cost	74.8	214.0	51.8	2.5	343.1
	78.5	214.0	51.8	2.5	346.8
Accumulated depreciation					
At 1 April 2001	16.2	110.1	31.9	–	158.2
Exchange adjustments	(0.1)	(0.6)	(0.1)	–	(0.8)
Provision for the year	3.2	15.1	7.3	–	25.6
Disposals	(0.1)	(2.0)	(1.8)	–	(3.9)
At 30 March 2002	19.2	122.6	37.3	–	179.1
Net book value					
At 1 April 2001	56.4	94.1	16.1	10.4	177.0
At 30 March 2002	59.3	91.4	14.5	2.5	167.7

Included in the above are leased assets as follows:

Plant and machinery	cost	£4.5m (2001 £4.5m)
	net book value	£0.3m (2001 £0.4m)
Fixtures and fittings	cost	£0.2m (2001 £0.2m)
	net book value	£Nil (2001 £Nil)

Included in the cost or valuation of land and buildings is an amount of £2.4m of capitalised interest (2001 £2.4m).

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

Notes to the Accounts

10 Tangible assets continued

Land and buildings comprise

	2002 Group £m	2001 Group £m
Net book value		
Freehold	42.6	37.3
Long leasehold	16.0	16.4
Short leasehold	0.7	2.7
	59.3	56.4
Historical cost of land and buildings		
Cost	76.4	70.5
Accumulated depreciation	(18.9)	(15.9)
	57.5	54.6

11 Investments

	2002 Group £m	2001 Group £m	2002 Company £m	2001 Company £m
Investments comprise				
Investment in associated companies	17.6	43.3	–	–
Cost of shares in Group companies	–	–	151.6	151.6
Loans from Group companies	–	–	–	0.9
Other investments	2.4	4.8	–	–
Purchase of own shares	19.8	5.6	19.8	5.6
	39.8	53.7	171.4	158.1

Associates are analysed in further detail below.

Other investments principally comprise the Group's 3.4 per cent holding in the ordinary share capital of alphyra group plc, a computer services company incorporated in Eire and quoted on the Dublin and London Stock Exchanges.

During the year, the Group disposed of its holding in the ordinary share capital of Koenig & Bauer AG, an engineering company incorporated in Germany and quoted on the Frankfurt Stock Exchange.

The market value of quoted investments at the balance sheet date was £1.5m.

During the year, 3.0m own shares with a nominal value of £0.8m were purchased at an average price of 498p to satisfy potential obligations under various share option schemes for executive directors and senior employees and for sharesave schemes for all employees. In the year £0.7m was amortised to the profit and loss account in respect of these shares, and the 2.1m shares purchased in prior years at an average price of 293p, representing the estimated difference between the cost of shares and the anticipated proceeds in accordance with UITF 17.

The market value of own shares at 30 March 2002 was £23.6m (2001 £8.5m).

Associates

	Cost of Shares £m	Share of Retained Profit £m	Goodwill £m	Total £m
At 1 April 2001	15.5	27.1	0.7	43.3
Exchange adjustments	–	0.2	–	0.2
Disposals	(2.4)	(5.7)	–	(8.1)
Share of associated companies' profit after taxation	–	11.2	(0.7)	10.5
Less share of associated companies' dividends	–	(28.3)	–	(28.3)
At 30 March 2002	13.1	4.5	–	17.6

During the course of the year, the Group disposed of 6.67 per cent of its 26.67 per cent holding in the ordinary share capital of Camelot Group plc, a lottery operator incorporated in the UK. In addition, the Group disposed of its 50 per cent holding in the ordinary share capital of De La Rue Giori SA, a security printing machine manufacturer incorporated in Switzerland.

11 Investments continued

Group's share of the net assets of aggregate associates and Camelot Group plc

	Total associates 2002 £m	Camelot Group 2002 £m	Total associates 2001 £m	Camelot Group 2001 £m
Turnover	**1,248.2**	**1,233.7**	1,367.3	1,329.4
Profit before tax	**14.8**	**14.7**	9.2	10.6
Taxation	**(4.3)**	**(4.3)**	(7.0)	(3.8)
Profit after tax	**10.5**	**10.4**	2.2	6.8
Fixed assets	**38.1**	**16.6**	20.1	3.9
Current assets	**66.4**	**57.9**	166.2	118.5
Liabilities due within one year	**(79.4)**	**(63.6)**	(117.2)	(93.0)
Liabilities due after one year or more	**(4.5)**	**(0.9)**	(12.8)	(1.2)
Net Assets	**20.6**	**10.0**	56.3	28.2

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

12 Stocks

	2002 Group £m	2001 Group £m
Raw materials	**23.6**	19.4
Work in progress	**24.8**	21.3
Finished goods	**48.9**	39.4
	97.3	80.1

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

13 Debtors

	2002 Group £m	2001 Group £m	2002 Company £m	2001 Company £m
Amounts due within one year				
Trade debtors	**100.9**	94.3	**–**	–
Amounts owed by Group undertakings	**–**	–	**151.9**	30.0
Other debtors	**29.2**	11.1	**–**	–
Prepayments and accrued income	**7.8**	7.8	**–**	–
	137.9	113.2	**151.9**	30.0
Amounts due after more than one year				
Other debtors	**0.5**	1.1	**–**	–
Prepayments and accrued income	**0.2**	0.3	**–**	–
	0.7	1.4	**–**	–
	138.6	114.6	**151.9**	30.0

Other debtors include £13.7m in respect of the Group's sale of its investment in Koenig & Bauer AG.

Notes to the Accounts

14 Deferred taxation

	2002 Group £m	2001 Group (restated) £m
Provided		
Timing differences between capital allowances and depreciation	7.5	6.2
Miscellaneous timing differences	(34.1)	(47.4)
At 30 March 2002	(26.6)	(41.2)
Comprising:		
Assets	(30.5)	(43.9)
Liabilities	3.9	2.7
At 30 March 2002	(26.6)	(41.2)

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

Deferred taxation has not been recognised on tax losses of £1.8m (2001 £1.1m) because there is insufficient evidence to suggest that they will be recoverable.

As at 1 April 2001 and 30 March 2002, there were no unprovided deferred tax liabilities.

15 Creditors

	2002 Group £m	2001 Group £m	2002 Company £m	2001 Company £m
Amounts falling due within one year				
Bank loans	7.0	24.0	6.6	20.7
Obligations under finance leases	0.6	0.4	–	–
	7.6	24.4	6.6	20.7
Overdrafts	4.8	3.3	76.2	67.7
Short term borrowings	12.4	27.7	82.8	88.4
Payments received on account	28.3	16.5	–	–
Trade creditors	39.5	40.6	–	–
Amounts owed to associated companies	0.6	0.4	–	–
Taxation	21.0	32.4	–	–
Social security and other taxation	9.1	7.1	–	–
Other short term creditors	12.9	24.5	1.4	0.2
Accruals and deferred income	65.7	61.1	–	–
Proposed dividends	26.3	24.2	25.7	24.3
Other creditors	203.4	206.8	27.1	24.5

16 Creditors

	2002 Group £m	2001 Group £m	2002 Company £m	2001 Company £m
Amounts falling due after more than one year				
Bank loans repayable otherwise than by instalments				
Between one and two years	–	1.2	–	1.2
Between two and five years	24.7	23.6	–	23.5
Obligations under finance leases				
Between one and five years	0.1	0.9	–	–
Long term borrowings	24.8	25.7	–	24.7
Amounts owed to Group companies	–	–	49.3	47.6
Other long term creditors	1.1	0.7	–	–
Taxation	1.5	–	–	–
Accruals and deferred income	0.1	–	–	–
Other creditors	2.7	0.7	49.3	47.6

As at 30 March 2002, the total of undrawn committed borrowing facilities maturing in more than two years was £136.0m.

17 Provisions for liabilities and charges

	Pensions and similar obligations £m	Deferred taxation £m	Other £m	Total £m
Group				
At 1 April 2001	23.2	2.7	19.4	45.3
At acquisition	–	–	0.2	0.2
Provided in year	2.7	2.4	16.0	21.1
Utilised in year	(3.5)	–	(13.2)	(16.7)
Released in year	–	(1.2)	(1.1)	(2.3)
At 30 March 2002	22.4	3.9	21.3	47.6

As at 30 March 2002 other provisions principally comprise:

Acquisition and disposal provisions of £5.7m (2001 £6.5m) none of which are individually material. During the year £0.6m of these provisions were utilised and £0.5m released to the profit and loss account.

A provision of £2.4m (2001 £2.7m), retained to cover the cost of Delarunarians (those employees and ex-employees who have achieved 37 years service and qualify for free medical cover, plus a monthly allowance). £0.3m of this provision was utilised in the year.

Reorganisation provisions of £5.2m (2001 £2.0m). £5.5m was utilised (including a balance from prior years) and £0.1m released in the year. Cash Systems provided a further £3.8m in the year in respect of acquisitions, £3.9m was utilised and £0.2m was released, leaving a balance of £2.5m carried forward within accruals (£1.8m) and within other provisions for liabilities and charges (£0.7m). The Currency division provided £7.3m for the closure of the Singapore factory, of which £2.8m has been utilised, leaving £4.5m carried forward within other provisions for liabilities and charges.

A provision of £4.1m was made to cover the anticipated loss on disposal of land and buildings.

A provision of £1.5m for arbitration costs was fully utilised in the year.

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

Notes to the Accounts

18 Share capital and reserves

	Share capital £m	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Group						
At 1 April 2001 (restated)	48.2	3.3	1.8	(83.8)	285.4	254.9
Share capital issued	0.6	8.2	–	–	(2.4)	6.4
Currency translation	–	–	–	–	(0.2)	(0.2)
Profit for the financial year	–	–	–	–	51.7	51.7
At 30 March 2002	48.8	11.5	1.8	(83.8)	334.5	312.8
Company						
At 1 April 2001	48.2	3.3	–	–	19.4	70.9
Share capital issued	0.6	8.2	–	–	–	8.8
Profit for the financial year before dividends	–	–	–	–	158.2	158.2
Dividends proposed	–	–	–	–	(25.5)	(25.5)
At 30 March 2002	48.8	11.5	–	–	152.1	212.4

Reserves are wholly attributable to equity shareholders.

As permitted by Section 230 of the Companies Act 1985, De La Rue plc has not presented its own profit and loss account. The amount of the Group profit for the financial year dealt with in the accounts of the Company was a profit of £158.2m. As at 30 March 2002, £740.4m (2001 £740.4m) of goodwill has been eliminated against reserves in respect of acquisitions made prior to 31 March 1998.

19 Share capital

	2002 £m	2001 £m
Authorised		
265,625,900 ordinary shares of 25p each	66.4	66.4
Allotted, called up and fully paid		
195,243,610 (2001: 192,793,803) ordinary shares of 25p each	48.8	48.2

Allotments during the year	2002 '000	2001 '000
Ordinary shares in issue at 1 April 2001	192,793	191,806
Issued under savings related share option scheme	938	167
Issued under executive share option scheme	1,512	738
Issued as consideration for acquisition	–	82
Ordinary shares in issue at 30 March 2002	195,243	192,793

Contingent rights to the allotment of shares	2002 '000	2001 '000
Savings related share option scheme		
Options over ordinary shares outstanding at 1 April 2001	3,761	4,003
New options granted during year	600	566
Options exercised during the year	(938)	(167)
Options lapsed during the year	(248)	(641)
Savings related share options outstanding at 30 March 2002	3,175	3,761

At 30 March 2002 there was a total of 1,529 participants holding options under the savings related share option scheme which are exercisable at various dates up to 31 August 2007 at prices ranging between 150p and 774p.

19 Share capital continued

Executive Share Option Scheme	2002	2001
Options over ordinary shares outstanding at 1 April 2001	**4,814**	6,780
New options granted during year	**1,664**	237
Options exercised during year	**(1,512)**	(738)
Options lapsed during year	**(259)**	(1,465)
Executive share options outstanding at 30 March 2002	**4,707**	4,814

At 30 March 2002 there was a total of 244 participants holding options under the executive share option scheme which are exercisable at various dates up to 3 December 2011 at prices ranging between 187.84p and 1005.00p.

Share Price Improvement Plan	2002	2001
Options over ordinary shares outstanding at 1 April 2001	**2,978**	2,551
New options granted during year	**531**	732
Options lapsed during year	**(91)**	(305)
Share Price Improvement Plan options outstanding at 30 March 2002	**3,418**	2,978

At 30 March 2002 there were 27 current or former senior employees holding options under the Share Price Improvement Plan which are exercisable at various dates up to 25 June 2005 at prices ranging between 215.30p and 506.42p.

Market share purchase of shares by Trustees

(a) De La Rue Employee Share Ownership Trust

The De La Rue Employee Share Ownership Trust was established to administer shares granted under the various De La Rue Executive Share Option Schemes (ESOS) and De La Rue Share Price Improvement Plan (SPIP) to executive directors and senior employees. Allied Trust Company Limited is Trustee. The Trustee currently holds 4.1 million shares until due for release to participants of the Schemes and the Plan. The Trustee has agreed to waive dividends on these shares except for 0.0001 per cent per share and accordingly such shareholding is not included in the Company's EPS calculation referred to in note 7. The difference between the cost of the shares and the exercise price of the options is being charged to the profit and loss account over the performance period. At 30 March 2002 no shares have been transferred to option holders under the SPIP or ESOS. The circumstances under which the shares are released in relation to the SPIP are set out in the Remuneration Report of the Board.

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

The QUEST was established on 30 March 2000 to administer shares granted under the De La Rue Sharesave Scheme (the "Scheme") to employees and directors of the Company and its subsidiaries. The QUEST purchased one million shares during the year to be distributed on maturity of savings-related share option schemes. The QUEST has waived all rights to receive dividends payable on its registered shareholding except for 0.0001 pence per share and accordingly such shareholding is not included in the Company's EPS calculation referred to in note 7. During the year, the QUEST subscribed for 874,663 new ordinary shares for a total consideration of £3.7m. The employing subsidiary companies contributed £2.4m to the QUEST and £1.3m was received from Scheme participants. The shares were all transferred by the QUEST to participants in the Scheme in satisfaction of their options. The price paid by option holders was 150 pence (three year options).

Notes to the Accounts

20 Notes to Group cash flow statement

	2002 £m	2001 £m
a **Reconciliation of operating profit to net cash inflow from operating activities**		
Operating profit	62.3	65.6
Depreciation and amortisation	29.1	24.3
Increase in stocks	(8.4)	(2.4)
Increase in debtors	(6.5)	(4.9)
Increase/(decrease) in creditors	7.8	(7.4)
Increase/(decrease) in reorganisation provisions	3.4	(7.6)
Other items	0.6	1.0
Net cash inflow from operating activities	88.3	68.6
b **Returns on investments and servicing of finance**		
Interest received	3.4	3.0
Interest paid	(3.5)	(4.2)
Interest element of finance lease payments	–	(0.1)
Dividends paid to minority shareholders	(0.9)	(0.3)
Net cash outflow from returns on investments and servicing of finance	(1.0)	(1.6)
c **Capital expenditure and financial investment**		
Purchase of tangible fixed assets	(21.6)	(27.9)
Purchase of intangible fixed assets	(0.4)	(0.3)
Sale of tangible fixed assets	1.6	1.8
Purchase of investments	–	(0.9)
Sale of investments	13.3	6.5
Purchase of own shares	(14.9)	–
Net cash outflow for capital expenditure and financial investment	(22.0)	(20.8)
d **Acquisitions and disposals**		
Purchase of subsidiary undertakings	(44.8)	(4.8)
Net cash acquired with subsidiary undertakings (note 22)	0.7	0.4
Sale of subsidiary undertakings (note 22)	2.8	0.2
Net cash sold with subsidiary undertakings (note 22)	(0.8)	–
Sale of assets held for disposal	4.1	–
Net cash outflow from acquisitions and disposals	(38.0)	(4.2)
e **Management of liquid resources**		
Net decrease in short term deposits	8.7	0.3
f **Financing**		
Debt due within one year:		
Loans raised	–	3.6
Loans repaid	(16.9)	(20.5)
Debt due beyond one year:		
Loans raised	24.6	1.5
Loans repaid	(37.4)	(18.3)
Capital element of finance lease rental repayments	(0.6)	(0.5)
Share capital issued	6.4	2.8
Net cash outflow from financing	(23.9)	(31.4)

20 Notes to group cash flow statement continued

g **Analysis of net funds**

	At 1 April 2001 £m	Cash flow £m	Debt acquired £m	Exchange movement £m	At 30 March 2002 £m
Cash at bank and in hand	89.5	(2.1)		(0.2)	87.2
Less liquid resources	(64.1)	8.7		–	(55.4)
Overdrafts	(3.3)	(1.5)		–	(4.8)
Cash – Group cash flow statement	22.1	5.1		(0.2)	27.0
Liquid resources	64.1	(8.7)		–	55.4
Debt due within one year, excluding bank overdrafts	(24.4)	16.7		0.1	(7.6)
Debt due after one year	(25.7)	13.6	(12.8)	0.1	(24.8)
	(50.1)	30.3	(12.8)	0.2	(32.4)
Net debt	36.1	26.7	(12.8)	–	50.0

21 Group operating leases

	2002 Land and buildings £m	2001 Land and buildings £m	2002 Other £m	2001 Other £m
Annual commitments expiring				
Within one year	1.2	1.1	1.2	1.0
Between one and two years	1.1	0.8	1.1	1.2
Between two and five years	2.4	2.2	2.3	2.3
Over five years	2.2	1.5	–	–
Payments to be made during next year	6.9	5.6	4.6	4.5

22 Acquisitions and disposals

Acquisitions

CSI

On 30 May 2001 the Group acquired Currency Systems International Inc, the US based provider of wholesale cash processing systems and software, for a consideration including expenses of £39.0m.

The business has been integrated into the continuing operations of the Group and contributed £22.7m in sales and an operating loss (before reorganisation costs) of £1.2m for the period since acquisition (after charging goodwill of £1.2m).

Fair value adjustments reflect alignment of revenue with Group accounting policies, and various asset write-offs.

Other acquisitions

During the year the Group also acquired the assets of Ascom BUCH Switzerland and Ascom BUCH Belgium (1 April 2001); ATS Money Systems, Inc (23 May 2001) and Haliburton & White (1 August 2001), all of which have been integrated into the continuing operations of the Group.

Fair value adjustments for ATS reflect previously capitalised research and development costs being brought into line with Group policy, and various stock/debtor provisions. There were no fair value adjustments in respect of the other acquisitions.

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

Notes to the Accounts

22 Acquisitions and disposals continued

Acquisitions

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

	CSI			ATS Money Systems, Inc.			Other acquisitions	Total
	Book value prior to acquisition £m	Fair value adjustments £m	Fair value to the Group £m	Book value prior to acquisition £m	Fair value adjustments £m	Fair value to the Group £m	Fair value to the Group £m	Fair value to the Group £m
Tangible fixed assets	4.7	(0.5)	4.2	0.9	(0.9)	–	0.2	4.4
Intangible fixed assets	0.4	(0.1)	0.3	–	–	–	–	0.3
Stock	10.6	(5.0)	5.6	0.6	–	0.6	3.0	9.2
Trade debtors	4.6	(0.5)	4.1	2.0	(0.3)	1.7	0.3	6.1
Trade creditors	(6.2)	–	(6.2)	(0.9)	–	(0.9)	(2.4)	(9.5)
Other current assets and liabilities	5.3	(1.3)	4.0	0.1	–	0.1	(1.4)	2.7
Cash	–	–	–	0.7	–	0.7	–	0.7
Provisions for liabilities and charges	–	–	–	(0.1)	0.2	0.1	(0.3)	(0.2)
Net assets acquired	19.4	(7.4)	12.0	3.3	(1.0)	2.3	(0.6)	13.7
Consideration								
Purchase price payable			25.5			10.0	9.2	44.7
Amount accrued			–			–	(1.0)	(1.0)
Purchase price paid			25.5			10.0	8.2	43.7
Acquisition costs paid			0.7			0.2	0.2	1.1
			26.2			10.2	8.4	44.8
Loan acquired			12.8			–	–	12.8
Total consideration			39.0			10.2	8.4	57.6
Fair value of net assets acquired (as above)			(12.0)			(2.3)	0.6	(13.7)
Goodwill			27.0			7.9	9.0	43.9

All businesses purchased have been accounted for using the acquisition method. Goodwill arising has been capitalised and will be amortised over 20 years, being the estimated useful economic life.

Disposals

During the year the Group disposed of its Transaction Services activities to alphyra group plc.

The net assets disposed, profit on disposal and consideration are summarised as follows:

	Total £m
Fixed assets	3.0
Debtors	2.4
Cash	0.8
Creditors	(2.2)
Other assets and liabilities	(1.3)
Net assets disposed	2.7
Profit on disposal	1.5
Total	4.2
Comprising	
Cash proceeds	3.0
Shares acquired	1.5
Disposal costs paid	(0.2)
Disposal costs accrued	(0.1)
Total	4.2

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

23 Pensions and other post-retirement benefits

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

A provision of £22.4m (2001 £23.2m) is included in provisions for liabilities and charges, to cover the excess of the accumulated pension costs (£19.7m) and other post-retirement benefits (£2.7m) over the amounts funded.

The total pension cost for the Group was £4.2m (2001 £3.2m), of which £3.4m relates to plans in the United Kingdom and the United States which cover 69 per cent of employees within schemes. Included within the total pension cost is £1.0m for defined contribution arrangements in the USA.

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

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

Last valuation date	6 April 2000
Main assumptions	
Investment return p.a.	8%
Dividend growth p.a.	4.75%
Salary increases p.a.	5.5%
Pension increases p.a.	3.75%
Market valuation of investments at last valuation date	£493.0m
Level of funding, being the actuarial value of assets expressed as a percentage of the accrued service liabilities	113%
Regular pension cost	£8.3m
Variation from regular cost	£(6.3)m
Net pension cost for 2001	£2.0m

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

Other post-retirement benefits of £0.4m were utilised in the year (2001 £0.3). These benefits relate mainly to healthcare and life assurance for beneficiaries in the United States. The benefits are covered by an unfunded defined benefit scheme and a provision is carried in the balance sheet for the accumulated liabilities. These were assessed in accordance with independent actuarial advice as at 31 March 1997 using the projected unit credit method. The assumed discount rate was 7.25 per cent p.a. and annual healthcare costs were assumed to increase by 7.0 per cent p.a.

FRS 17 – "Retirement Benefits", which deals with accounting for post-retirement benefits, is fully effective for periods ending on or after 22 June 2003 but certain transitional disclosures are required for the current year, which are shown below. The standard requires pension deficits to be recognised in full and surpluses, to the extent that these are considered recoverable. Annual service costs and net financial income on the assets and liabilities of the schemes will be recognised through the profit and loss account. Other fluctuations in the value of the surplus or deficit will be recognised in the statement of recognised gains and losses.

The Group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out as at 6 April 2000 by a qualified independent actuary, and the valuation results have been updated to 30 March 2002 in accordance with the FRS. The Group also operates a number of defined contribution programmes in the UK and overseas.

Details of post-retirement benefit scheme assets and liabilities of the Group at 30 March 2002, valued in accordance with FRS 17, are set out below.

The financial assumptions used are:	UK	USA	Other	Total
Discount rate	6.2%	7.0%	6.8%	
Inflation rate	2.9%		2.8%	
Rate of increase in pension payment	3.2%			
Rate of increase in salaries	4.2%		4.5%	

Notes to the Accounts

23 Pensions and other post-retirement benefits continued

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

Long term rate of return expected at 30 March 2002	UK	USA	Other	Total
Equities	7.7%			
Bonds	5.3%			
Other	2.9%	7.0%		

Value at 30 March 2002	£m	£m	£m	£m
Equities	321.6	–	–	321.6
Bonds	129.4	–	–	129.4
Other	3.0	1.6	–	4.6
Total market value of assets	454.0	1.6	–	455.6
Present value of liabilities	(389.9)	(1.4)	(0.7)	(392.0)
Surplus/(deficit)	64.1	0.2	(0.7)	63.6
Related deferred tax (liability)/asset	(19.2)	(0.1)	0.1	(19.2)
Net pension asset/(liability)	44.9	0.1	(0.6)	44.4

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 30 March 2002 would be as follows:

	£m
Net Assets	
Net assets excluding pension asset	315.9
SSAP 24 provision	22.4
Pension asset	44.4
Net assets including pension asset	382.7
Reserves	
Profit and loss reserve excluding pension asset	334.5
SSAP 24 provision	22.4
Pension asset	44.4
Profit and loss reserve	401.3

24 Employees

	2002	2001
Average number of employees		
United Kingdom and Ireland	3,112	3,236
Rest of Europe	1,784	1,601
The Americas	1,031	784
Rest of World	700	700
	6,627	6,321

	2002 £m	2001 £m
Employee costs (including directors' emoluments)		
Wages and salaries	182.4	163.8
Social security costs	17.1	14.4
Pension costs	4.2	3.2
	203.7	181.4

Details of directors' emoluments are set out in the Remuneration Report on pages 32 to 35.

25 Capital commitments

	2002 Group £m	2001 Group £m
The following commitments existed at the balance sheet date:		
Contracted but not provided for in the accounts	**4.1**	3.2
Authorised but not contracted	**1.5**	2.4
	5.6	5.6

26 Contingent liabilities

There are contingent liabilities, arising in the ordinary course of business, in respect of litigation and guarantees in various countries, for which the Directors believe adequate provisions have been made in the accounts. Pursuant to the provisions of Section 17 Companies (Amendment) Act 1986 of the Republic of Ireland, the Company has guaranteed the liabilities of certain of its Irish subsidiaries and as a result such subsidiaries have been exempted from the provisions of Section 17 Companies (Amendment) Act 1986 of the Republic of Ireland. De La Rue Holdings plc has guaranteed its share of certain borrowings of its associated company, Camelot International Services Limited. As at 30 March 2002, the amount guaranteed was £0.3m (2001 £0.9m).

27 Related party transactions

During the year the Group traded with the following associated companies:
Fidink (33.3 per cent), Arbok Zoa (50 per cent), Valora-Servicos de Apoio a Emissao Monitaria SA (25 per cent), Mongolian National Security Printing Company (50 per cent), Nigerian Security Printing and Minting Company (25 per cent) and Portals Sihl (50 per cent).

The Group's trading activities with these companies include £3.7m for the purchase of ink and other consumables; £0.4m of management fee income, £1.4m for the sale of printing machine spares and consumables, and £0.6m of commission payments. At the balance sheet date there was a £0.6m creditor balance with these companies.

28 Derivatives and other financial instruments

The narrative disclosures required by FRS 13, Derivatives and Financial Instruments, are set out below; in the Accounting Policies; and Interest Charge, Treasury Operations and Exchange paragraphs of the Financial Review on pages 20 and 21. Numerical disclosures are set out below. The use of financial instruments to manage interest rate and currency risk is subject to Board approval and will not create additional financial exposures over and above those arising from our normal activity.

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

Currency analysis of net assets

While continuing to focus on the management of cash flow, the Group will, where practicable, seek to limit translation exposures to major currencies by hedging between 75 per cent and 100 per cent of underlying net assets. As a result of the implementation of this policy, since year end we have converted £14m of euro assets into sterling and continue to review the position.

Interest rate risk profile of financial liabilities

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

The Group's financial liabilities comprise short term borrowings of £12.4m (note 15); long term borrowings of £24.8m (note 16); other long term creditors of £2.7m (note 16) and provisions for other liabilities and charges of £21.3m (note 17).

Financial liabilities

Currency	2002 Total £m	2002 Floating £m	2002 Fixed £m	2002 Interest free £m	2001 Total £m	2001 Floating £m	2001 Fixed £m	2001 Interest free £m
Sterling	**19.2**	**3.7**	**–**	**15.5**	26.3	6.6	–	19.7
US$	**25.8**	**24.9**	**–**	**0.9**	14.8	14.8	–	–
Eurozone	**1.8**	**0.5**	**–**	**1.3**	20.1	1.4	18.6	0.1
Other	**14.4**	**8.1**	**–**	**6.3**	12.3	12.0	–	0.3
	61.2	**37.2**	**–**	**24.0**	73.5	34.8	18.6	20.1

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

Notes to the Accounts

28 Derivatives and other financial instruments continued

The Group intends to maintain significant undrawn available committed facilities. Borrowings under these facilities at 30 March 2002 and the current facility maturity pattern were as follows:

	Total facilities £m	Drawings £m	Undrawn £m
Within one year	25.0	6.6	18.4
One to two years	15.0	–	15.0
Two to five years	160.6	24.6	136.0
Total	200.6	31.2	169.4

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

	2002 £m	2001 £m
Within one year	28.3	39.4
One to two years	5.0	7.0
Two to five years	27.5	26.4
More than five years	0.4	0.7
Total	61.2	73.5

Interest rate risk profile of financial assets

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

The Board approves deposit limits annually and sets a minimum credit rating of AA minus for any major deposits.

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

Cash and deposits	2002 £m	2001 £m
Sterling	41.8	52.3
US$	16.7	11.6
Eurozone	23.2	12.4
Other	5.5	13.2
	87.2	89.5

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

Fair value of financial assets and liabilities

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

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

To limit the cost of financing the acquisition of Currency Systems International Inc. the Group has entered into a two year interest rate cap to fix the maximum interest rate on US$50m of debt at a rate of 5.50 per cent, with an expiry date in August 2003.

Hedging future transactions

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

29 Post balance sheet events

On 28 May 2002 the Company announced that it had acquired 85 per cent of the share capital of Sequoia Voting Systems Inc., one of the world's largest providers of voting equipment, software, ballot printing and election services in the USA, from Jefferson Smurfit Group plc. The cash consideration was US$23m (£15.8m) with a further payment of up to US$12m (£8.3m) dependent on certain performance criteria being met linked to sales growth. At the date of acquisition it had estimated net assets of US$4.2m (£2.9m).

Principal Subsidiaries, Branches and Associated Companies

As at 30 March 2002

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

Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
EUROPE		
United Kingdom		
De La Rue Holdings plc	Holding company and general commercial activities	100+
De La Rue International Limited	Security paper and printing, sale and maintenance of cash handling products and services, Identity Systems, Brand Protection and Holographics	100
De La Rue Overseas Limited	Holding company	100
De La Rue Investments Limited	Holding company	100
Portals Group plc	Holding company	100
Portals Property Limited	Property holding company	100
Currency Consulting International Limited	Consultancy	100
Royal Mint Services Limited	Marketing	50*
Camelot Group plc	Lottery operator	20*
Channel Islands		
The Burnhill Insurance Company Limited	Insurance	100
Belgium		
De La Rue Cash Systems NV	Distribution and marketing	100
Ireland		
De La Rue Smurfit Limited	Security printing	50
De La Rue Cash Systems Limited	Distribution and marketing	100
Italy		
De La Rue Cash Systems s.r.l.	Distribution and marketing	100
France		
De La Rue France Holdings SAS	Holding company	100
De La Rue Cash Systems SA	Distribution and marketing	100
Germany		
IMW Immobilien AG	Property company	95.67
De La Rue Cash Systems GmbH	Distribution and marketing	100
De La Rue Systems GmbH	Holding company and distribution and marketing of cash handling products for export	100
Malta		
De La Rue Currency and Security Print Limited	Security printing	100
The Netherlands		
De La Rue BV	Holding company and distribution and marketing of cash handling products	100
Portugal		
De La Rue Cash Systems	Distribution and marketing (branch)	100
Valora-Servicos de Apoio a Emissao Monitaria SA	Currency printing	25*
Spain		
De La Rue Systems S.A.	Distribution and marketing	100
Sweden		
De La Rue Cash Systems AB	Manufacturer of cash handling equipment	100
De La Rue Svetsprodukter AB	Manufacturer of cash handling equipment	100

Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
Switzerland		
Thomas De La Rue A.G.	Holding company	100
Fidink S.A.	Security ink marketing	33.33*
De La Rue Cash Systems A.G.	Distribution and marketing	100
De La Rue International Limited, Swiss Branch	Design and development centre principally for cash handling products and solutions	100

NORTH AMERICA

United States of America		
De La Rue Inc	Holding company	100
De La Rue Global Services Inc	Security printing	100
De La Rue Cash Systems Inc	Identity systems, design, assembly, distribution and marketing	100
De La Rue Systems Limited Partnership	Assembly of cash handling products	100
Currency Systems International Inc.	Assembly and sale of cash handling products	100

SOUTH AMERICA

Brazil		
De La Rue Cash Systems Ltda	Distribution and marketing	100
Mexico		
De La Rue Mexico SA de CV	Identity Systems	100
Canada		
De La Rue Cash Systems Inc.	Distribution and marketing	100

AFRICA

Kenya		
De La Rue Currency & Security Print Limited	Security printing	100
Nigeria		
The Nigerian Security Printing and Minting Company Limited	Security printing	25*
South Africa		
De La Rue Systems (Proprietary) Limited	Distribution and marketing	100

FAR EAST

Australia		
De La Rue Cash Systems Pty Limited	Distribution and marketing	100
Hong Kong		
De La Rue Systems Limited	Distribution and marketing	100
Malaysia		
De La Rue (Malaysia) Sdn Bhd	Identity systems	100
Singapore		
De La Rue Currency and Security Print Pte Ltd	Security printing	100
Sri Lanka		
De La Rue Lanka Currency and Security Print (Private) Limited	Security printing	60

+ Shares held by De La Rue plc
* Associated company

Five Year Record

Profit and loss account		1998 £m	1999 £m	2000 £m	2001 £m	**2002 £m**
Turnover						
Continuing operations		537.6	526.2	518.9	517.4	**590.7**
Acquisitions		–	–	–	–	**51.0**
Discontinued operations	(note a)	252.6	211.7	98.2	7.4	**9.5**
Total		790.2	737.9	617.1	524.8	**651.2**
Operating profit						
Continuing operations		64.0	37.3	55.2	68.4	**74.2**
Reorganisation and arbitration costs		(13.3)	(48.5)	(25.6)	(0.8)	**(11.1)**
Acquisitions		–	–	–	–	**3.4**
Discontinued operations	(note a)	(3.6)	(0.9)	5.1	(1.5)	**(1.4)**
Total		47.1	(12.1)	34.7	66.1	**65.1**
Amortisation of goodwill		–	–	–	(0.5)	**(2.8)**
Share of profits of associated companies		37.3	26.7	14.7	4.8	**11.8**
Loss on the sale of continuing operations		–	(2.1)	–	(3.0)	**–**
Profit/(loss) on the disposal of discontinued operations		(6.4)	(16.2)	56.1	–	**1.5**
Profit on sale of investments		–	2.3	2.0	–	**22.7**
Scheme of arrangement costs		–	–	(1.1)	–	**–**
Profit/(loss) on ordinary activities before interest		78.0	(1.4)	106.4	67.4	**98.3**
Net Interest: Group		(7.3)	(8.8)	(3.0)	(1.2)	**(0.4)**
Associates		2.9	2.8	3.0	4.4	**3.0**
Profit/(loss) on ordinary activities before taxation		73.6	(7.4)	106.4	70.6	**100.9**
Taxation on profit on ordinary activities		(18.2)	(5.7)	(17.7)	(7.5)	**(22.2)**
Profit/(loss) on ordinary activities after taxation		55.4	(13.1)	88.7	63.1	**78.7**
Equity minority interests		(1.1)	(0.9)	(1.0)	(0.2)	**(1.5)**
Profit/(loss) for the financial year		54.3	(14.0)	87.7	62.9	**77.2**
Dividends		(27.0)	(27.0)	(24.3)	(24.0)	**(25.5)**
Transferred to/(from) reserves		27.3	(41.0)	63.4	38.9	**51.7**
Earnings per ordinary share		24.1p	(6.2p)	39.9p	33.1p	**40.7p**
Diluted earnings per share (per FRS 14)		24.0p	(6.2p)	39.6p	32.6p	**40.0p**
Headline earnings per ordinary share		26.5p	0.1p	15.8p	35.8p	**29.4p**
Adjusted earnings per ordinary share		30.7p	18.8p	26.5p	30.9p	**34.4p**
Dividends per ordinary share		12.0p	12.0p	12.0p	12.6p	**13.4p**

Balance Sheet	£m	£m	£m	£m	**£m**
Fixed assets	309.6	303.6	242.0	235.6	**253.2**
Net current assets	55.2	23.5	(18.7)	31.8	**63.0**
Cash/(borrowings)	(121.3)	(126.3)	2.1	36.1	**50.0**
Other liabilities	(76.0)	(67.2)	(62.3)	(46.0)	**(50.3)**
Equity minority interests	(4.1)	(3.0)	(3.0)	(2.6)	**(3.1)**
Shareholders' funds	163.4	130.6	160.1	254.9	**312.8**

Notes

(a) Discontinued operations refer to all businesses discontinued between 1998 and 2002. Thus continuing operations refer to those businesses continuing as at 30 March 2002.

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

Senior Management

Divisional Managing Directors

Pietro Armanini
Managing Director
Cash Systems

James Hussey
Managing Director
Currency

Jon Marx
Managing Director
Global Services and
Security Products

Group Management Committee

Ian Much	Chief Executive
Pietro Armanini	Managing Director, Cash Systems
John Burbidge-King	Group Director of Key Accounts
David Finnett	Group Financial Controller
Louise Fluker	General Counsel and Company Secretary
Paul Hollingworth	Group Finance Director
James Hussey	Managing Director, Currency
Jon Marx	Managing Director, Global Services and Security Products
Graham Maundrell	Group Director of Human Resources
Robert McGowan	Group Treasurer
Darryl Salmons	Group IT Director
Raglan Tribe	Group R&D Director
David Young	Group Director of Strategic Marketing

Key Divisional Executives

George Barron	Director of Human Resources Cash Systems
Kevin Bond	Managing Director, Product Supply Cash Systems
Keith Brown	Financial & Government Business Director Global Services
Gary Carter	Manufacturing Director Global Services
Kevin Carter	Change Manager, Global Services
Bryan Christophersen	Director of R&D Global Services
Mark Crickett	Director of Marketing Currency
Patrick Dexyl	Identity Systems Business Director Global Services
Colin Frey	Brand Protection Business Director Global Services
Julie Furber	Managing Director, Tapes & Holographic Global Services
Tracey Graham	Customer Service Director Global Services
Simon Jarvis	Managing Director, Portals Bathford Global Services
Mark Jeffery	Director of Manufacturing Currency
Malcolm Knight	Director of R&D Currency
Ian Lowe	Director of Human Resources Currency
Ian McCormick	Managing Director, Retail Cash Systems
Kate Price	Director of Human Resources Global Services
Ian Ritchie	Customer Service Director Cash Systems
Germain Roesch	Managing Director, Financial Institutions Cash Systems
Richard Sismey	Director of Finance Cash Systems
Patrick Spencer	Director of Finance Global Services
Jonathan Ward	Managing Director Currency Systems International Cash Systems
Michael Wilkinson	Director of Sales, Banknote Paper Currency
Mike Wilson	Director of Finance Currency
Paul Wilson	Director of Sales Currency

Shareholders' Information

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

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

Shareholder enquiries and holder amendments
Enquiries regarding shareholdings or dividends should, in the first instance, be addressed to Computershare Investor Services PLC. Details of your shareholding and how to make amendments to your details can be viewed on-line at *www.computershare.com*

Electronic communications
You can register on-line 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 so choose may vary their instruction or request a paper copy of any shareholder document at any time in the future.

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

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

Annual general meeting
The annual general meeting will be held at 12 noon on Wednesday 17 July 2002 at Winchester Guildhall, The Broadway, Winchester, Hampshire SO23 9LJ. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in a separate notice to shareholders.

Dividend payments

Final	9 August 2002	Record Date	12 July 2002	Ex-Dividend Date	10 July 2002
Interim	January 2003				

Results announcements

Final Results	May
Interim Results	November

Analysis of shareholders at 30 March 2002

By range of holdings	Number	Shareholders %	Number	Shares %
1 – 1,000	6,507	63.5	2,744,781	1.4
1,001 – 2,000	1,766	17.2	2,549,751	1.3
2,001 – 4,000	973	9.5	2,721,281	1.4
4,001 – 20,000	619	6.1	4,765,417	2.4
20,001 – 200,000	255	2.5	18,248,642	9.4
200,001 and above	124	1.2	164,213,738	84.1
Total	10,244	100.0	195,243,610	100.0

Share dealing facilities
The Company's stockbroker, Cazenove & Co. Ltd, provides a simple, low-cost postal dealing facility in De La Rue plc shares. Commission is charged at the rate of 1%, with a minimum charge of £10. Further information and forms can be obtained from Cazenove & Co. Ltd, 12 Tokenhouse Yard, London EC2R 7AN. Telephone: 020 7606 1768. A copy of the low-cost dealing form is also available at *www.delarue.com*

A low-cost telephone dealing service has also been arranged with Stocktrade which provides a simple way for buying or selling De La Rue plc shares. Basic commission is 0.5% (subject to a minimum commission of £15). For further information please call 0845 601 0995 and quote reference Low Co103.

Capital gains tax – March 1982 valuation
Shareholders should be aware that the price per share on 31 March 1982 was 617.5 pence.

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

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

DeLaRue

De La Rue plc

De La Rue House
Jays Close
Viables
Basingstoke
Hampshire
RG22 4BS

T +44 (0)1256 605000
F +44 (0)1256 605336

www.delarue.com