Focus on delivery
Annual Report 2005

De La Rue

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

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

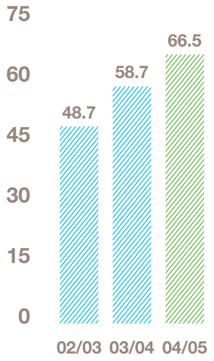
We believe these actions will provide the cornerstones to delivering high levels of customer satisfaction and attractive financial returns to our shareholders.

Highlights

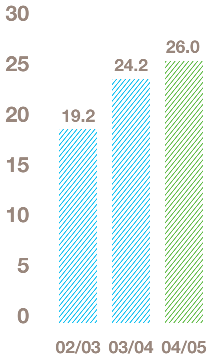
	2004/2005	2003/2004	Change
Sales	£643.2m	£682.5m	-5.8%
Profit before tax, exceptional items and goodwill amortisation*	£66.5m	£58.7m	+13.3%
Profit before tax	£49.4m	£22.5m	
Headline earnings per share*	26.0p	24.2p	+7.4%
Earnings per share	17.9p	6.8p	
Net cash flow	£65.4m	£32.9m	
Net cash at end of period	£106.5m	£41.1m	
Dividends per share	15.3p	14.2p	+7.7%

* Before exceptional charges of £15.7m (2003/2004 : £33.7m) and goodwill amortisation of £1.4m (2003/2004 : £2.5m).

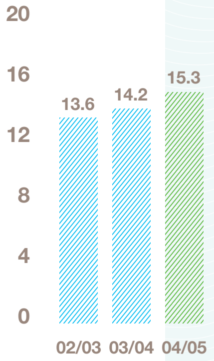
Profit before tax, exceptional items and goodwill amortisation (£m)



Headline earnings per share (p)



Dividends per share (p)



Highlights

// Good trading performance in Currency, underpinned by a strong opening order book, favourable work mix and high levels of overspill throughout the year.

// Operational and strategic rationalisation in Cash Systems and Security Products making good progress.

// Net cash flow of £65.4m (2003/2004 : £32.9m), particularly enhanced by planned reductions in inventory and debtors.

// Increase in the final dividend of 8.2 per cent to 10.6 pence per share, bringing the full year dividend to 15.3 pence per share, an increase of 7.7 per cent in the year (2003/2004 : 14.2p).

// Intended return of capital of approximately £70m through a special dividend, equivalent to 38.0 pence per share accompanied by a corresponding share consolidation.

Chairman's statement

Nicholas Brookes

"We believe a combination of immediate reward together with progressive dividend growth is a clear demonstration of our commitment to shareholder value."

Group Results

I am pleased to report an excellent full year performance in which management's focus on improving operational productivity resulted in a strong net cash inflow. Another strong year in the Currency division, together with the benefits derived from the reorganisation programmes across the Group, were key features of the results. We continue to implement our strategy of concentrating resources on our core activities, addressing under-performing businesses and putting in place the foundations for delivering improved productivity, competitiveness and shareholder value.

Returns to Shareholders

Subject to shareholders' approval, the Board is recommending an increased final dividend of 10.6p per share*, which will be paid on 5 August 2005 to shareholders on the register on 8 July 2005. Together with the increased interim dividend paid in January 2005, this will give a total dividend for the year of 15.3p, an overall increase of 7.7 per cent on last year.

The Board has also announced its intention to return approximately £70m to shareholders, equivalent to 38.0 pence per share, through a special dividend accompanied by a share consolidation. The capital return is consistent with the Board's stated strategy to return surplus cash to shareholders. The Board also intends to seek shareholder approval for the renewal of its existing general authority to make market purchases of shares.

In order to maintain comparability with historic earnings and dividend per share and with historic share prices, the special dividend will be accompanied by a share consolidation which will reduce the number of De La Rue shares in issue by 10 per cent, on a basis of 9 new shares for every 10 presently held. The payment of the special dividend is dependent on the approval of the consolidation at an Extraordinary General Meeting which will be held immediately after the Annual General Meeting on 28 July 2005.

We believe this combination of immediate reward and progressive dividend growth is a clear demonstration of our commitment to shareholder value.

Board Changes

As previously announced, I succeeded Sir Brandon Gough as non-executive Chairman after the Annual General Meeting on 22 July 2004. Leo Quinn was appointed as Group Chief Executive on 31 May 2004. In addition, following these changes, Michael Jeffries became Chairman of the Remuneration Committee on 21 July 2004 and the Company's senior independent non-executive Director on 22 July 2004. Sir Jeremy Greenstock also joined the Board on 1 March 2005 as a non-executive Director.

Outlook

The Group has good visibility for first half orders, particularly in the Currency activities although as previously anticipated we do not expect a repeat in 2005/2006 of all the favourable conditions we saw in Currency during 2004/2005. We remain confident of the outlook for the year.

* The final dividend will be paid on the issued share capital before any consolidation arising from the special dividend.

Chief Executive's review

£65.4m

Net cash flow
Excellent cash flow performance continues to be a key strength of the Group with net cash flow of £65.4m, £32.5m ahead of last year.

Leo Quinn

"Our key management focus for 2005/2006 is to ensure that the operational changes we have initiated are successfully implemented to yield their full potential."

Group Results

De La Rue is pleased to report a strong performance for the year ended 26 March 2005. Underlying profit before tax* increased by £7.8m to £66.5m (2003/2004 : £58.7m). Overall the Group's trading performance was strong with underlying operating profits of £54.6m, an increase of £5.3m compared to last year (2003/2004 : £49.3m). This excellent performance was achieved notwithstanding a £9.1m adverse impact from foreign exchange (translation and transaction effects), in particular related to the increased weakness of the US Dollar, throughout the year. After charging exceptional items and goodwill amortisation, profit before tax was £49.4m (2003/2004 : £22.5m). Underlying figures are presented to provide a more meaningful indication of business performance and trends.

Headline earnings per share* increased by 7.4 per cent from 24.2p to 26.0p reflecting the improved trading performance. Basic earnings per share were 17.9p compared to 6.8p in 2003/2004 and include the benefit from the disposal during the year of discontinued activities.

An excellent performance in both Currency and Security Products activities contributed to the strong operating result in the Security Paper and Print division, where underlying operating profits (before exceptional income of £1.2m and a goodwill amortisation credit of £0.5m) were up 7.5 per cent to £45.6m. This reflected the benefit of Currency orders delayed from the second half of the previous year, (when the majority of the Iraq order was processed), an improved work mix and continued high levels of overspill activity throughout the year. The successful implementation of the rationalisation programme in the Security Print business, initiated last year and completed in the second half of the current year, coupled with strong volumes of authentication labels and fiscal stamps, also contributed to an improved performance in the Security Products business.

In Cash Systems, underlying operating profits (before exceptional items of £25.8m and goodwill amortisation of £1.9m) of £9.2m were slightly ahead of last year, despite an adverse foreign exchange impact of £4.1m compared to 2003/2004. In December 2004 we announced a major reorganisation of the division, aimed at lowering the cost base and establishing a clear focus on improving manufacturing productivity. We are making good progress in implementing these actions.

Cash generation was again strong with net cash inflow from operating activities of £96.1m (2003/2004 : £92.1m). This particularly reflected reductions in inventory and debtors, partly offset by a reduction from last year's high level, of customer advance payments. The Group ended the year with net cash on the balance sheet of £106.5m compared to net cash of £41.1m last year.

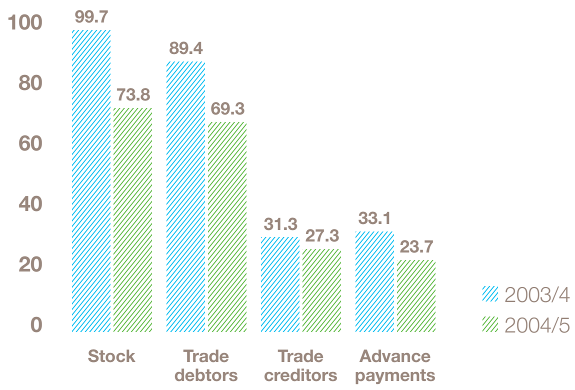
Group Strategy

As we outlined at the interim results, the broad focus of De La Rue's activities going forward will be on those products and services for which we can establish or maintain and build a strong competitive position. Our programme for operational and strategic rationalisation, announced at the interim results, is making good progress. We believe that driving operational efficiency provides the best route to deliver improved shareholder value. The Group's strong cash generative

*before exceptional charges of £15.7m (2003/2004 : £33.7m) and goodwill amortisation of £1.4m (2003/2004 : £2.5m)

Chief Executive's review continued

Group working capital year on year reductions (£m)



characteristics and ungeared balance sheet also give the Board scope to return surplus cash flow to shareholders through a combination of progressive dividends and, where appropriate, capital returns. The key management focus for 2005/2006 is to ensure that the operational changes we have initiated are successfully implemented to yield their full potential.

Security Paper and Print

In Security Paper and Print our focus remains on maintaining our market share in Currency and sustaining our competitive advantage through an increased investment in R&D. In addition, we continue to drive productivity within the division through investment in automation.

During the year, we finalised the restructuring of the Security Products activities with the closure of the Peterborough and Byfleet sites and the related exit from low margin businesses, including UK personal cheques, export stamps and UK vouchers. At the same time we have increased our investment in sales and marketing for authentication labels, passports and fiscal stamps, further leveraging our core intellectual property.

Cash Systems

In Cash Systems, we are implementing the restructuring actions outlined in December 2004. We have removed the divisional infrastructure and reorganised the division into focused Strategic Business Units, each with its own budget and direct accountability to the Chief Executive. The planned closure of the Portsmouth manufacturing facility and relocation of associated manufacturing to lower cost economies is progressing well and we are on course to close the site by the end of 2005/2006. We intend to close the Eskilstuna OEM manufacturing site in Sweden and outsource assembly to a strategic partner in China. Consultation with the workforce of 139 has commenced and the site is planned for closure by the end of 2005/2006.

Action has also been taken to restructure our Portuguese ATM business following the anticipated loss of a significant portion of service revenue. A new management team is in place and, as a consequence of the actions taken, we expect the business to trade profitably in 2005/2006. The costs associated with these actions are included in the charges within the exceptional charge.

It is now anticipated that these actions will result in annualised cost savings of approximately £9m by the end of 2006/2007, £1m more than previously expected. Total restructuring costs of £17.9m are anticipated, in line with our previously announced expectations. We have achieved £1.5m savings in the current year from these initiatives, which is expected to increase to an annualised run rate of £5m in 2005/2006, increasing to an annualised run rate of £9m in 2006/2007. Including the proposed closure of Eskilstuna, we are now targeting a total headcount reduction of 480 from these actions. During the year 180 people left the business from these initiatives.

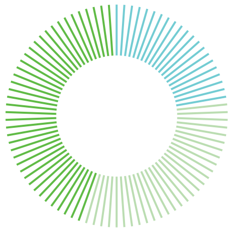
Sale of Sequoia Voting Systems

During the second half, we also successfully completed the sale of the Sequoia Voting Systems business for a consideration of £8.7m (US$16m) resulting in an exceptional gain of £6m. Trading losses during this final year of ownership were lower than

-£27.4m

Working capital
This year the Group has focused on reducing working capital, which showed a decrease of £27.4m, on top of good progress made last year.

2004/2005
Stock Position (£m)
In particular, inventory reduction initiatives this year, run across all businesses, have seen a 26.0% fall in total stock levels to £73.8m this year.



// **Raw materials £16.2m** (last year £18.4m)
// **Work in progress £24.5m** (last year £34.5m)
// **Finished goods £33.1m** (last year £46.8m)

Strategic actions
In December 2004, we announced our strategy to deliver enhanced shareholder value through:

expected reflecting significantly reduced costs, the unwinding of stock levels and the earlier than anticipated sale.

Improving Productivity
Improving operational productivity is central to achieving our strategy. During the year we engaged the entire organisation in the Group's objectives, putting in place clear actions and a methodology to drive improved operational performance across all our businesses. We believe that in doing so we will unlock the potential to deliver higher levels of customer satisfaction and, ultimately, better financial returns.

The Group's strong cash flow is an indication of the benefits of these focused actions. A working capital reduction of £27.4m and, in particular, lower levels of inventory across all our operating businesses were a direct result of our drive for productivity improvement.

Associates
Profit from associates before interest and tax were lower at £9.4m (2003/2004 : £10m). The main associated company is Camelot, the UK lottery operator which reported an improved sales performance on the previous year, reflecting the introduction of new games and sales channels. Dividends received from associates of £5.6m were lower than last year's income of £7.2m. Profits and dividends were lower as a result of one-off income in the previous year.

// **Simplifying the Group structure**
We have restructured the Group into five strategic business units, each with a focused strategy and direct accountability to the Chief Executive.

// **Focusing De La Rue on businesses where we have a strong competitive advantage**
Our focus will be on those products and services for which we can establish and maintain our strong competitive position. These activities, we believe, can also deliver superior performance and sustained cash generation.

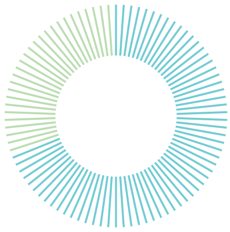
// **Driving productivity improvement**
through a focus on continuous improvement and best practice across all our businesses.

// **At the appropriate time, surplus cashflow to be returned to shareholders**
through a progressive dividend policy and, at the appropriate time, capital returns.

De La Rue today

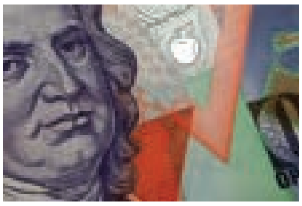
The Group comprises two principal areas of activity, Security Paper and Print and Cash Systems with strong market positions and attractive cash generation characteristics.

Revenue share



// **Banknote printing** 70%
// **Banknote paper** 30%

Security Paper and Print



Currency

We aim to be the preferred partner of central banks for printed banknotes, banknote paper and banknote technologies worldwide. By investing significantly we deliver the most effective service and advanced security features, tailored to meet our customers' individual needs.

// **Strategy** Build on the existing business by maintaining its market leadership position through selective investment in R&D. The Currency business, while mature, provides attractive returns, is highly cash generative and has a strong competitive position in the market in which it operates.

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

// **Locations** Debden, Gateshead, Overton (HQ) and Westhoughton (UK), Zejtun (Malta), Malwana (Sri Lanka), Nairobi (Kenya).

Security Products

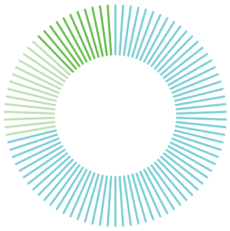
The business provides a range of secure printed products, services and solutions to businesses and governments worldwide.

// **Strategy** Focus on the core business of authentication labels, passport and fiscal stamps markets and a broadening of the current customer base.

// **Products** Authentication labels, export cheques and drafts, driver's licences and issuing systems, holograms, motor vehicle title documents, national identity cards and issuing systems, passports and issuing systems, postage, revenue and fiscal stamps, secure substrates, signature panels, tax discs, travellers cheques, visas, vital records, vouchers.

// **Locations** Bathford, Basingstoke (HQ) and Dunstable (UK), Bray and Lisburn (Republic of Ireland), Albany and Dulles (USA), Nairobi (Kenya), Midrand (South Africa), Kuala Lumpur (Malaysia).

Revenue share by Strategic Business Units



// Branch Teller Automation 72%
// OEM/Desktop Products 15%
// Sorters 13%

Cash Systems

Branch Teller Automation

Our range of teller automation solutions helps bank branches, bank tellers and post banks/offices ensure that cash is readily available for their customers wherever and whenever they need it.

// Strategy Support and develop strong market position as the global market leader in Teller Automation products serving the retail bank sector through a greater focus on the key growth markets, particularly North America, together with driving further operational productivity improvements.

// Products Teller cash dispensers and recyclers help to increase teller productivity and improve customer service. Self-service systems and multifunctional ATM solutions automate routine self-banking operations.

Cash Processing Solutions (Sorters)

The Sorters business provides cash handling solutions, including banknote sorters and software systems to help Central Banks, commercial banks and cash-in-transit companies worldwide process cash efficiently and improve customer service.

// Strategy Revitalise the Sorter business. There are attractive segments of this market where De La Rue can compete successfully and which complement the Group's Currency operations.

// Products Fully configurable note sorters that enable the highest levels of counterfeit detection and quality control for cash providers. Software that delivers a systematic approach to cash processing control.

OEM/ Desktop Products

The Desktop Products business provides low cost, simple-to-use cash counters targeting the banking, retail, gaming, leisure and cash-in-transit markets. De La Rue is also a leading supplier of Original Equipment Manufacture (OEM) mechanisms and technologies to the ATM industry.

// Strategy Optimise earnings for the OEM and Desktop Products businesses through the rationalisation of the manufacturing capacity and optimising the supply chain.

// Products Note and coin counters, from simple batching to counterfeit checking, including reconciliation of deposits. Cash dispensing mechanisms.

// Locations Basingstoke (HQ) and Knutsford (UK), Dublin (Republic of Ireland), Chicago, Dallas, Watertown (USA), Mexico City (Mexico), Montreal (Canada), Lisbon (Portugal), Madrid (Spain), Bern (Switzerland), Moerfelden (Germany), Paris (France), Vianen (Netherlands), Flen and Eskilstuna (Sweden), Beijing and Hong Kong (China), Sydney (Australia).

Operational review
Security Paper and Print

An excellent performance in both the Currency and Security Products activities contributed to the strong divisional operating result.

Security Paper and Print	2004/2005 £m	2003/2004 £m	change £m
Sales	**317.9**	340.3	(22.4)
Underlying operating profit*	**45.6**	42.4	3.2

* Before exceptional income of £1.2m (2003/2004 : £10.0m charge) and amortisation of negative goodwill of £0.5m (2003/2004 : £0.5m).

Currency
The Currency business had another excellent year, despite reduced volumes in both banknote printing and paper, following the completion of the exceptional Iraq order in 2003/04. Banknote printing volumes were down 8 per cent (2003/2004 : increase of 14 per cent), the reduction having been significantly mitigated by the benefit of both high backlog orders, improved work mix and a high level of overspill. Banknote paper volumes were down 15 per cent (2003/2004 : increase of 38 per cent), but benefited from both improved manufacturing efficiency and increased orders for high specification paper, requiring more sophisticated banknote threads. The former Bank of England works at Debden continued to perform in line with our expectations.

The Currency business ended the year with a strong order book which provides good visibility for the first half year.

Demand for the latest technology in anti-counterfeit solutions 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.

By combining its know-how of thread manufacture, expertise in papermaking and skill in design, De La Rue has produced a ground breaking new security feature to protect banknotes against the full range of modern counterfeiting techniques. Optiks™ is a high technology, high value product which combines the best of traditional paper making with new materials and techniques to create a world first in banknote design.

Optiks™ takes wide thread technology into the future. The feature is a prominent 18mm wide demetallised thread with customised images with a distinctive see through aperture. In transmission the images in the thread are clearly visible.

Security Products
The Security Products business in particular performed well. The key restructuring actions announced in November 2003, including the closure of the Peterborough and Byfleet manufacturing sites, were completed during the second half, together with the final exit and sale of the High Wycombe site.

This year, we launched Optiks™, a ground breaking new security thread feature with a distinctive see-through aperture.

-£4.7m

Reduction initiatives this year run across all businesses in Security Paper and Print have seen a £4.7m fall in stock levels, a reduction of 11%.

+14%

The cost reduction programme initiated in Security Products in 2003/2004 has resulted in a more efficient business. This year we have seen a 14% year on year productivity improvement when measured by sales per employee.

The completion of the manufacturing rationalisation, the exit from unprofitable activities and the volume benefits of increased sales and marketing investment in authentication labels, fiscal stamps and passports all contributed to improved results.

During the year we implemented a leading edge fiscal stamp project for a customer in the Far East.

The solution adopted incorporated De La Rue's high security anti-counterfeit features with a web enabled authentication database, which can track individual fiscal stamps throughout the supply chain. We see this integrated approach as a model approach for similar revenue protection schemes throughout the world.

Inventory Reduction in Malta

Currency's Malta banknote facility has recently utilised value stream mapping tools to enable it to reduce inventory stocks and optimise product flow through the factory. Through process improvement initiatives, new measurement techniques and setting internal targets the facility has reduced buffer stocks between processes and eliminated unnecessary paper and ink stocks.

In just six months the project team has achieved reductions in stock days of over 20 per cent. At the same time the factory has importantly maintained its "on time in full" delivery targets at 100 per cent. Currency is now conducting similar exercises at its other four banknote printing facilities.

Operational review
Cash Systems

In December 2004, we announced a major reorganisation of the Cash Systems division aimed at lowering the cost base and establishing a clear focus on improved manufacturing productivity.

Cash Systems	2004/2005 £m	2003/2004 £m	change £m
Sales	**302.2**	302.6	(0.4)
Underlying operating profit*	**9.2**	8.8	0.4

* Before exceptional items of £25.8m (2003/2004 : £11.3m) and goodwill amortisation of £1.9m (2003/2004 : £2.6m).

Divisional Results
Cash Systems' full year revenues of £302.2m were ahead of last year, excluding adverse translational exchange differences of £10.7m. Underlying operating profits of £9.2m were in line with our expectations and 4.5 per cent ahead of last year's result, primarily driven by savings from the ongoing cost reduction programmes. This was achieved despite significantly adverse foreign exchange impacts, in particular relating to transaction differences between the US$ and the Swedish Krona, of approximately £4.1m. Operating cash flow was strong and substantially ahead of last year, driven by favourable working capital management.

Strategic Business Unit Performance
Teller automation revenues continue to be the major driver of product sales and service revenues in the division. Volumes for Teller Cash Dispensers declined throughout the mature continental European markets. However, we saw volume growth in the Teller Cash Recycler markets in both Europe and North America, despite increased competition from new entrants. The North American market, to which our products are well suited, continues to be the principal focus for growth. During the year both the USA and Canada grew in line with our expectations and, as we continue to see potential for further penetration in these markets going forward, we will increase our marketing investment.

Sorter volumes were significantly down on last year in what is becoming an increasingly competitive environment. The unit's new management team is actively working to reduce the cost base of the business, while maintaining product development, in order to capitalise particularly on growth from emerging markets such as India, Russia and Brazil. The business remains a core part of our Currency offering to Central Banks.

The OEM and Desktop Products businesses performed in line with our expectations for these mature businesses. Our focus continues to be to drive productivity improvements and lower our structural cost base in order to deliver products at competitive prices.

Following the restructuring actions outlined in the Chief Executive's Review on pages 3 to 5, Cash Systems will comprise three focused Strategic Business Units (SBU's). These will be managed as front to back businesses with direct accountability to the Chief Executive.

+8%

The cost reduction programme in Cash Systems over the last two years is now showing through in efficiency gains.

This year has seen an 8% year on year improvement when measured by sales per employee.

-£20m

Over the year a major focus has been on improving stock control.

This year we have achieved excellent results and the division has seen a fall of £20m in stock levels, a reduction of 36%.

Branch Teller Automation
Our strategy is to support and develop our strong market position as the global market leader in Teller Automation products serving the retail bank sector. Our focus will be through a greater emphasis on the key growth markets, particularly North America, together with driving further operational productivity improvements.

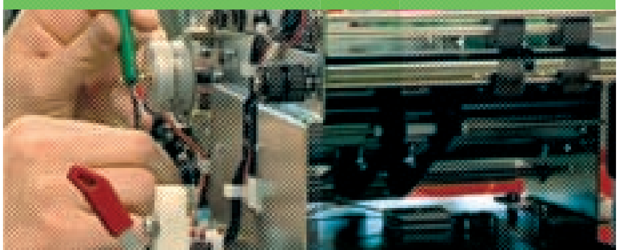
Cash Processing Solutions (Sorters)
The Sorters business provides cash handling solutions, including banknote sorters and software systems to help Central Banks, commercial banks and cash-in-transit companies worldwide process cash efficiently and improve customer service. We intend to focus the business where De La Rue can compete successfully and which complement the Group's Currency operations.

OEM/Desktop Products
De La Rue is a leading supplier of Original Equipment Manufacture (OEM) mechanisms and technologies to the ATM industry. The Desktop Products business provides low cost, simple-to-use cash counters targeting the banking, retail, gaming, leisure and cash-in-transit markets. Our strategy is to maximise earnings for these mature businesses by rationalising manufacturing capacity and optimising the supply chain.

Kaizen 'Blitz' in Sweden

80%+ increase in the output of the lines

Kaizen 'Blitz' is a technique used to accelerate improvements in productivity instead of the traditional incremental change process. A cross-functional team spends typically 3-5 days completely reworking a manufacturing cell. The 'Blitz' process uses value stream mapping and other 'lean' tools to break apart and completely rethink existing production processes. Our manufacturing facility in Flen, which produces teller automation products for global distribution, has run several Kaizen Blitz events this year, which have yielded significant improvements on several assembly lines. On the note transport production line, for example, the following improvements were made : space reductions of 30%, work in progress reductions of 70% and an 80% increase in the output of the line.



Financial review

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

	2005 Group assets £m	2005 Cash/(debt) £m	2005 Net assets* £m	2004 Net assets* £m
UK	31.3	145.5	176.8	184.8
USA	3.8	(13.2)	(9.4)	(18.7)
Eurozone	58.9	(23.7)	35.2	17.8
Rest of World	24.2	(2.1)	22.1	30.2
Total	118.2	106.5	224.7	214.1

*Excluding minority interest.

Stephen King

"An excellent full year performance in which management focus on improving operating productivity has been reflected in a strong net cash inflow."

Financial Results

I am pleased to report an excellent full year performance in which management's focus on improving operational productivity resulted in a strong net cash inflow. Another strong year in the Currency division, together with the benefits derived from the reorganisation programmes across the Group, were key features of the results.

Exceptional Items

Reorganisation costs in Cash Systems relate to the restructuring actions announced at the interim results. A charge of £14.3m has been taken in 2004/2005 with the final element of £3.6m to be charged in 2005/2006, in line with the requirements of accounting standards.

A goodwill impairment of £11.5m was made relating to the Portuguese ATM business, acquired from Papelaco SA in 2002, which was written off in the first half. This arose from the loss of a significant amount of business from a key customer. Steps have now been taken to return the business to profitable trading in 2005/2006 and the costs associated with these actions are included in the exceptional restructuring costs outlined above.

Profit on disposal relates primarily to the disposal of Sequoia Voting Systems in March 2005.

The total exceptional charge of £15.7m includes £7.9m of net cash costs. This represents £14.3m in respect of Cash Systems to be spent over the next year, offset by income received during 2004/2005 of £6.4m, primarily relating to the Sequoia Voting Systems disposal.

Cash Flow and Borrowings

During the year net cash inflow from operating activities was £96.1m compared to £92.1m in 2003/2004. This included a significant cash inflow from inventory and debtors, partially offset by a reduction in advance payments. Capital expenditure of £20.5m was lower than last year due to phasing of expenditure between periods with the average of the last two years in line with depreciation and our expectations.

During the first half the Company completed the disposal of the freehold of its High Wycombe facility in the UK. This follows the previously announced restructuring of manufacturing facilities in Security Products, after which the company ceased production at the site in 2003/2004. The sale of the Sequoia Voting business was completed in the second half for proceeds of US$16m (£8.7m) of which US$2m (£1.1m) is deferred until 30 June 2006. Total proceeds from asset disposals were £12.1m in cash.

The overall net cash flow was positive at £65.4m (2003/2004 : £32.9m), resulting in closing net cash of £106.5m at the year end compared to net cash of £41.1m at the start of the year.

Taxation

Excluding exceptional items and goodwill amortisation, the underlying effective tax rate was 28.0 per cent (2003/2004 : 26.2 per cent).

UK Pension Scheme

The Group accounts for pensions in accordance with SSAP24, having deferred the introduction of FRS17 (Retirement Benefits) in accordance with the transitional measures set out by the Accounting Standards Board. The charge to the profit and loss account in respect of the UK pension scheme for 2004/2005 was £10.4m (2003/2004 : £9.9m).

Principal exchange rates used in translating the Group's results

£	2004/2005 Average	2005 Year end	2003/2004 Average	2004 Year end	2002/2003 Average	2003 Year End
US dollar	**1.84**	**1.87**	1.69	1.81	1.54	1.57
Euro	**1.47**	**1.44**	1.44	1.50	1.56	1.46
Swedish Krona	**13.35**	**13.13**	13.19	13.87	14.26	13.43
$						
Swedish Krona	**7.26**	**7.02**	7.80	7.66	9.26	8.55

Treasury Operations, Foreign Exchange and Borrowing Facilities

The Group Treasury department provides a central service to Group companies and conducts its operations in accordance with clearly defined guidelines and policies, which have been reviewed and approved by the Board. Treasury transactions are only undertaken as a consequence of underlying commercial transactions or exposures and do not seek to take active risk positions. It is Group Treasury's role to ensure that the Group has sufficient available borrowing facilities to meet its needs in the foreseeable future.

International Financial Reporting Standards

These are the final set of results which the Group will report under UK GAAP. The Group will be reporting under IFRS for the year ended 25 March 2006, starting with the interim results to September 2005. A thorough review of all relevant standards has been undertaken in order to assess the likely impact and the restatement of the results for 2004/2005 is nearing completion. A full communication of this restatement will be presented in July 2005.

To aid understanding of the transition to IFRS, a summary of the key areas of impact is set out below. These IFRS adjustments are unaudited and may change as the Group finalises its analysis of the effect of IFRS. Its adoption in the Group accounts represents an accounting change only and will not affect our operations or cash flows. The Group has adopted IAS39 (Financial Instruments: Recognition and Measurement) from 27 March 2005 and adjustments to prior periods will not include any effects of that standard.

The principal areas of impact are:

Profit and Loss Account

Accounting for share options (IFRS2) : requires a charge to be recognised based on the fair value of each share option grant – likely to lead to an additional charge of c. £1.8m to operating profits.

Research and development costs (IAS38) : requires development costs to be capitalised provided certain criteria are met, leading to a small net credit to operating profits, after increased amortisation.

Pensions (IAS 19) : there will be no significant change to the operating profit charge. The total charge will now include an operating charge and a finance charge (within interest), the latter representing the difference between the expected return on assets and the interest on scheme liabilities. This element will be hard to predict. Experience gains and losses will be charged or credited to Statement of Recognised Income & Expenses.

Goodwill (IAS38) : goodwill will no longer be amortised through the Profit and Loss Account but an annual impairment review will be carried out. Amortisation of goodwill included in the results for 2004/2005 was £1.4m.

Associates (IAS28) : the Group's share of profits from associates must now be shown after tax within the Group's profit before tax, rather than showing the tax charge of associates within the Group's overall taxation charge. The tax charge on associate profits in 2004/2005 was £3.0m. The impact will be to reduce the disclosed profit before tax, with no change to profit after tax.

Balance Sheet

Pensions (IAS19) : the assessed deficit will be recognised on the balance sheet leading to a reduction in net assets of approximately £65m.

Dividends (IAS10) : dividends proposed after the balance sheet date are not accrued under IFRS but accounted for when declared. This has a one-off impact of increasing net assets by the final dividend of approximately £19m.

Financial Instruments (IAS 39) : we expect to account for all significant currency hedges under 'hedge accounting'. There are some embedded derivatives within Currency division and some increased volatility potential, but these are not expected to have a material impact on results or net assets.

Overall, the transition to IFRS is not expected to have a material impact on Group earnings.

Corporate responsibility

De La Rue is committed to the responsible management of all its activities and the effect they have on our stakeholders.

Progress against 2004/2005 Objectives

- • **Completed**
- # **Some progress made**
- Ø **No progress**

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

2005/2006 Objectives

// Continue with the ISO14001 certification programme
// Plan the phased ISO18001 certification programme after the initial successes
// Ensure all De La Rue managers at all levels receive satisfactory training on EHS issues
// Hold Interlock 2005 EHS Conference
// Ensure all significant facilities are progressing suitable risk assessment programmes
// Review all machinery guarding against current EU standards and upgrade where necessary.

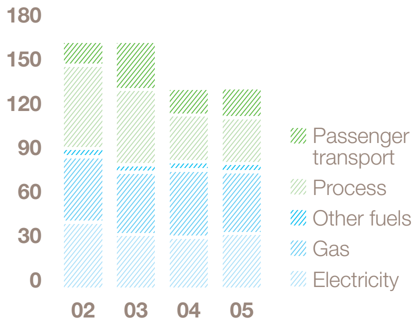
This section of the Annual Report summarises how De La Rue manages issues relating to corporate social responsibility, often called "CSR", or social, environmental and ethical ("SEE") matters in relation to our stakeholders – customers, shareholders, employees, suppliers and other business partners and local communities wherever we carry on business throughout the world. Further information on CSR within De La Rue can also be found on www.delarue.com.

Policies and Procedures – Business Code of Conduct

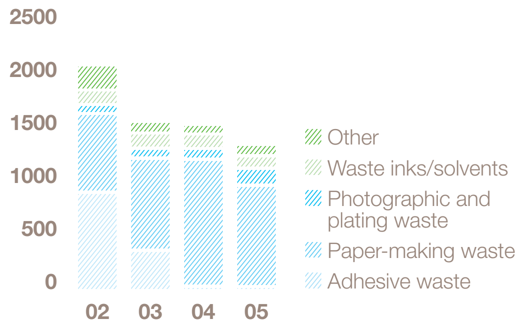
De La Rue's Business Code of Conduct is the cornerstone of its approach to corporate responsibility. All employees must receive a personal copy of and comply with the Code. It defines De La Rue's core values and principles for doing business, dealing with issues such as share dealing procedures, competition law compliance rules, ethical dealings with governments, customers, suppliers and third parties, protecting the Group's assets, health and safety and the environment, and avoiding conflicts of interest. The Code is supplemented by more detailed policies and procedures and by training relevant employees. The Code, policies and procedures are also on the Company's intranet. Managers must ensure that their staff are properly briefed.

The Audit Committee has approved a 'whistleblowing' process whereby employees who have concerns about the application of the Code of Conduct or business practices within the Group may raise them internally, or anonymously through an independently run telephone help-line. The Board and Audit Committee receive details about any issue raised and how it has been followed up.

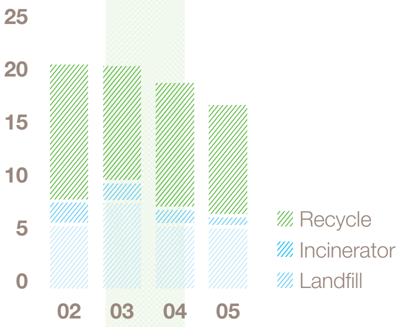
Greenhouse gas emissions ('000 tonnes as CO_2)



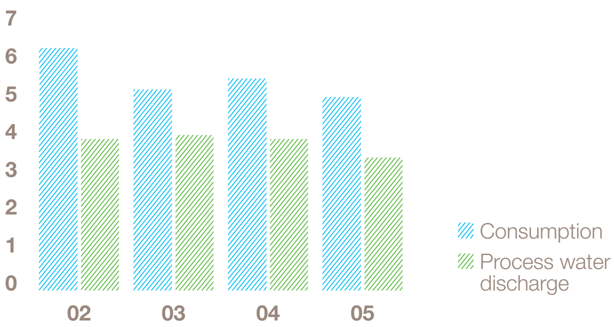
Liquid waste (m^3)



Solid waste ('000 tonnes)



Water consumption by volume (million m^3)



Accountability and Management Processes

The Board is ultimately responsible for assessing the effect potential CSR issues may have on De La Rue's business and ensuring that the Group has appropriate policies and implements them. Details of the Board structure and of its Committees are set out on page 21. The Chief Executive is the Board member with designated responsibility for CSR. The Operating Board is responsible for the day to day management of these issues. The Board receives monthly reports on CSR issues. They are also discussed in the quarterly Risk Committee and monthly Operating Board meetings.

The Environment, Health & Safety ("EHS") Steering Group, chaired by the Company Secretary, is responsible for setting EHS strategy for the Group, responding to regulatory developments, developing appropriate procedures and disseminating information on good practice to Group businesses.

Particular Social, Environmental and Ethical Risks

// **Cash Systems:** environmental effects of this business are relatively low, consisting mainly of low volumes of waste generation and energy consumption. Health and safety risks are principally manual handling when assembling machines and road transport and personal safety of field engineers when travelling to repair equipment;

// **Security Paper and Print:** papermaking and security printing involve chemical handling, machinery hazards and emissions to air and water that require treatment before release. Environmental effects are primarily waste generation, use of solvents and energy consumption, especially at the Overton Mill which is close to a Site of Special Scientific Interest. Health and safety hazards are those primarily associated with machinery.

The Group also faces challenges in applying consistent standards internationally notwithstanding different local standards. Internal and external auditing and whistleblowing processes reinforce the implementation of mandatory Group procedures and policies in SEE areas. More details are set out in this report and in the Corporate Governance report.

Employees

With over 6,200 staff in 31 countries, we aim to employ people of high quality worldwide. We encourage creativity and initiative, recognise individual and team contributions and give all employees the chance to develop their full potential. The Group promotes employee involvement through a policy of communication and consultation by individual business unit managers. In addition to the Company newsletter, the intranet and more traditional house notices, the Company's Chief Executive, Leo Quinn, issues a twice monthly electronic 'Insight' on key business issues to all employees who have the opportunity to respond direct. In addition individual surveys of employee attitudes to various matters are conducted. The Company has also recently invested in a Group-wide HR system which will enable the Company to monitor employee issues across the Group more effectively.

De La Rue offers equal opportunities in recruitment, training and promotion and in terms and conditions of employment without discrimination on grounds of gender, sexual orientation, religious beliefs, age, colour,

Corporate responsibility continued

Air Pollutants (tonnes)

	2002	2003	2004	**2005**
Non-Chlorinated VOCs	128.0	152.6	127.7	**157.7**
Chlorinated VOCs	0.2	0.4	10.6	**12.2**

Liquid Pollutants

	2002	2003	2004	**2005**
COD (tonnes)	158.2	124.9	346.4	**190.0**
BOD (tonnes)	27.5	25.1	30.9	**17.1**
Suspended solids	27.5	28.8	27.7	**24.0**

Energy consumption (GWh)

	2002		2003		2004		**2005**	
Electricity	102.7	29%	124.27	34%	127.24	33%	**129.74**	**35%**
Gas	241.2	67%	232.13	63%	250.50	64%	**227.48**	**62%**
Other Fuels	12.5	4%	9.21	3%	10.36	3%	**12.29**	**3%**
Total Energy	**356.4**	**100%**	**365.61**	**100%**	**388.10**	**100%**	**369.51**	**100%**

ethnic or racial origin, nationality, disability or trade union membership. If an employee becomes disabled when in the Group's employment, full support is given through the provision of special training, equipment or other resources to facilitate continued employment wherever possible. All managers are required to ensure that employees understand their responsibility for the active implementation of the Group's policies. De La Rue's equal opportunities, anti-harassment and stress policies are available on the Company's website. De La Rue has processes and guidance in place to protect the human rights of our employees and ensure compliance with legislation as part of our normal business activities.

Community

The De La Rue Charitable Trust was set up in 1977 and aims to direct funds to appropriate causes where De La Rue operates, with the emphasis on educational projects which promote relevant skills, international understanding and bring relief from suffering.

Suppliers

We expect our suppliers to share our CSR values and commitment to ISO standards for EHS performance. Potential suppliers are required to meet certain criteria during the supplier selection process for both direct and indirect procurement.

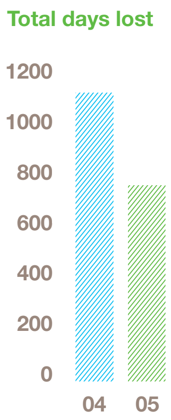
Environment, Health and Safety

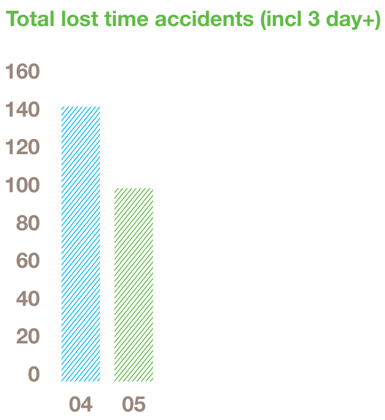
We strive to minimise the impact of our operations on the environment and to safeguard the health and safety of those affected by our operations. EHS assurance comprises setting appropriate policies, operating management systems and the processes that provide the Board with confirmation that all business units comply with Group policy and applicable law whilst implementing their EHS action plans. EHS self-assessment and performance benchmarking processes measure how sites perform. Audit results are a factor in the initial allocation of insurance premiums. This data and the associated monitoring programmes provide the necessary information to manage our EHS risks and to develop effective improvement programmes. The management systems define how the EHS risks are identified and controlled and who is responsible for so doing.

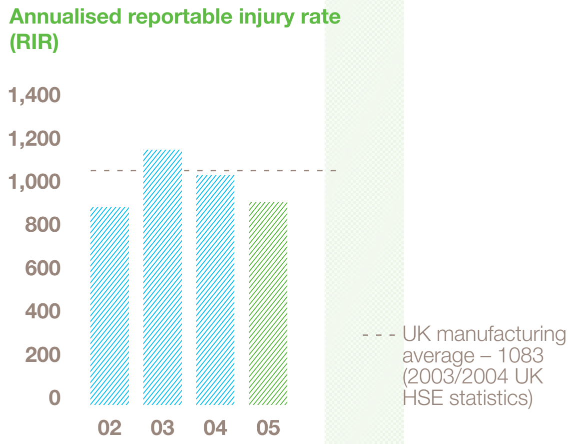
Progress Against 2004/2005 Objectives

We achieved or made significant progress on all of the objectives we set for ourselves last year. We are improving our self-audit process and are continuing with our verification programme. Sites which are externally accredited are externally audited. There is also a rolling programme of visits by divisional EHS advisers. Ten more operations achieved ISO14001 certification during the last year, bringing the total number of certified sites to sixteen. Six facilities (Dallas, Debden, Dunstable, Gateshead, Moerfelden and Sri Lanka) have achieved certification for their integrated management systems under all three internationally recognised certification standards for effective management systems (ISO14001, OHSAS18001 and ISO9001:2000).

Three further sites are working towards ISO14001 accreditation during 2005/2006 as part of the programme to achieve certification at all manufacturing plants. The OHSAS18001 programme was successfully launched with six facilities achieving certification this year.







Full copies of our EHS policies are available on our website, or from the Company Secretary, details of which are on page 64.

Further certification will be achieved over the next three years as part of a phased programme.

Accident statistics are measured across all facilities and divisions as a key performance indicator and reported to the Board and Operating Board each month. Year on year target improvements have also been set for 2005/2006. The corporate EHS standards have been issued internally to all sites. The standards are supported by an updated audit protocol for use in 2005/2006.

EHS Performance Indicators

Our key performance indicators on pages 15 to 17 show improved performance taking account of variable production output and reflecting the improvement programmes implemented across the Group.

None of our operations has been prosecuted for infringing any EHS laws or regulations during 2004/05.

Awareness and Culture

De La Rue develops awareness of and embeds EHS in its operating culture by training programmes for all levels throughout the Group. The annual EHS conference, attended by senior managers, operational personnel, EHS and employee representatives, is the focal point for sharing best practice and introducing new procedures. The European Employee Forum also discusses EHS matters.

De La Rue in the Community

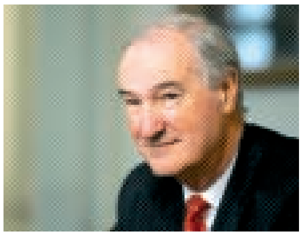
Following the recent Asian tsunami, our Sri Lanka factory has set up a bank account to manage donations from employees. A philanthropic committee has also been established to collect food, clothing, milk powder, feeding bottles, medicine, footwear, etc., which have been distributed to displaced people in temples and schools.

The philanthropic committee intends to use the donations from employees to focus on the smaller scale projects such as re-building houses, a school or an orphanage. De La Rue has donated a substantial amount towards nation-wide projects through the Central Bank of Sri Lanka.

Directors and Secretary


1

2

3

4

5

6

7

8

1. Nicholas Brookes (57) / Non-executive Chairman †
was appointed to the Board in March 1997 and became Chairman of the Company with effect from 22 July 2004. He is also chairman of the Nomination Committee of the Board. He resigned from the Remuneration Committee upon his appointment as Chairman. He was, until June 2004, Chief Executive of Spirent plc. He is a director of Corporacion Financiera Alba SA and Axel Johnson Inc. He was previously vice president of Texas Instruments Inc. and president of the Materials and Controls Group.

2. Leo Quinn (48) / Chief Executive †
joined the Group as Chief Executive Designate on 29 March 2004 and succeeded Ian Much on his retirement as Chief Executive on 31 May 2004. He was formerly with Invensys where for three years he was Chief Operating Officer of its Production Management Division based in Massachusetts, USA. Prior to that he spent 16 years with Honeywell Inc. in a variety of senior management roles in the USA, Europe, the Middle East and Africa.

3. Stephen King (44) / Group Finance Director ∅
joined the De La Rue Board as group finance director on 31 January 2003. Prior to his appointment he was with Aquila Networks plc, formerly Midlands Electricity plc, where he was group finance director since 1997. He previously held the position of group financial controller at SEEBOARD plc and prior to that was group chief accountant at Lucas Industries plc. He is an FCA and qualified with Coopers & Lybrand in 1986. He is a non-executive director of Weir Group plc.

4. Michael Jeffries (60) / Non-executive #†‡
was appointed to the Board on 19 April 2000. He is the Company's senior independent non-executive director and since 21 July 2004 the chairman of the Remuneration Committee of the Board. He was chairman of WS Atkins plc until December 2004 prior to which he had been Chief Executive since 1995. He held various senior management positions since joining W S Atkins in 1975 and has wide ranging business experience, running service operations across Europe, the Middle East, Asia Pacific and Africa. He was appointed chairman of Wembley National Stadium Ltd in April 2002 and chairman of Wyless plc in February 2004. He was appointed chairman of VT Group plc on 16 May 2005.

5. Sir Jeremy Greenstock GCMG (61) / Non-executive
was appointed to the Board on 1 March 2005. From 1998 to 2003 he served as Britain's U.N. Ambassador in New York and Permanent Representative on the U.N. Security Council. From 2003 to 2004 he completed a posting as HM Government's UK Special Representative for Iraq. He is Director of the Ditchley Foundation, a Special Advisor to BP plc and a Governor of the London Business School.

6. Keith Hodgkinson FCMA (61) / Non-executive #†‡
was appointed to the Board on 19 April 2000. He is Chairman of the Audit Committee of the Board. He joined the Nomination Committee on 25 March 2004. He is Chief Executive of Chloride Group plc, a post he has held since March 1992. His previous career was with GEC plc where he held a number of senior appointments.

7. Philip Nolan (51) / Non-executive #†‡
was appointed to the Board on 1 September 2001. He is Chief Executive of eircom Group plc 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. He is a non-executive director of Providence Resources plc.

8. Louise Fluker (51) / General Counsel & Company Secretary ∅
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 Chairman of the Risk Committee.

\# Member of the Audit Committee of the Board
† Member of the Nomination Committee of the Board
‡ Member of the Remuneration Committee of the Board
∅ Member of the Risk Committee of the Board
Ages stated are those on 26 March 2005

Directors' report

The Directors present their annual report together with the audited financial statements of the Group and the Company for the year ended 26 March 2005.

Principal Activities and Business Review

De La Rue, a British company, is the world's largest commercial security printer and papermaker, involved in the production of over 150 national currencies and a wide range of security documents such as travellers cheques and vouchers. It supplies national identification, driver's licence and passport issuing systems and is also a leading provider of cash handling equipment and software solutions to banks and retailers worldwide. A review of the business is set out on pages 6 to 11.

Results and Dividends

Profit before taxation, exceptional items and goodwill amortisation was £66.5m. Profit before tax was £49.4m and the profit attributable to shareholders for the year was £31.9m. The Directors are recommending a final ordinary dividend for the year of 10.6 pence. Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 5 August 2005 to ordinary shareholders on the register on 8 July 2005. An interim dividend of 4.7 pence per ordinary share was paid on 19 January 2005 making a total of 15.3 pence per share (2004 : 14.2 pence per share) for the year.

Future Developments

Intended future developments in the Group's business are set out in the Chief Executive's review on pages 3 to 5.

Share Capital

Details of shares issued during the year are provided in note 19 to the financial statements on pages 50 to 52.

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 2004. 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 2004 Annual General Meeting to purchase a maximum of 14.99 per cent of its own shares either for cancellation or held in treasury (or a combination of both). No purchases have been made during the year under this authority. 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 17 June 2005.

Share Option Schemes

The Company operates a number of share option schemes for employees, senior executives and managers. Full details of share schemes are set out in the Remuneration Report on pages 26 to 32.

Substantial Shareholdings

As at 24 May 2005 the following persons on the share register had notified the Company of the following interests of three per cent or more in its issued ordinary share capital:

	Number of ordinary shares held	Percentage of shares held
Persons notifying		
Schroders plc	39,463,068	21.42
Silchester International Investors	27,964,365	15.18
Barclays PLC	11,970,096	6.49
AEGON UK plc	7,551,043	4.10
Legal & General Group Plc	6,125,097	3.32

Going Concern

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

Directors' Responsibilities

The Companies Act 1985 requires the Directors to prepare financial statements for each financial year giving a true and fair view of the state of affairs of the Group and Company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

// select suitable accounting policies and then apply them consistently;
// make judgments and estimates that are reasonable and prudent;
// state whether applicable accounting standards have been followed; and
// prepare the financial statements on a 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; and
// 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 34 to 63 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.

Research and Development

Research and development for the year has focused on developing and protecting the intellectual property in security features and new types of materials across the range of printed documents.

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 21 to 25.

Directors' and Officers' Liability Insurance and Indemnity

The Company has purchased insurance to cover its directors and officers against their costs in defending themselves in civil legal proceedings taken against them in that capacity. To the extent permitted by UK law the Company also indemnifies its directors

Directors' report continued

and officers. Amendments to the Companies Act 1985 came into operation on 6 April 2005 and the indemnification of directors and officers therefore is that permitted by the amended law, so that defence costs in civil or regulatory proceedings may be paid but must be refunded in the event that the director or officer is subsequently convicted. Neither the insurance nor the indemnity provide cover where the director or officer has acted fraudulently or dishonestly.

Directors

Details of each person who was a Director at 26 March 2005 and his qualifications, experience and responsibilities are given on page 18. A table giving details of their interests as at 26 March 2005 is shown below.

All the Directors held office throughout the year except Leo Quinn and Sir Jeremy Greenstock. Leo Quinn was appointed Chief Executive Designate and an executive Director on 29 March 2004. He became Chief Executive when Ian Much retired as Chief Executive on 31 May 2004. Sir Jeremy Greenstock was appointed a non-executive Director of the Board on 1 March 2005.

Sir Brandon Gough retired as Chairman and a director of the Board at the conclusion of last year's annual general meeting on 22 July 2004 when Nicholas Brookes became Chairman. Michael Jeffries became senior independent non-executive director on the same date.

In accordance with the Company's Articles of Association, Sir Jeremy Greenstock offers himself for election at the Annual General Meeting. Nicholas Brookes and Stephen King 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 and indemnification agreements. Leo Quinn and Stephen King have 12-month rolling contracts, details of which are set out in the Remuneration Report on pages 26 to 32.

Lord Wright, who retired as a Director on 19 July 2000, continues to provide up to 20 days' consultancy each year pursuant to an agreement with the Company dated 20 July 2000 which has been extended to 19 July 2005.

Directors' Interests

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

	26 March 2005	27 March 2004
Nicholas Brookes	**14,450**	13,950
Keith Hodgkinson	**4,628**	4,628
Michael Jeffries	**10,000**	10,000
Philip Nolan	**10,000**	10,000
Stephen King	**48,000**	48,000

Leo Quinn and Sir Jeremy Greenstock have no interest in the Company's ordinary shares.

There have been no changes in Directors' interests in ordinary shares since 26 March 2005. All interests of the Directors and their families are beneficial.

Interest in Shares under Trust

As at 26 March 2005 executive Directors are deemed to have an interest as potential discretionary beneficiaries under the De La Rue Employee Share Ownership Trust (4.1m ordinary shares) and the De La Rue Qualifying Employee Share Ownership Trust (1m ordinary shares). The shares held in these Trusts will be used to satisfy options under the De La Rue Executive Share Option Scheme, the De La Rue Executive Share Option Plan, the De La Rue Matching Shares Scheme and the De La Rue Sharesave Scheme and such other share plans as may be approved by shareholders from time to time.

Directors' Remuneration

Details of the remuneration and share options of each of the Directors are set out in the Remuneration Report on pages 26 to 32.

Employees

Details of the Company's employment policies are set out in the Corporate Responsibility Report on pages 15 and 16.

Litigation

The Company announced on 9 July 2003 that it had become aware of allegations made in a US Federal Court that its holographics subsidiary had engaged in an illegal price fixing scheme in relation to the supply of holograms for Visa banking cards in 1997, in violation of the US anti-trust laws. The US Department of Justice in New York conducted an investigation into these allegations and the Company voluntarily co-operated with the Department of Justice. The Company was notified on 1 June 2004 that the Department of Justice, Antitrust Division, had closed its investigations and that no charges had been brought against De La Rue.

Payments to Suppliers

During 2004/05 the Group changed its policy which now is that suppliers be paid on the basis of monthly summary invoicing plus 60 days subject to local laws or other exceptions. Creditor days for the Group have been calculated at 29 days (2004 : 28 days).

Charitable and Political Donations

Donations for charitable purposes amounting to £205,000 (2004 : £198,610) were made during the year. Details about the De La Rue Charitable Trust are set out in Corporate Responsibility Report on page 16.

There were no political donations.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at 10:30am on Thursday 28 July 2005 at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS. 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
24 May 2005

Corporate governance

The Board is collectively accountable to its shareholders for good corporate governance and all directors are responsible for complying with their legal and fiduciary obligations.

The Board is committed to complying with the highest standards of corporate governance, which is the system of internal principles, controls and processes it approves and by which the De La Rue Group is run in order to achieve its objectives whilst complying with the required standards of accountability and probity.

The Company's corporate governance arrangements are described in the following sections:

Corporate Governance Framework

The Company's corporate governance procedures, which are approved by the Board, define the matters reserved to the Board, the terms of reference of various Committees of the Board and the functions delegated to these Committees as well as defining the jobs of the Chairman, Chief Executive, Finance Director and non-executive Directors. The Company reviews and amends its corporate governance policies to reflect changes to the Combined Code, legislation or good practice. Revisions were last made in March 2005.

The Board also approves the Company's Business Code of Conduct ("Code of Conduct") which defines the Company's business principles and which was updated in February 2004. This is discussed further in the Corporate Responsibility Report on pages 14 to 15. These documents are set out on the Company's website www.delarue.com.

In accordance with the Turnbull Guidance on internal control, the Board confirms that there is an established process for identifying, evaluating and managing the key risks including financial, operational and compliance controls and risk management systems. This process has been in place throughout the year and up to the date of approval by the Board of the Annual Report and Accounts. The Board's governance policies include a process for the Board to review regularly the effectiveness of the system of internal control and risk management systems, and the Board has conducted such a review during the year. Details are set out on page 24. This does not extend to associated companies or joint ventures such as Camelot Group plc where we do not have management control.

Compliance with Section 1 of the Combined Code on Corporate Governance

In the year to 26 March 2005 the Company has complied with the provisions and applied the principles of the Combined Code issued by the Financial Reporting Council in July 2003 (the "Code") except as described below.

A4.1 The Nomination Committee comprised a majority of independent non-executive directors, as required by the Code except for a period between July 2004 and January 2005 when there were only two who were members at the same time as both the Chairman and the Chief Executive were also members. The Board considered it appropriate for the Chief Executive to be a member of the Committee. However the Committee met only once when this was so when Philip Nolan also attended the meeting. He was appointed formally to the Committee thereafter. The work carried out by the Nomination Committee during 2004/05 is described on page 23.

2006/2007 is the first financial year for which De La Rue must produce an Operating and Financial Review in accordance with The Companies Act 1985 (Operating and Financial Review and Directors' Report etc) Regulations 2005.

Board of Directors

Composition of the Board

During April and May 2004 and between the 2004 AGM and 1 March 2005 there were an equal number of independent non-executive directors compared to the non-executive Chairman and executive directors. As at the date of this report there are four independent non-executive directors, two executive directors and the non-executive Chairman. The Board has concluded that its composition throughout the year was and remains appropriately balanced. There is a clear division between the management of the Board and the executive Directors' responsibility for managing the Company's business but no individual or small group can dominate decision taking. The roles of the Chairman and Chief Executive are separated and clearly defined. The Chairman is primarily responsible for the working of the Board. The Chief Executive is responsible for running the business and implementing Board strategy and policy.

The Directors' biographies appear on page 18. The Board's policy is that the Chairman and executive Directors should accept appointments to the boards of other companies only with the prior approval of the Board and that non-executive Directors must seek the agreement of the Chairman and confirmation by the Board before accepting additional commitments that may affect the time they devote to their role. Philip Nolan was appointed a non-executive Director of Providence Resources plc on 5 May 2004. Stephen King was appointed as a non-executive Director of Weir Group plc on 3 February 2005. The Chairman was appointed a director of Axel Johnson Inc on 16 March 2005 and Michael Jeffries was appointed chairman of VT Group plc on 16 May 2005. The Board was satisfied that these commitments do not conflict with their ability to carry out effectively their duties as directors of the Company.

Objectives of the Board

The Board's objectives are:

- // delivering value to shareholders and other stakeholders;
- // maintaining the Company's reputation for integrity as the foundation of its relationship with stakeholders; and
- // building long-term success through innovation, quality and sound management.

Role and Operation of the Board

The Board's core procedures are:

- // set out in the terms of reference for the Board, its Committees and Directors;
- // the control of risk through agreed evaluation and control procedures reviewed and revised annually; and
- // monitoring the composition of the Board through the Nomination Committee.

The Board has also reserved certain matters to itself to reinforce its control of the Group. These include:

// establishing Committees of the board and their terms of reference;
// determining the responsibilities of directors and in particular as between the Chairman and Chief Executive;
// approving internal control processes;
// (in conjunction with the Audit Committee) approving the announcement of interim and final results;
// approving any interim dividend and recommending the final dividend to shareholders;
// approving the Annual Report, Remuneration Report and Financial Statements;
// approving the Group's strategy;
// approving the Group's annual budget;
// approving significant matters relating to capital expenditure, acquisitions and disposals or joint ventures by any Group company;
// approving changes to the capital structure of the Company or other matters relevant to its status as a listed company;
// being informed about and taking any necessary decision on any matter which would have a material effect on the Company's financial position, liabilities, future strategy or reputation.

The Board delegates authority to run the business to the Chief Executive, except where certain matters are reserved to it or to the Committees of the Board. The Chief Executive in turn delegates responsibility to senior executives and in particular divisional managing directors. Operational control is exercised by the Operating Board which functions as a board of directors. The Finance Director's role and responsibilities are also clearly defined. A matrix of delegated authorities is reviewed and approved by the Board annually.

The Board provides leadership of the Company within a framework of prudent and effective internal controls, including financial, operational and compliance controls and risk management systems. These are required to identify and manage the risks and their potential effect whilst ensuring that material changes are reported to the Board in a timely fashion. The Board reviews the effectiveness of those controls and systems and is assisted by the Audit and Risk Committees. Details of the process are set out below.

The Board reviews matters reserved to itself and the performance of management in meeting agreed goals and objectives at its meetings. The Board timetable ensures that the Board receives regular reports or presentations from the executive Directors, operational managing directors and key functions. Details are set out above.

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

All Directors can request additional information from management at any time. 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.

Board Evaluation and Effectiveness Review

The Board and each of the Nomination, Remuneration and Audit Committees carried out an evaluation of their performance during the year. The Risk Committee was evaluated by the Board. The process involved completion of questionnaires which focused on process, structure, behaviours and key issues such as strategy and succession, against delivery of the Board's objectives and implementation of any issues identified during the previous review. The Chairman and each Committee Chairman had discussions with each director or Committee member based on the responses and each director's own views regarding effectiveness of the Board or Committee as a whole and the individual director's performance. The senior independent non-executive Director was responsible for appraising the Chairman's performance in meetings or discussions with the non-executive Directors in the absence of the Chairman. The Chairman and the non-executive Directors also met in the absence of the executive Directors. The results were discussed by the Board or individual Committees which then produced an implementation plan to address any issues raised.

The chairman of the Audit Committee was also responsible for ensuring that the effectiveness of the external audit process and internal audit function was reviewed following a similar procedure.

Details of attendance at Board and Committee meetings

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

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of Meetings held	14	4	9	4
Sir Brandon Gough (retired 22.07.04)	5	–	–	–
Nicholas Brookes	13	–	2*	3
Leo Quinn	14	–	–	2
Sir Jeremy Greenstock (appointed 01.03.05)	1	–	–	–
Keith Hodgkinson	14	4	9	3
Stephen King	14	–	–	–
Ian Much (retired 30.05.04)	3	–	–	–
Michael Jeffries	14	4	9	4
Philip Nolan	12	3	7	1

* Nicholas Brookes resigned from the Remuneration Committee upon his appointment as Chairman.

Role of Non-Executive Directors

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. None of the non-executive Directors holds a material shareholding in the Company. Nicholas Brookes ceased to be independent after his appointment on 22 July 2004 as Chairman under the Code but the Board considers that his contribution and objectivity in Board and Committee discussions were fully consistent with those of an independent Director. Michael Jeffries succeeded Nicholas Brookes as the Company's senior independent non-executive Director and shareholders may contact him if they feel their concerns are not being addressed through normal channels. He is also responsible for reviewing the performance of the Chairman.

Non-executive Directors confirm on appointment, and annually, and have done so this year, that they are able to allocate sufficient time to enable them properly to discharge their duties. In the very few instances when a director has not been able to attend Board or Committee meetings, he has made known his views on pertinent matters to the Board.

Induction and Training

All new directors receive an induction on joining the Company, for which the Chairman is responsible. This covers such matters as the strategy, operation and activities of the Group (including key financial data, business, social and environmental risks to the Group's activities), corporate governance matters such as the role of the Board and individual Committees, and the Company's corporate governance procedures as outlined in this report. They are advised on the duties and obligations of directors of a listed company. Site visits and meetings with senior management are also arranged. Any newly appointed Director, such as Leo Quinn, who has not previously been a director of a listed company is required to attend an external course covering such duties and responsibilities. Nicholas Brookes, following his appointment as Chairman, has undertaken visits to major operations of the Company and met key managers throughout the Group, especially in Cash Systems Division.

Directors are briefed, where appropriate by the Company's external advisers, on changes to legislation or regulation or market practice as well as receiving briefings from individual businesses throughout the year. Directors have the opportunity of attending appropriate training sessions especially for Committee chairmen.

At least once a year the Board generally visits one site outside head office and Directors are encouraged to visit other sites and staff. The Company Secretary through the Chairman ensures that there is proper communication between the Board and its Committees and senior management and that non-executive Directors receive appropriate information. The Chairman reviews and the Company Secretary facilitates induction and other professional development as required. Directors may take independent professional advice at the Company's expense, although no such advice was sought during the year.

Appointments

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

The Board, following the effectiveness and evaluation process carried out, considers the performance of each of the directors standing for election and re-election at this year's Annual General Meeting to be fully satisfactory and that they have demonstrated continued commitment to the role. The Board strongly supports their election and re-election and recommends that shareholders vote in favour of the resolutions at the Annual General Meeting.

Committees of the Board

The Board has established Audit, Remuneration, Nomination, General Business and Risk Committees with appointed Chairmen and fixed terms of reference which are reviewed annually. The terms of reference and duties of the Audit, Nomination, Remuneration and Risk Committees appear on the Company's website and are available on request. Membership of these Committees is given in the Directors' biographies on page 18. Further details of Committees are given below.

Nomination Committee

The Committee meets at least once a year and otherwise as necessary and makes recommendations to the Board with regard to any vacancies for executive or non-executive Directors or changes that are considered necessary. The Committee also reviews the time required of non-executive Directors at least once a year. The Board, as a whole, approves the appointment and removal of Directors. The Committee has the power to employ the services of such advisers as it deems necessary in order to carry out its responsibilities and will invariably retain appropriate executive search consultants, having prepared a job specification of the role.

The principal activity of the Committee during 2004/5 was to ensure that a suitable chairman was appointed to succeed Sir Brandon Gough after the 2004 Annual General Meeting. Sir Brandon resigned from the Nomination Committee in March 2004 and did not participate in the appointment of his successor. Nicholas Brookes, as a potential candidate and member of the Nomination Committee, did not participate in any proceedings. The Committee co-opted Philip Nolan. The Committee considered the job specification, specific qualities, amount of time required of a non-executive chairman and needs of the Company at the current time. It decided that it was in the best interests of the Company to appoint a new chairman from existing non-executive Directors, provided the internal candidate met the job specifications, in order to maintain continuity with a recently appointed Chief Executive and Finance Director in post for just over a year. The Committee concluded that Nicholas Brookes would be the most suitable candidate as new chairman and this recommendation was endorsed by the Board. In these circumstances the Committee concluded it was not necessary to use external consultants for this appointment.

The Committee also produced a draft specification for a new non-executive Director to enhance the composition of the Board, having carried out a review. After the Board had accepted the recommendations and the proposed process, the Committee, now chaired by Nicholas Brookes, appointed search consultants to assist in the recruitment which led to the appointment of Sir Jeremy Greenstock in March 2005.

The Committee consists of a majority of independent non-executive Directors except for a limited period during the year until the appointment of Philip Nolan in January 2005 as stated on page 21.

Remuneration Committee

Nicholas Brookes resigned as Chairman of the Committee on 21 July 2004 before becoming Chairman. Michael Jeffries was appointed Chairman of the Committee in his place. Details of the Committee and of the remuneration policy can be found in the Remuneration Report on pages 26 to 32.

General Business Committee

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

Risk Committee

The Committee chaired by the Company Secretary, meets and reports to the Board at least four times a year. Other members include the heads of key functions and representatives from each division. Any Director is entitled to attend any meeting.

The core responsibilities are to:

// identify and evaluate key risks (excluding matters relating to financial reporting and systems which are the remit of the Audit Committee);

// assist the Board by providing a framework for managing risk throughout the Company;
// provide an appropriate level of reporting on the status of risk management to the Board including insurance, health and safety, fire, environment, business continuity, security and legal;
// ensure any corrective actions are taken;
// promote awareness of risk management;
// review the management processes and systems to monitor and manage key risks;
// investigate and manage such matters as the Audit Committee may from time to time request.

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

// Environmental, Health and Safety Steering Group;
// Group Security Committee;
// Human Resources.

Risk Management

De La Rue's reputation is based on security, integrity and trust. Business risks are categorised as external or strategic risks compared to risks which are more internal and operational in nature. Strategic risks are managed by the Board; operational risks are monitored by the Board with the assistance of the Committees of the Board, the main ones being the Audit and Risk Committees. The main general risks identified as key by the Board are outlined below:

// Damage to Reputation – which might arise from a failure of controls in areas such as financial controls or reporting, breach of legislation or security failures or a failure in strategy or implementation of strategy;
// Environment, Health and Safety (discussed in more detail on pages 15 to 17.
// Security – loss of high value items such as banknotes and travellers cheques during shipment or some other security breach;
// Managing market expectations and ensuring that there are robust financial reporting systems.

Internal Control and Internal Financial Control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Management is responsible for implementing the controls which are designed to meet the particular needs of the Group, and the risks to which it is exposed, with procedures intended to provide effective internal control. Divisional managing directors, to whom general managers of each business report, are responsible for establishing and maintaining these procedures.

A summary of the key policies and procedures is provided to senior managers.

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

The processes used by the Board and, on its behalf, by the Risk and Audit Committees, details of which are set out in this report, have been in place throughout the year, and include:

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

The financial control framework includes the following key features:

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

The main control procedures which address the financial implications of the major business risks are centred on strict approval procedures, which were revised following a review during the year and 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 operation of the Group Treasury department is discussed in the Financial Review on page 13.

Audit Committee of the Board

All members of the Audit Committee are independent non-executive Directors. The Board considers that at least one member of the Audit Committee, namely the Committee Chairman, has sufficient recent and relevant financial experience for it to discharge its function effectively. The external auditor, Chairman, Chief Executive and Group Finance Director, Group Financial Controller and Head of Internal Audit attend each meeting at the invitation of the Committee chairman. The internal auditors and PricewaterhouseCoopers LLP each meet the Committee without executive directors or employees of the Company being present.

The Committee receives comprehensive reports from senior management and the internal and external auditors. Its key responsibilities are to:

// approve and review the appointment of the external auditor;
// monitor the effectiveness of and receive regular reports from the internal audit function;
// ensure the adequacy of the systems and standards of internal financial control within the Group;
// review reports on actions taken to address financial risk identified by management and/or the internal audit process.

During the year principal activities of the Committee included:

// reviewing the interim and full year financial results;
// reviewing and approving the audit plans for the following year for the external and internal auditors;
// reviewing and monitoring the external auditor's independence and objectivity;
// reviewing the effectiveness of the external audit process;
// reviewing and approving the external auditor's audit fees and letter of engagement;

// reviewing reports on the effectiveness of the Group's Whistleblowing Policy, details of which are set out on page 14.

Internal Audit

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

Independence of Auditors

The Committee has a detailed policy specifying which services the external auditor is either allowed to or prohibited from performing on behalf of the Group and the relevant procedures to be followed by the Group. The procedures relate to:

// selecting the statutory auditors and approving the audit fee;
// being satisfied that there are no relationships between the auditor and the Company (other than in the ordinary course of business);
// agreeing a policy on the employment of former employees of the auditor, then monitoring the implementation of this policy;
// commissioning non-audit work;
// circumstances in which it is appropriate or inappropriate for incumbent auditors to be allowed to, or prohibited from, providing non-audit work.

De La Rue's procedures for procuring audit and consulting services from external sources are:

// Audit-related services: this covers regulatory and statutory reporting and formalities relating to shareholder and other circulars. In addition to the annual appointment of auditors by the shareholders, the Audit Committee reviews the auditors' performance, the extent to which the auditors keep the Audit Committee and management of the Company informed about material issues affecting the Company and any significant developments in accounting policies and standards which may have a material effect on the Company's financial position.

// Non-audit related services: the Audit Committee regularly reviews the nature and extent of non-audit services seeking to balance the maintenance of objectivity and value for money. Incumbent auditors are prohibited from performing certain non-audit related services including remuneration consultancy and advice, the design, development or implementation of financial information or internal control systems. Certain non-audit services interrelate closely with the auditing work because of the significant knowledge the incumbent auditors may possess of the particular area of the business or issue. Therefore a total ban might lead to loss of business knowledge that could adversely affect audit quality. Whilst it may be cost effective for incumbent auditors to provide services, as a general principle all must be subject to competitive tender. The Finance Director determines how this applies. Non-audit related services may include:
– assistance to the internal audit team in auditing the Company's group-wide information systems to ensure compliance with best practice and application of a consistent approach across the Group;
– work related to disposals by the external auditors because of their knowledge of the business concerned;
– corporation tax compliance work assessed on a case by case basis, depending on who is best suited to perform the work.

Incumbent auditors may not, without the prior approval of the Chairman of the Audit Committee, provide some non-audit related services such as acquisition work where the selection criteria include detailed proposals, timescales, local resource and cost. The external auditors are not always used for this work. During 2004/2005 the amount of consulting related non-audit fees paid to PricewaterhouseCoopers LLP was 36 per cent of the audit fee and principally related to taxation services and work on IFRS.

The external auditors have safeguards in place to avoid their objectivity and independence being compromised. They report to the Audit Committee on how they comply with the professional and regulatory requirements and best practice designed to ensure their independence. Thus key members of the PricewaterhouseCoopers LLP audit team rotate and the firm ensures, where appropriate, that confidentiality is maintained between different parts of the firm who may be providing services to De La Rue.

Relationship with Shareholders

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

The Chairman and Senior Independent non-executive Director are available to meet key shareholders to discuss strategy, governance and other matters. Nicholas Brookes and Michael Jeffries met key shareholders during the year and communicated their views to the Board. Key institutional shareholders have been consulted about the introduction and design of the proposed Deferred Bonus and Matching Share Plan.

All shareholders are entitled to attend the Annual General Meeting and receive a Notice of Meeting which is posted at least 20 working days before the Annual General Meeting. Shareholders can also vote electronically.

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

The share register is actively monitored. During the year meetings take place with individual institutional shareholders and analysts and presentations are made at the time of major events. The views of shareholders and analysts' and brokers' reports are reported to the Board and from time to time a survey of institutional shareholders' views is carried out by an external consultant.

By order of the Board

Louise Fluker
Company Secretary
24 May 2005

Remuneration report

The Remuneration Committee presents its report which has been adopted by the Board. Shareholders will be asked to approve the Remuneration Report at the forthcoming Annual General Meeting.

The Report covers the following:

// Committee membership and responsibilities
// Policy on directors' and senior executive remuneration
// Details of each director's remuneration including awards under share option plans
// Graphs comparing the performance of the Company against the FTSE 250, its comparator group

Details of each director's interests in the Company's shares are set out in the Director's Report.

Although the Board rather than the Remuneration Committee is responsible for the terms of appointment of non-executive Directors and their fees, details of these are included in this Report.

Remuneration Committee

The Remuneration Committee consists exclusively of independent non-executive Directors (as defined under the Combined Code). The members during the year were: Michael Jeffries (Chairman), Keith Hodgkinson and Philip Nolan. Nicholas Brookes resigned as a member and Committee Chairman before his appointment as Chairman of the Company on 22 July 2004. Their biographical details appear on page 18. The Committee met nine times and attendance details are set out on page 22. The Committee's terms of reference are set out in full on De La Rue's website and the key requirements are for it to approve:

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

Details of how the Committee has carried out these responsibilities are described in this report.

Advisers

The Committee is authorised to and uses independent consultants to advise it. During 2004/05 Watson Wyatt LLP advised on remuneration levels compared to comparator companies and on share plan design. New Bridge Street Consultants LLP advised only on whether performance targets in share option schemes were achieved. Watson Wyatt LLP also provided advice to the Company on a variety of compensation and employee benefits for employees below the level of executives reporting directly to the Chief Executive.

In addition, Nicholas Brookes, Chairman, Leo Quinn, Chief Executive, Stephen King, Finance Director and Ian Lowe, Group Director of Human Resources are requested to attend meetings on an ad-hoc basis to provide assistance to the Committee. Louise Fluker, General Counsel and Company Secretary, the Committee's secretary, advises the Committee on governance issues. No-one is present when his or her own remuneration or contractual terms are considered. The Chief Executive is consulted on the remuneration of executives directly reporting to him and other senior executives and will seek to ensure a consistent process across the Group.

Remuneration Policy for Executive Directors and Senior Executives

De La Rue's remuneration policy is designed to support the achievement of the Company's key business strategies, is linked to its performance and is regularly reviewed. It reflects the need to attract and retain employees who have the necessary skills and commitment and to motivate them by providing outstanding reward opportunities linked to the achievement of outstanding results.

The structure of the reward package for executive Directors and senior executives comprises:

// basic salary, set at competitive levels relative to the external market and individual contribution;
// an annual incentive award, providing a substantial total earnings opportunity, to reward achievement of short-term results and specific personal objectives;
// a long-term incentive for senior management comprising discretionary executive share option awards, with stretching performance targets;
// share ownership guidelines to promote retention and longer term ownership by senior executives with a share matching plan;
// pension and other benefits in line with competitive practice.

The Committee regularly benchmarks key jobs against similar positions in comparable companies and obtains detailed information from external and internal sources about current market practices. The primary external comparator group used by the Committee comprises companies of similar size and complexity in the FTSE 250 as being the most appropriate comparator group. The objective is to ensure that total remuneration packages are fair and competitive and provide simplicity and transparency. The Committee also seeks to ensure that the interests of the executives are aligned with those of the shareholders.

For 2004/2005 incentives linked to performance were through participation in the annual incentive award and grants of share options under the De La Rue Executive Share Option Plan. Details are set out on page 31. The on-target annual incentive bonus, combined with the expected value of the share option grant (using the Watson Wyatt Present Economic Value methodology 'PEV') provides approximately 50 per cent of the executive Directors' direct remuneration for target performance.

Executive Directors and key executives, who are eligible to participate in the Matching Shares Scheme, which is linked to De La Rue's performance, are expected to build up a shareholding in De La Rue over a period of time. Participants may invest up to 50 per cent of their pre-tax annual bonus in De La Rue plc shares. If these shares are held for two years and if De La Rue's earnings per share increase in real terms by at least three per cent per annum, the Company will then match them on a one-for-two basis. These plans are described in more detail on page 31.

The Remuneration Committee has, however, concluded that it would, subject to approval by shareholders at the forthcoming Annual General Meeting, be appropriate to change the longer term incentive plan for executive Directors and senior key executives for 2005/06. Details of a proposed Deferred Bonus and Matching Share Plan are set out in the letter from the Chairman accompanying this Annual Report. Pariticipants in the proposed Deferred Bonus and

Matching Share Plan will not participate in future grants/awards under the De La Rue Executive Share Option Plan and Matching Shares Scheme.

Salaries for Executive Directors and Senior Executives
Details of each individual executive Director's remuneration are set out on page 28. Basic salaries reflect the responsibilities, market value and sustained performance level of executive Directors and senior executives. Salaries are based on the rate for similar posts in benchmarked companies although individual salaries may be above or below this level, reflecting performance and seniority in the position whilst having regard to employees' pay and conditions elsewhere in the Group. Basic salaries are 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. The Committee considers each year what are appropriate performance measures to align the reward strategy with the business strategy. There will be appropriate divisional measures in divisional schemes.

Typical measures for executive Directors and senior executives will include headline earnings per share, operating cash flow and operating profit together with a discretionary element based on personal performance for each individual. The incentive plan is structured so that there is no payment unless a minimum performance threshold has been achieved and that the maximum payout will only be made if stretching and challenging targets are met. The 2004/2005 Annual Incentive Award achieved maximum payout. Targets set for 2005/2006 follow the same plan design as for 2004/2005 but with more challenging performance targets. The Committee has used a combination of these measures for the past five years, including the annual bonus scheme of 2004/2005. Once the design of the bonus scheme has been approved by the Committee it is then introduced throughout the business, based on seniority with a corresponding market-competitive bonus opportunity.

External Appointments
The Board considers whether it is appropriate for an executive Director to serve as a non-executive Director of another company. Ian Much received £4,452 in respect of his non-executive Directorship of Manchester United PLC during the period up to his retirement. Stephen King was entitled to £4,471 in respect of his non-executive Directorship of the Weir Group plc. Both were permitted to retain the fees earned.

Executive Directors' Service Contracts
The executive Directors have rolling service contracts with a 12-month notice period (except as set out below) and provision for compensation on termination not exceeding 12 months' gross salary. Leo Quinn and Stephen King are required to give 12 months' and six months' notice of termination respectively to the Company. Leo Quinn's service contract was dated 3 March 2004.

Stephen King's contract dated 7 October 2002 had a change of control clause which expired on 1 February 2005 so that if his employment had been terminated by reason of a change of control (other than for the purpose of internal amalgamation or reconstruction) before that date the Company would have been liable to pay annual gross salary at the rate current on the date of termination multiplied by 1.25. Such sum would have been reduced by 1/12th in respect of each month (pro rata in the case of part month) of any notice of termination given by the Company.

Ian Much's service contract dated 1 December 1998 provided for automatic termination on 7 September 2004 when he would have attained his normal retirement age but he agreed in a compromise agreement with the Company to the early termination of his contract on 31 May 2004. This was to facilitate a smooth and quick handover to his successor, Leo Quinn. The Remuneration Committee considered the extent to which mitigation was possible and concluded that it was not appropriate in the circumstances. Details of Ian Much's compensation for the early termination of his contract are in the table of Directors' Emoluments on page 28.

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

Benefits
All Executive Directors and senior employees are eligible for a range of taxable benefits which include the provision of a company car and payment of its operating expenses (including fuel), or a cash alternative, 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 in the table on page 28.

Remuneration report continued

Directors' Emoluments (audited information)

	2005 Salary and fees £'000	2005 Other payments £'000	2005 Benefits £'000	2005 Bonus £'000	2005 Total £'000	2004 Total £'000
Executive Directors						
Leo Quinn (appointed 29 March 2004) (a)	405	–	66	400	871	–
Ian Much (retired 31 May 2004) (b)	68	211	10	–	289	910
Stephen King (c)	255	–	30	153	438	410
	728	211	106	553	1,598	1,320
Non-executive Chairman						
Sir Brandon Gough (retired 22 July 2004)	36	–	–	–	36	115
Nicholas Brookes (Chairman w.e.f 22 July 2004)	115	–	–	–	115	31
Non-executive Directors						
Sir Jeremy Greenstock	3	–	–	–	3	–
Keith Hodgkinson	35	–	–	–	35	31
Michael Jeffries	34	–	–	–	34	26
Philip Nolan	30	–	**3	–	33	29
	253	–	3	–	256	232
Aggregate emoluments	981	211	109	553	1,854	1,552

(a) This includes benefits received by Leo Quinn of £35,000 in connection with his relocation. Leo Quinn was eligible for 100 per cent of basic salary for the 2004/2005 annual incentive award of which £100,000 was guaranteed.

(b) Ian Much was not entitled to any bonus under the annual incentive award for 2004/2005. His contract provided for automatic termination on 7 September 2004 but his employment was terminated by agreement on 31 May 2004. The Company paid him £211,000 (less deductions for any applicable tax and national insurance contributions in lieu of the remuneration he would have received to 7 September 2004 which represented:

Basic salary	£109,071
Car allowance:	£4,710
FURBS contribution (paid in cash):	£49,470
Payment in connection with FURBS:	£32,908
Loss of pensionable service:	£7,600

The Company also agreed to continue to keep in force at the Company's expense the benefits in kind Ian Much would have received from the date of termination to 7 September 2004 (estimated benefits in kind of £6,659 plus a cash payment of £825).

Pursuant to the Rules of the De La Rue (1993) Executive Share Option Scheme, the Remuneration Committee exercised its discretion to allow Ian Much to retain executive share options totalling 505,602 exercisable within 12 months of cessation of employment on 31 May 2004. Details are set out in the table of Directors' Share Options on page 29.

(c) Stephen King was eligible for 60 per cent of basic salary for the 2004/2005 annual incentive award.

** Relates to reimbursement of travelling expenses from Ireland to attend Board meetings.

Directors' Pension Entitlements (audited information)

	Defined benefit scheme (£'000)								Defined contribution schemes (£'000)	
	Directors' Remuneration Report Regulations 2002					Listing Rules				
	Pension accumulated at 26 March 2005	Increase in pension during year	Transfer value of accumulated pension at 27 March 2004	Transfer value of accumulated pension at 26 March 2005	Increase in transfer value of accumulated pension (excluding Directors' contributions)	Pension accumulated at 26 March 2005	Increase in pension (net of inflation during year)	Transfer value of the increase in pension (excluding Directors' contributions)	Contributions over year to 26 March 2005	Contributions over year to 27 March 2004
Ian Much* (resigned 31 May 2004)	10	1	169	172	3	10	1	9	31	184
Leo Quinn (appointed 29 March 2004)	3	3	–	32	26	3	3	32	–	–
Stephen King	7	3	30	58	22	7	3	27	–	26

* In addition £18,786 was paid as a cash supplement in lieu of contributions otherwise due to the FURBS. This amount included a prior year adjustment of £1,508.

Directors' Share Options (audited information)

	Date of grant	27 March 2004	Exercised during year	Granted during year	Lapsed during year	Number of options 26 March 2005 (or date of retirement)	Exercise price (pence)	Market price at exercise date (pence)	Performance targets (see below)	Date from which exer-cisable	Expiry date
Ian Much (retired 31 May 2004)											
Executive	Sep '98	301,600	*301,600	–	–		218.833	350.885	(a)	Sep '01	May '05
Share Options	Nov '99	204,002	–	–	–	204,002	333.330	–	(a)	Nov '02	May '05
Share Price											
Improvement Plan	Jun '01	76,000	–	–	#76,000	–	506.420	–	(b)	–	May '04
		581,602	301,600		76,000	204,002					
Leo Quinn (appointed 29 March 2004)											
Executive											
Share Options	Jul '04	–	–	352,422		352,422	340.500		(e)	Jul '07	Jul '14
Sharesave											
Options	Dec '04	–	–	5,448		5,448	303.31		(f)	Mar '10	Aug '10
				357,870		357,870					
Stephen King											
Executive	Mar '03	100,000	–	–	–	100,000	200.500	–	(c)	Mar '06	Mar '13
Share Options	Jul '03	204,000	–	–	–	204,000	237.333	–	(d)	Jul '06	Jul '13
	Jul '04			149,779	–	149,779	340.500		(e)	Jul '07	Jul '14
Sharesave											
Options	Dec '03	3,563	–	–	–	3,563	258.900	–	(f)	Mar '07	Aug'07
		307,563	–	149,779		457,342					

* On 10 December 2004 and in accordance with the Rules of the Scheme the option was exercised. At the date of exercise Ian Much made a total gain of £398,268 less deductions for any applicable tax or national insurance contributions.
# Options lapsed on Ian Much's retirement from the Company on 31 May 2004.

The performance targets are:
(a) total return of a share over 36 consecutive months to exceed total return of median company in the FTSE Mid-250 Index; the options granted in September 1998 and November 1999 have vested as the performance targets under the Executive Share Option Scheme were met.
(b) share price did not achieve a minimum target price of 557.06p;
(c) earnings per share growth over three years of at least three per cent per annum over rate of increase in retail prices index; headline earnings per share at the start of the performance period was 34.4p;
(d) earnings per share growth over three years of at least five per cent per annum over rate of increase in retail prices index; headline earnings per share at the start of the performance period was 18.9p;
(e) earnings per share growth over three years of at least three per cent per annum over rate of increase in retail prices index; headline earnings per share at the start of the performance period was 24.2p;
(f) no performance conditions are attached to the Options under the Sharesave Scheme as it is open to all UK employees.

During 2004/2005 no executive Director exercised any share options.

The market price of the ordinary shares at 26 March 2005 was 400 pence and the price range during the year was 302 pence to 408.75 pence.

Remuneration report continued

Pension

All executive Directors and senior executives in the UK may join the De La Rue Pension Scheme. Executives who are members of the senior section are required to pay a contribution of seven per cent of basic salary to the Scheme (previously five per cent to 1 July 2004 and six per cent up to 31 March 2005). Where required by Inland Revenue rules, basic salary is capped (£102,000 for 2004/2005). 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 Leo Quinn whose normal retirement age is 60) although accrued pensions may be drawn in full from age 60. The Scheme also provides a lump sum death in service benefit and pensions for dependents 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 certain executive Directors may receive a payment into a Funded Unapproved Retirement Benefit Scheme ('FURBS').

This is, however, under review because of the proposed changes to pensions benefits and contributions outlined in the Pensions Act 2004 and expected to apply from April 2006.

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

Ian Much was a member of the senior section of the De La Rue Pension Scheme and contributions were paid on his behalf to this and a FURBS up to 31 May 2004. He received an early retirement pension from 1 June 2004 from the senior section of the De La Rue Pension Scheme based on his service with the Company and in accordance with the Rules of the Scheme. The FURBS has been wound up and the proceeds paid to him.

Stephen King is eligible for a target pension from all sources of two-thirds of basic salary at the age of 62. Part of this benefit arises from previous employment. His target pension is provided through a combination of a FURBS and membership of the senior section of the De La Rue Pension Scheme. He is required to make a contribution of seven 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 60 per cent of target pension in the event of death in service. Pending completion of a review of the pension arrangements to allow for the Pensions Act 2004, contributions to the FURBS were suspended from September 2003 and this part of the benefit is being secured on an unfunded basis. If he leaves service before April 2006 he will be entitled to a cash payment equal to the contributions the Company would have otherwise made to the FURBS of £65,790 in 2004/2005 (2003/2004 £36,120). The Company's external actuary assesses the Company's contributions to the Scheme.

Leo Quinn is eligible for a target pension from all sources of two thirds of basic salary at the age of 60. Part of this benefit arises from previous employment. The target pension is being provided through a combination of membership of the senior section of the De La Rue Pension Scheme and an unfunded arrangement pending completion of a review to ascertain the most appropriate method of providing this benefit taking account of the provisions of the Pensions Act 2004. He is required to make a contribution to the senior section of the pension scheme of seven per cent of capped salary 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 payable on death in service. The Company's external actuary assesses the Company's contributions to the Scheme. If he leaves service before April 2006 he will be entitled to a cash payment equal to the contributions the Company's external actuary assesses would have been necessary to meet the unfunded part of his pension which amounts to £154,960 for 2004/2005.

Sharesave Scheme

All UK employees of the Company may join its Inland Revenue approved SAYE Scheme. Options are granted over De La Rue plc shares, at the prevailing market price at the time of grant (with a discretionary discount to the market price), to employees who agree to save between £5 and £250 per month over a period of three or five years. A grant was made in December 2004 at a price of 303.31p pence which was a 15 per cent discount, and 30 per cent of eligible employees participated.

US Employee Share Purchase Plan

The US Employee Share Purchase Plan, established under section 423 of the US Internal Revenue Code, provides a competitive incentive for all US employees to invest up to 10 per cent of basic salary each year in the Company, subject to the statutory limit (currently US$25,000 worth of shares). No performance conditions are attached to options under the Plan. The Third Offering under the Plan started on 1 January 2005 and 21 per cent of eligible employees participated. The purchase price is 85 per cent of the lower market value of a De La Rue plc share either at the beginning (294.95pence) or end of the Offering Period on 31 December 2005.

Executive Share Schemes

Awards are discretionary and subject to the limits approved by the Committee whilst reflecting good corporate governance practice and institutional guidelines. The number of shares under any option is determined by reference to a percentage of annual base salary. This is normally in a range between 25 per cent and up to 200 per cent of base salary depending on levels of seniority. The Committee may award an individual options equal to three times base salary each year, but only in exceptional circumstances. Grants to date have not been made at these levels. The performance conditions attached to share options apply to all executive Directors. Details of all current schemes are described opposite.

Executive Share Option Scheme

The Company operates an Executive Share Option Scheme with an Inland Revenue approved section and unapproved section which expired on 31 December 2004. Options granted under the Scheme since July 1996 can only be exercised if performance targets are met. The performance condition applied to the 1997 grant and to all subsequent grants of options up to and including 2001 is that options can only be exercised if the total return of a share ('TSR') over a consecutive three-year period exceeds the total return of the median ranked company in the FTSE Mid-250 Index over the same period. Options granted in 1996 are normally exercisable only if the TSR over a rolling three-year period exceeds the average total return of the FTSE All Share Index. A Phantom Share Option Scheme has been operated and the performance targets for grants prior to 2002 match those of the Executive Share Option Scheme. The Remuneration Committee considered the performance target to be the most appropriate at the time it was introduced.

Share Price Improvement Plan

The Company established the Share Price Improvement Plan in July 1999. The objective of the Plan was to achieve improvement in the Company's value by aligning shareholders' interests with those of senior key employees so that options would only be exercisable on a sliding scale if the Company's share price had increased over the performance period and if that percentage increase in share price equalled or exceeded the percentage increase in the FTSE 250 Index (excluding investment companies) over the same performance period. During the year 14 employees held options under the Plan. The third grant of options under the Plan failed to meet the minimum performance target price of 557.06 pence on the third anniversary in 2004 and consequently all options lapsed. The first and second grant of options had also failed to meet the minimum target share price of 322.95 and 392.22 pence respectively on their third anniversary and consequently all those options previously lapsed. No further grants of options may be made under the Plan.

Executive Share Option Plan

The Executive Share Option Plan provides for the grant of options at a price equal to the average market value of a De La Rue plc share over the three dealing days immediately preceding the date of grant with a performance condition based on the achievement of an earnings per share growth target. Options were granted to senior executives in July 2004 and in December 2004 at option prices of 340.50 pence and 356.83 pence respectively. These options will vest subject to achieving the performance condition over three years of earnings per share growth of at least three per cent per annum over the rate of increase in the retail prices index. If this condition is not met at the end of the performance period the options will lapse. For grants of options before April 2004 retesting of the performance target will be allowed on the fourth and fifth anniversaries of the date of grant. For the purpose of the calculations in connection with the Plan (and the Matching Shares Scheme) earnings per share will be derived from the headline earnings per ordinary share (before exceptional items) as shown in the Group Profit and Loss Account.

The Remuneration Committee at the time of establishing the Plan in July 2002 considered using a performance measure based on a comparison of the Company's Total Shareholder Return with those of other companies, but given the difficulty in finding a suitable group of comparator companies, the current market conditions and the Group's position, the Committee's view then was that a performance measure based on growth in earnings per share was more appropriate. The Plan is in two parts. Part A is approved by the Inland Revenue and so confers tax relief on UK resident employees on any gains arising on exercise. Part B is unapproved to enable the grant of options to an individual where the cumulative value of the employee's subsisting options at the date of grant exceeds £30,000. Options are granted for nil payment and may normally only be granted within 42 days of any announcement of results. The Remuneration Committee also has the power to approve the grant of options at other times in exceptional circumstances such as the need to attract a Director or senior executive to join the Company. No grant of options under the Plan may be made later than the fourth anniversary of the adoption of the Plan by the Company.

A Phantom Share Option Scheme is operated under similar rules to provide an equivalent cash incentive to senior executives in jurisdictions where the tax or securities laws make it impracticable to operate a share option scheme.

The Remuneration Committee will regularly review the performance target and may increase but not relax it to ensure the target remains a challenging and stretching test of performance.

Matching Shares Scheme

One of the principles of the remuneration policy is that certain key executives should be encouraged to acquire and retain a personal shareholding in the Company. The Company has a policy requiring such executives to build up a holding of shares in the Company equivalent to one times salary over a period of five years. In order to encourage key executives to build up their personal shareholding, qualifying shares newly acquired by key executives will, if lodged with a nominee or trustee for a two-year period and subject to a performance target, qualify for an additional free (or 'matching') share for every two qualifying shares lodged.

The performance target which must be satisfied is an increase in the growth of the Company's earnings per share over the latest two financial years which is at least three per cent per annum on average greater than the rate of increase in the retail prices index.

The Remuneration Committee at the time of establishing the Scheme concluded that under current market conditions the performance measure represented an appropriately challenging goal and that the requirement to build up a shareholding equivalent to one times salary was sufficiently flexible to take account of changing economic or personal circumstances. The Remuneration Committee will keep the performance target under review and may increase but not relax it from time to time as it considers appropriate.

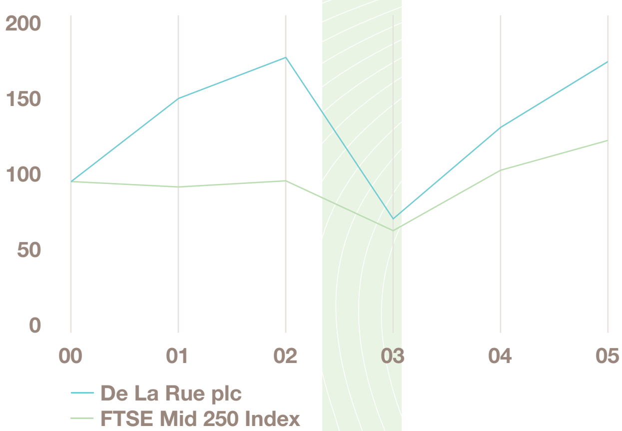
The Remuneration Committee will during 2005/2006 review the effect of IFRS on the performance targets and consider whether any adjustments are appropriate.

Shareholder Return

The Remuneration Committee considers the FTSE Mid 250 Index to be the most appropriate basis for comparison as the Company has been a constituent of the 250 Index throughout the period.

The performance chart below illustrates total shareholder return.

Total shareholder return (£)



This graph shows the value, by 26 March 2005, of £100 invested in De La Rue on 1 April 2000 compared with the value of £100 invested in the FTSE Mid-250 Index. The other points plotted are the values at intervening financial year-ends.

Remuneration report continued

Non-executive Directors

Non-executive Directors have letters of appointment specifying fixed terms of office of three years, renewable for a further three years subject to satisfactory performance. They do not have service contracts. The Board may invite non-executive Directors to serve an additional third three-year term after a detailed review. The non-executive Directors' current letters of appointment are dated as follows:

Non-executive Director	Date of Current Term of Appointment
Keith Hodgkinson	19 April 2003
Michael Jeffries	19 April 2003
Sir Jeremy Greenstock	18 February 2005
Philip Nolan	1 April 2005

Nicholas Brookes was initially appointed as a non-executive Director on 19 March 1997 and as Chairman of the Company on 22 July 2004. His letter of appointment is dated 22 July 2004.

A non-executive Directors' appointment automatically terminates if he ceases to be a director pursuant to legislation or the Company's Articles of Association or if he fails to be elected or re-elected by the shareholders. Accordingly there is no contractual notice period and no compensation is payable on termination.

Remuneration for non-executive Directors

The Board determines the fees paid to other non-executive Directors taking into account market norms, comparisons with comparator companies and the duties required of non-executive Directors. Watson Wyatt LLP advised the Board during 2004/2005. Details of fees to the Chairman and other non-executive Directors are set out on page 28. These include additional fees for chairing the Audit and Remuneration Committees. Non-executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's bonus or share option schemes.

By order of the Board

Michael Jeffries
Chairman of the Remuneration Committee
24 May 2005

Auditors' report

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

We have audited the financial statements which comprise the Group Profit and Loss Account, the Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the Statement of Accounting Policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Remuneration Report ("the auditable part").

Respective responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements and the auditable part of the Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In our opinion:

// the financial statements give a true and fair view of the state of affairs of the Company and the Group at 26 March 2005 and of the profit and cash flows of the Group for the year then ended;

// the financial statements have been properly prepared in accordance with the Companies Act 1985; and

// those parts of the Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
24 May 2005

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

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

Group profit and loss account

For the year ended 26 March 2005

	Notes	2005 £m Before exceptionals	2005 £m Exceptional items	2005 £m Total	2004 £m Before exceptionals	2004 £m Exceptional items	2004 £m Total
Turnover							
Continuing operations		**620.1**		**620.1**	638.3		638.3
Discontinued operations		**23.1**		**23.1**	44.2		44.2
	1	**643.2**		**643.2**	682.5		682.5
Operating profit							
Continuing operations		**54.8**		**54.8**	51.2		51.2
Reorganisation costs			**(13.5)**	**(13.5)**		(15.2)	(15.2)
Income from investments previously impaired			**0.4**	**0.4**		–	–
		54.8	**(13.1)**	**41.7**	51.2	(15.2)	36.0
Discontinued operations		**(0.2)**		**(0.2)**	(1.9)		(1.9)
Operating profit before goodwill amortisation		**54.6**	**(13.1)**	**41.5**	49.3	(15.2)	34.1
Goodwill amortisation	9	**(1.4)**	**(11.5)**	**(12.9)**	(2.5)	(18.7)	(21.2)
Group operating profit	1, 2, 3	**53.2**	**(24.6)**	**28.6**	46.8	(33.9)	12.9
Share of operating profits of associated companies	1	**9.4**	**–**	**9.4**	10.0	–	10.0
Total operating profit		**62.6**	**(24.6)**	**38.0**	56.8	(33.9)	22.9
Profit on the disposal of discontinued operations		**–**	**8.9**	**8.9**	–	–	–
Profit on the disposal of fixed assets		**–**	**–**	**–**	–	0.2	0.2
Non-operating items	4	**–**	**8.9**	**8.9**	–	0.2	0.2
Profit on ordinary activities before interest		**62.6**	**(15.7)**	**46.9**	56.8	(33.7)	23.1
Net interest: Group	5	**2.5**	**–**	**2.5**	(0.6)	–	(0.6)
Profit on ordinary activities before taxation		**65.1**	**(15.7)**	**49.4**	56.2	(33.7)	22.5
Tax on profit on ordinary activities	6	**(18.4)**	**2.5**	**(15.9)**	(15.0)	5.0	(10.0)
Profit on ordinary activities after taxation		**46.7**	**(13.2)**	**33.5**	41.2	(28.7)	12.5
Equity minority interests		**(1.6)**	**–**	**(1.6)**	(0.4)	–	(0.4)
Profit for the financial year		**45.1**	**(13.2)**	**31.9**	40.8	(28.7)	12.1
Dividends	8	**(27.4)**	**–**	**(27.4)**	(24.8)	–	(24.8)
Transferred to/(from) reserves	18	**17.7**	**(13.2)**	**4.5**	16.0	(28.7)	(12.7)
Earnings per ordinary share	7	**25.3p**	**(7.4)p**	**17.9p**	23.0p	(16.2)p	6.8p
Diluted earnings per ordinary share		**25.2p**	**(7.4)p**	**17.8p**	23.0p	(16.2)p	6.8p
Headline earnings per ordinary share	7	**26.0p**	**(6.2)p**	**19.8p**	24.2p	(5.8)p	18.4p
Dividends per ordinary share	8			**15.3p**			14.2p

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, Earnings per Share, as calculated according to the definition in Statement of Investment Practice No. 1. 'The Definition of Headline Earnings' issued by the Institute of Investment Management and Research, and headline earnings per share as disclosed above, is shown in note 7 of the Notes to the Accounts.

Balance sheets

At 26 March 2005

	Notes	2005 Group £m	2004 Group £m	2005 Company £m	2004 Company £m
Fixed assets					
Intangible assets	9	**15.4**	28.2	**–**	–
Tangible assets	10	**154.6**	164.4	**–**	–
Investments: Associates	11	**14.0**	13.2	**–**	–
Other investments	11	**0.3**	0.2	**151.6**	151.6
		184.3	206.0	**151.6**	151.6
Current assets					
Stocks	12	**73.8**	99.7	**–**	–
Debtors	13	**89.8**	116.6	**40.7**	31.0
Deferred taxation	14	**30.8**	33.1	**–**	–
Cash at bank and in hand		**140.7**	85.5	**34.7**	41.7
		335.1	334.9	**75.4**	72.7
Creditors: amounts falling due within one year					
Short-term borrowings	15	**(17.8)**	(8.3)	**(89.2)**	(98.4)
Other creditors	15	**(194.2)**	(214.5)	**(19.4)**	(17.7)
		(212.0)	(222.8)	**(108.6)**	(116.1)
Net current assets/(liabilities)		**123.1**	112.1	**(33.2)**	(43.4)
Total assets less current liabilities		**307.4**	318.1	**118.4**	108.2
Creditors: amounts falling due after more than one year					
Long-term borrowings	16	**(16.4)**	(36.1)	**–**	–
Other creditors	16	**(12.8)**	(13.6)	**(1.6)**	(2.7)
		(29.2)	(49.7)	**(1.6)**	(2.7)
Provisions for liabilities and charges	17	**(49.8)**	(50.8)	**–**	–
		228.4	217.6	**116.8**	105.5
Capital and reserves					
Called up share capital	18	**46.1**	45.8	**46.1**	45.8
Share premium	18	**17.0**	14.6	**17.0**	14.6
Revaluation reserve	18	**1.8**	1.8	**–**	–
Capital redemption reserve	18	**3.5**	3.5	**3.5**	3.5
Other reserve	18	**(83.8)**	(83.8)	**–**	–
Profit and loss account	18	**240.1**	232.2	**50.2**	41.6
Equity Shareholders' funds		**224.7**	214.1	**116.8**	105.5
Equity minority interests		**3.7**	3.5	**–**	–
		228.4	217.6	**116.8**	105.5

Approved by the Board on 24 May 2005.

Nicholas K Brookes

Nicholas Brookes Chairman

Stephen King Finance Director

Group cash flow statement

For the year ended 26 March 2005

	Notes	2005 £m	2004 £m
Net cash inflow from operating activities	20a	**96.1**	92.1
Dividends received from associated companies		**5.6**	7.2
Returns on investments and servicing of finance	20b	**2.1**	(1.5)
Taxation		**(7.6)**	(11.2)
Capital expenditure and financial investment	20c	**(13.0)**	(31.8)
Acquisitions and disposals	20d	**5.0**	(5.1)
Equity dividends paid		**(25.8)**	(24.1)
Net cash inflow before use of liquid resources and financing		**62.4**	25.6
Management of liquid resources	20e	**(42.9)**	(30.3)
Financing	20f	**(21.6)**	7.6
(Decrease)/increase in cash in the period		**(2.1)**	2.9
Reconciliation of net cash flow to movement in net funds	20g		
(Decrease)/increase in cash in the period		**(2.1)**	2.9
Cash outflow from increase in liquid resources		**42.9**	30.3
Cash outflow/(inflow) from decrease/(increase) in debt		**24.3**	(5.1)
Change in net funds resulting from cash flows		**65.1**	28.1
Translation difference		**0.3**	4.8
Movement in net funds in the period		**65.4**	32.9
Net funds at start of period		**41.1**	8.2
Net funds at end of period		**106.5**	41.1
Analysis of net funds			
Cash		**40.3**	28.0
Liquid resources		**100.4**	57.5
Overdrafts		**(14.4)**	(1.0)
Other debt due within one year		**(3.4)**	(7.3)
Other debt due after one year		**(16.4)**	(36.1)
Net funds at end of period		**106.5**	41.1

Group statement of total recognised gains and losses

For the year ended 26 March 2005

	2005 £m	2004 £m
Profit for the financial year: Group	**25.5**	5.0
Associates	**6.4**	7.1
	31.9	12.1
Currency translation differences on foreign currency net investments	**3.4**	(0.5)
Total recognised gains for the year	**35.3**	11.6

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 a historical cost basis.

Reconciliation of movements in shareholders' funds

For the year ended 26 March 2005

	2005 £m	2004 £m
Profit for the financial year	**31.9**	12.1
Dividends	**(27.4)**	(24.8)
	4.5	(12.7)
Share capital issued	**2.7**	2.5
Currency translation differences on foreign currency net investments	**3.4**	(0.5)
Net increase/(decrease) in shareholders' funds	**10.6**	(10.7)
Opening shareholders' funds	**214.1**	224.8
Closing shareholders' funds	**224.7**	214.1

Accounting policies

For the year ended 26 March 2005

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 26 March 2005, being the last Saturday in March. The comparatives for the 2004 financial year are for the year ended 27 March 2004.

Basis of Consolidation

The results of all of the subsidiaries of the Company have been fully consolidated. The majority of these subsidiaries and the material associated companies prepare their annual financial statements to 26 March except for certain associated companies and subsidiaries whose year end is 31 December. In the case of the subsidiary, whose financial statements are made up to 31 December, results for the year to 26 March 2005 have been fully consolidated. The results of businesses acquired are included from the effective date of acquisition and the results of businesses sold are included up to the date of disposal.

Associated Companies

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

The Group's share of the profits less losses of associated companies is included in the consolidated profit and loss account. Its interest in their net assets is included as an investment in the consolidated balance sheet at the Group's share of the net assets at acquisition plus the Group's share of retained profits.

Foreign Currencies

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.

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

Goodwill

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

Other Intangible Assets

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 8 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.

Asset Impairment
Intangible and tangible fixed assets are tested for impairment when an event that might affect asset values has occurred. An impairment loss is recognised in the profit and loss account to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future earnings from operating the assets.

Leasing
Where fixed assets are financed by leasing agreements which give rights approximately equivalent to ownership (finance leases), the assets are capitalised and depreciated over their estimated remaining useful lives. The corresponding lease commitments are treated as obligations to the lessor and the interest elements of the finance lease rentals are charged to the profit and loss account.

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

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

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

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

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

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

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

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

Share Option Schemes
The Group's Employee Share Ownership Trusts are separately administered trusts. Liabilities of the Trusts are guaranteed by the Company and the assets of the Trusts mainly comprise shares in the Company.

The Company's shares held by the trusts are shown as a reduction in Shareholders' funds. The shares will be held at historical rates until such time as they are disposed of. Any profit or loss on the disposal of own shares is treated as a movement in reserves rather than as a profit and loss item.

1 Segmental analysis

	2005 Turnover £m	2005 Profit before tax £m	2005 Net assets £m	2004 Turnover £m	2004 Profit before tax £m	2004 Net assets £m
Continuing operations – before exceptionals						
Cash Systems	**302.2**	**9.2**	**19.0**	302.6	8.8	72.1
Security Paper and Print	**317.9**	**45.6**	**91.7**	340.3	42.4	94.6
Less inter-segment sales	**–**			(4.6)		
	620.1	**54.8**	**110.7**	638.3	51.2	166.7
Discontinued operations						
Voting Systems	**23.1**	**(0.2)**	**–**	44.2	(1.9)	(0.6)
	643.2	**54.6**	**110.7**	682.5	49.3	166.1
Exceptional costs						
Cash Systems		**(14.3)**			(5.2)	
Security Paper and Print		**1.2**			(10.0)	
		(13.1)			(15.2)	
Goodwill amortisation						
Cash Systems		**(13.4)**			(8.7)	
Security Paper and Print		**0.5**			0.5	
Voting Systems		**–**			(13.0)	
		(12.9)			(21.2)	
	643.2	**28.6**	**110.7**	682.5	12.9	166.1
Associated companies (analysed below)		**9.4**	**14.1**		10.0	13.2
Non-operating items (note 4)		**8.9**			0.2	
Net interest including associates		**2.5**			(0.6)	
Profit before taxation		**49.4**			22.5	
Unallocated net liabilities			**(2.9)**			(2.8)
Capital employed			**121.9**			176.5
Net funds			**106.5**			41.1
Net assets			**228.4**			217.6
Geographical area by operation						
United Kingdom and Ireland	**380.4**	**13.5**	**43.5**	406.1	9.7	58.1
Rest of Europe	**247.9**	**7.3**	**31.9**	232.8	20.7	61.7
The Americas	**142.5**	**3.2**	**21.8**	161.8	(18.3)	30.8
Rest of World	**47.3**	**4.6**	**13.5**	39.3	0.8	15.5
Less inter-area sales	**(174.9)**			(157.5)	–	–
	643.2	**28.6**	**110.7**	682.5	12.9	166.1

The profit before tax in 2005 is shown after exceptional costs of £13.1m (2004 : £15.2m) comprising UK and Ireland £6.1m (2004 : £9.5m), Rest of Europe £5.1m (2004 : £4.3m), Americas £1.9m (2004 : £1.4m), Rest of World £Nil (2004 : £Nil).

Inter-area sales of £174.9m (2004 : £157.5m) comprise: UK & Ireland £59.9m (2004 : £53.1m), Rest of Europe £90.2m (2004 : £67.7m), Americas £11.7m (2004 : £19.3m), Rest of World £13.1m (2004 : £17.4m).

1 Segmental analysis continued

	2005 Turnover £m	2005 Profit before tax £m	2005 Net assets £m	2004 Turnover £m	2004 Profit before tax £m	2004 Net assets £m
Geographical area by destination						
United Kingdom and Ireland	**70.0**			83.1		
Rest of Europe	**182.2**			179.0		
The Americas	**176.7**			178.9		
Rest of World	**214.3**			241.5		
	643.2			682.5		
Associated companies are analysed as follows:						
Security Paper and Print		**–**	**0.1**		–	–
UK Lottery		**9.4**	**14.0**		10.0	13.2
		9.4	**14.1**		10.0	13.2
Geographical area by operation						
United Kingdom and Ireland		**9.4**	**14.0**		10.0	13.2
Rest of Europe		**–**	**(0.1)**		–	(0.1)
Rest of World		**–**	**0.2**		–	0.1
		9.4	**14.1**		10.0	13.2

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

	2005 £m	2004 £m
Cost of sales		
Continuing operations	**419.2**	428.4
Reorganisation costs	**13.5**	13.0
	432.7	441.4
Discontinued operations	**12.6**	31.5
	445.3	472.9
Distribution costs		
Continuing operations	**29.4**	21.4
Discontinued operations		0.2
	29.4	21.6
Administration and other expenses		
Continuing operations	**116.7**	137.3
Reorganisation costs	**–**	2.2
Income from investments previously impaired	**(0.4)**	–
	116.3	139.5
Discontinued operations	**10.7**	14.4
	127.0	153.9
	601.7	648.4

3 Operating profit

	2005 £m	2004 £m
Operating profit is stated after charging/(crediting) the following:		
Employee costs (note 24)	**229.7**	226.5
Depreciation of tangible fixed assets		
– purchased	**27.0**	23.8
– leased	**0.1**	0.3
Amortisation of goodwill and other intangible assets		
– exceptional	**11.5**	18.7
– non exceptional	**1.4**	2.5
Operating leases		
– hire of plant and machinery	**0.9**	1.1
– other	**5.9**	7.6
Auditors' remuneration		
– audit fees	**0.9**	1.0
– UK non audit related fees	**0.4**	0.4
– overseas non audit-related fees	**0.1**	0.1
Research and development	**16.8**	21.3
Income from investments previously impaired	**(0.4)**	–
Reorganisation costs	**13.5**	15.2
Foreign exchange gain	**–**	(0.3)

In 2005, net reorganisation costs of £13.5m comprised £14.3m in respect of Cash Systems restructuring offset by £0.8m surplus provisions written back relating to the restructuring of the now disbanded Global Services division commenced in 2003/2004.

£10.9m of reorganisation costs are carried forward within provisions for liabilities and charges.

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

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

Non audit related fees in 2005 comprised taxation services of £0.3m and further assurance services of £0.2m.

4 Non operating items

The profit on disposal of discontinued operations in the year ended 26 March 2005 arises from:

// Profit of £6.0m on the disposal of the Group's investment in Sequoia Voting Systems Inc, a provider of voting equipment, software, ballot printing and election services in the USA.

// Profit of £2.9m on the write back of warranty provisions no longer required on previously disposed businesses.

The profit on disposal of fixed assets of £0.2m in the year ended 27 March 2004 arose from:

// Profit on the disposal of the Singapore factory (£0.9m).

// Profit on the disposal of the High Wycombe factory (£0.9m).

// Profit on the sale of other property assets (£1.0m); offset in part by a loss on disposal of £2.6m arising from the sale of the IMW property assets for a net consideration of £6.4m.

5 Net interest receivable/(payable)

	2005 £m	2004 £m
Interest payable on bank loans and overdrafts, and on other loans repayable within five years	**(3.2)**	(2.4)
Interest receivable	**5.7**	1.8
	2.5	(0.6)

6 Taxation

	2005 £m	2004 £m
Tax on profit on ordinary activities		
United Kingdom		
Current tax		
Corporation tax at 30 per cent (2004 : 30 per cent)	**5.0**	6.5
Adjustments in respect of prior years	**–**	(4.0)
	5.0	2.5
Double taxation relief	**(0.2)**	(0.5)
	4.8	2.0
Overseas tax	**5.1**	3.2
Adjustments in respect of prior years	**1.3**	0.3
	6.4	3.5
Tax on share of associates	**2.6**	2.9
	13.8	8.4
Deferred tax		
Origination and reversal of timing difference	**4.2**	0.4
Adjustments in respect of prior years	**(2.5)**	1.2
Tax on share of associates	**0.4**	–
	2.1	1.6
Total tax charge	**15.9**	10.0

The net exceptional tax credit included within the above totalled £2.5m of which £2.5m is included within deferred tax (2004 : £5.0m credit, of which £2.3m was included within deferred tax).

The current tax charge for the year is lower than the standard rate of taxation in the UK of 30 per cent (2004 higher). A summary reconciliation is shown below.

	2005 £m	2004 £m
Profit before tax on ordinary activities	**49.4**	22.5
Expected tax charge at 30 per cent	**14.8**	6.8
Rate adjustments relating to overseas profits	**(2.3)**	(1.6)
Overseas dividends	**0.1**	1.5
Disallowables and other items	**(0.1)**	5.4
Adjustments in respect of prior years	**1.3**	(3.7)
Current tax charge	**13.8**	8.4

7 Earnings per share

	2005	2004
Basic	**17.9p**	6.8p
Diluted	**17.8p**	6.8p

Earnings per share are based on the profit for the year attributable to ordinary shareholders of £31.9m (2004 : profit of £12.1m) as shown in the Group profit and loss account. The weighted average number of ordinary shares used in the calculations is 178,325,990 (2004 : 177,032,098) for basic earnings per share and 179,400,038 (2004 : 177,453,669) for diluted earnings per share after adjusting for dilutive share options.

Reconciliation of earnings per share	**pence per share**	pence per share
As calculated under FRS 14	**17.9**	6.8
Income from investments previously impaired	**(0.2)**	–
Profit on the disposal of discontinued operations	**(5.0)**	–
Profit on the disposal of fixed assets and assets held for resale	**–**	(0.1)
Amortisation of goodwill	**7.1**	11.7
Earnings per share as defined by the IIMR	**19.8**	18.4
Reorganisation costs	**6.2**	5.8
Headline earnings per share before items shown above	**26.0**	24.2

The Institute of Investment Management and Research (IIMR) has published Statement of Investment Practice No. 1 entitled 'The Definition of Headline Earnings'. The IIMR 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 headline earnings per share include the underlying tax effects.

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

8 Dividends

	2005 £m	2004 £m
Ordinary shares		
Interim	**8.4**	7.8
Final proposed	**19.0**	17.4
Overprovision in prior year	**–**	(0.4)
	27.4	24.8
Net dividend per ordinary share	**pence**	pence
Interim	**4.7**	4.4
Final proposed	**10.6**	9.8
	15.3	14.2

The above charge excludes £0.8m (2004 : £0.7m) of dividends in respect of shares held within the Employee Share Ownership Trusts.

9 Intangible assets

Group	Goodwill £m	Negative goodwill £m	Distribution rights £m	Total £m
Cost				
At 28 March 2004	69.3	(1.6)	2.8	70.5
Exchange adjustments	(0.4)	–	0.1	(0.3)
Additions	1.2	–	–	1.2
Disposals	(12.8)	–	–	(12.8)
At 26 March 2005	57.3	(1.6)	2.9	58.6
Amortisation				
At 28 March 2004	40.3	(0.8)	2.8	42.3
Exchange adjustments	(0.5)	–	0.1	(0.4)
Provision for the year	13.4	(0.5)	–	12.9
Disposals	(11.6)	–	–	(11.6)
At 26 March 2005	41.6	(1.3)	2.9	43.2
Net book value				
At 28 March 2004	29.0	(0.8)	–	28.2
At 26 March 2005	15.7	(0.3)	–	15.4

Goodwill amortisation all relates to continuing businesses.

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

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 28 March 2004	56.6	231.0	53.8	10.3	351.7
Exchange adjustments	0.3	1.5	–	0.1	1.9
Additions	0.6	6.4	3.1	10.6	20.7
Transfers from assets in the course of construction	0.4	12.5	0.8	(13.7)	–
Disposals	(0.1)	(15.5)	(5.6)		(21.2)
At 26 March 2005	57.8	235.9	52.1	7.3	353.1
Representing					
Valuation in 1988/89	3.7				3.7
Cost	54.1	235.9	52.1	7.3	349.4
	57.8	235.9	52.1	7.3	353.1
Accumulated depreciation					
At 28 March 2004	12.2	135.0	40.1	–	187.3
Exchange adjustments	–	1.4	–	–	1.4
Provision for the year	1.5	20.0	5.6	–	27.1
Disposals	(0.1)	(13.2)	(4.0)	–	(17.3)
At 26 March 2005	13.6	143.2	41.7	–	198.5
Net book value					
At 28 March 2004	44.4	96.0	13.7	10.3	164.4
At 26 March 2005	44.2	92.7	10.4	7.3	154.6

Included in the above are leased assets as follows:

Plant and machinery	cost	£22.8m (2004 : £23.3m)
	net book value	£14.3m (2004 : £19.6m)

10 Tangible assets continued

Included in the cost or valuation of land and buildings is an amount of £2.4m of capitalised interest (2004 : £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.

Land and buildings comprise	2005 Group £m	2004 Group £m
Net book value		
Freehold	27.7	28.3
Long leasehold	14.7	15.0
Short leasehold	1.8	1.1
	44.2	44.4
Historical cost of land and buildings		
Cost	56.0	54.8
Accumulated depreciation	(13.6)	(12.2)
	42.4	42.6

11 Investments

	2005 Group £m	2004 Group £m	2005 Company £m	2004 Company £m
Investments comprise				
Investment in associated companies	14.0	13.2	–	–
Cost of shares in Group companies	–	–	151.6	151.6
Other investments	0.3	0.2	–	–
	14.3	13.4	151.6	151.6

Associates are analysed in further detail below.

Associates	Cost of shares £m	Share of retained profit £m	Total £m
At 28 March 2004	11.0	2.2	13.2
Share of associated companies' profit after taxation	–	6.4	6.4
Less share of associated companies' dividends	–	(5.6)	(5.6)
At 26 March 2005	11.0	3.0	14.0

11 Investments continued

Group's share of aggregate associates and Camelot Group plc	Total associates 2005 £m	Camelot Group 2005 £m	Total associates 2004 £m	Camelot Group 2004 £m
Turnover	**956.7**	**953.4**	933.1	923.1
Profit before tax	**9.4**	**9.4**	10.0	10.0
Taxation	**(3.0)**	**(3.0)**	(2.9)	(2.9)
Profit after tax	**6.4**	**6.4**	7.1	7.1
Fixed assets	**25.4**	**22.4**	38.2	23.6
Current assets	**47.9**	**47.2**	49.7	42.5
Liabilities due within one year	**(56.9)**	**(56.7)**	(59.6)	(51.9)
Liabilities due after more than one year	**(5.4)**	**(2.1)**	(7.1)	(3.5)
Net assets	**11.0**	**10.8**	21.2	10.7

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

12 Stocks

	2005 Group £m	2004 Group £m
Raw materials	**16.2**	18.4
Work in progress	**24.5**	34.5
Finished goods	**33.1**	46.8
	73.8	99.7

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

13 Debtors

	2005 Group £m	2004 Group £m	2005 Company £m	2004 Company £m
Amounts due within one year				
Trade debtors	**69.3**	89.4	**–**	–
Amounts owed by Group undertakings	**–**	–	**40.7**	31.0
Amounts due from associated companies	**0.3**	0.1	**–**	–
Other debtors	**8.9**	16.5	**–**	–
Taxation	**2.7**	1.8	**–**	–
Prepayments and accrued income	**7.5**	8.5	**–**	–
	88.7	116.3	**40.7**	31.0
Amounts due after more than one year				
Other debtors	**1.1**	0.2	**–**	–
Prepayments and accrued income	**–**	0.1	**–**	–
	1.1	0.3	**–**	–
	89.8	116.6	**40.7**	31.0

14 Deferred taxation

	2005 Group £m	2004 Group £m
Provided		
Timing differences between capital allowances and depreciation	**5.6**	4.2
Pension provisions	**(5.9)**	(5.2)
Tax losses	**(5.0)**	(7.0)
Miscellaneous timing differences	**(23.5)**	(23.2)
At 26 March 2005	**(28.8)**	(31.2)
Comprising:		
Assets	**(30.8)**	(33.1)
Liabilities	**2.0**	1.9
At 26 March 2005	**(28.8)**	(31.2)

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.

A deferred tax asset has not been recognised on tax losses of £3.3m (2004 : £5.9m) because there is insufficient evidence to suggest that it will be recoverable.

As at 27 March 2004 and 26 March 2005, there were no unprovided deferred tax liabilities.

15 Creditors

	2005 Group £m	2004 Group £m	2005 Company £m	2004 Company £m
Amounts falling due within one year				
Bank loans and overdrafts	**15.4**	4.8	**89.2**	98.4
Obligations under finance leases	**2.4**	3.5	**–**	–
Short-term borrowings	**17.8**	8.3	**89.2**	98.4
Payments received on account	**23.7**	33.1	**–**	–
Trade creditors	**27.3**	31.3	**–**	–
Amounts owed to associated companies	**0.3**	0.1	**–**	–
Other short-term creditors	**14.2**	17.2	**–**	–
Proposed dividends	**19.3**	18.0	**19.3**	17.7
Taxation	**10.7**	7.1	**–**	–
Social security and other taxation	**9.4**	12.8	**–**	–
Accruals and deferred income	**89.3**	94.9	**0.1**	–
Other creditors	**194.2**	214.5	**19.4**	17.7

16 Creditors

	2005 Group £m	2004 Group £m	2005 Company £m	2004 Company £m
Amounts falling due after more than one year				
Bank loans repayable otherwise than by instalments				
Between one and two years	**2.0**	–	**–**	–
Between two and five years	**–**	19.3	**–**	–
Obligations under finance leases				
Between one and two years	**3.6**	3.6	**–**	–
Between two and five years	**9.0**	10.6	**–**	–
Over five years	**1.8**	2.6	**–**	–
Long-term borrowings	**16.4**	36.1	**–**	–
Amounts owed to Group companies	**–**	–	**–**	2.6
Other long-term creditors	**0.3**	0.6	**1.6**	0.1
Taxation	**12.4**	12.9	**–**	–
Accruals and deferred income	**0.1**	0.1	**–**	–
Other creditors	**12.8**	13.6	**1.6**	2.7

As at 26 March 2005, the total of undrawn committed borrowing facilities maturing in more than two years was £35.0m.

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

17 Provisions for liabilities and charges

	Pensions and similar obligations £m	Deferred taxation £m	Other £m	Total £m
Group				
At 28 March 2004	**21.1**	**1.9**	**27.8**	**50.8**
Exchange adjustment	**(0.1)**	**0.1**	**–**	**–**
Provided in year	**11.3**	**–**	**20.1**	**31.4**
Utilised in year	**(10.3)**	**–**	**(19.2)**	**(29.5)**
Released in year	**–**	**–**	**(4.1)**	**(4.1)**
Transfers from other creditors	**–**	**–**	**1.2**	**1.2**
At 26 March 2005	**22.0**	**2.0**	**25.8**	**49.8**

As at 26 March 2005 other provisions principally comprise:

// Reorganisation provisions of £10.9m (2004 : £11.7m). During the year, £13.5m was provided, mainly relating to Cash Systems restructuring. The amount utilised was £14.1m covering, in the main, restructuring in Cash Systems and the now disbanded Global Services division. The majority of the provision remaining at the end of the year of £10.9m is expected to be utilised over the next year.

// Disposal provisions of £3.6m (2004 : £5.4m), none of which are individually material. During the year, £2.9m of warranty provisions on previously disposed businesses were released.

// A provision of £3.3m (2004 : £2.9m), 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). £0.4m of this provision was utilised in the year, and a further £0.8m was provided.

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

Notes to the accounts continued

18 Share capital and reserves

	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Group							
At 28 March 2004	**45.8**	**14.6**	**1.8**	**3.5**	**(83.8)**	**232.2**	**214.1**
Share capital issued	**0.3**	**2.4**	**–**	**–**	**–**	**–**	**2.7**
Currency translation	**–**	**–**	**–**	**–**	**–**	**3.4**	**3.4**
Profit for the financial year	**–**	**–**	**–**	**–**	**–**	**4.5**	**4.5**
At 26 March 2005	**46.1**	**17.0**	**1.8**	**3.5**	**(83.8)**	**240.1**	**224.7**
Company							
At 28 March 2004	**45.8**	**14.6**	**–**	**3.5**	**–**	**41.6**	**105.5**
Share capital issued	**0.3**	**2.4**	**–**	**–**	**–**	**–**	**2.7**
Profit for the financial year before dividends	**–**	**–**	**–**	**–**	**–**	**36.0**	**36.0**
Dividends proposed	**–**	**–**	**–**	**–**	**–**	**(27.4)**	**(27.4)**
At 26 March 2005	**46.1**	**17.0**	**–**	**3.5**	**–**	**50.2**	**116.8**

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 £36.0m.

As at 26 March 2005, £740.4m (2004 : £740.4m) of goodwill has been eliminated against reserves in respect of acquisitions made prior to 31 March 1998.

19 Share capital

	2005 £m	2004 £m
Authorised		
265,625,900 ordinary shares of 25p each	**66.4**	66.4
Allotted, called up and fully paid		
184,200,565 (2004 : 183,069,986) ordinary shares of 25p each	**46.05**	45.8

Allotments during the year	2005 '000	2004 '000
Ordinary shares in issue at 28 March 2004	**183,070**	181,767
Issued under savings related share option scheme	**126**	1,002
Issued under executive share option schemes	**900**	182
Issued under US employee share purchase plan	**99**	107
Issued under the matching shares scheme	**6**	12
Ordinary shares in issue at 26 March 2005	**184,201**	183,070

Contingent rights to the allotment of shares	2005 '000	2004 '000
Savings related share option scheme		
Options over ordinary shares outstanding at 28 March 2004	**2,625**	3,396
New options granted during year	**570**	1,033
Options exercised during the year	**(126)**	(1,002)
Options lapsed during the year	**(359)**	(802)
Savings related share options outstanding at 26 March 2005	**2,710**	2,625

At 26 March 2005 there was a total of 2,419 participants holding options under the savings related share option scheme which are exercisable at various dates up to September 2010 at prices ranging between 221.10p and 434.10p.

19 Share capital continued

Executive Share Option Scheme	2005 '000	2004 '000
Options over ordinary shares outstanding at 28 March 2004	**3,530**	4,012
New options granted during year	**–**	–
Options exercised during year	**(642)**	(182)
Options lapsed during year	**(140)**	(300)
Executive share options outstanding at 26 March 2005	**2,748**	3,530

At 26 March 2005 there was a total of 198 participants holding options under the executive share option scheme which are exercisable at various dates up to December 2011 at prices ranging between 275.25p and 934.00p.

Share Price Improvement Plan	2005 '000	2004 '000
Options over ordinary shares outstanding at 28 March 2004	**503**	1,211
New options granted during year	**–**	–
Options lapsed during year	**(503)**	(708)
Share Price Improvement Plan options outstanding at 26 March 2005	**0**	503

Executive Share Option Plan	2005 '000	2004 '000
Options over ordinary shares outstanding at 28 March 2004	**2,990**	1,318
New options granted during year	**2,095**	1,737
Options exercised during year	**(258)**	–
Options lapsed during year	**(364)**	(65)
Executive Share Option Plan options outstanding at 26 March 2005	**4,463**	2,990

At 26 March 2005 there was a total of 134 participants holding options under the executive share option plan which are exercisable at various dates up to December 2014 at prices ranging between 200.50p and 356.83p.

Matching Shares Scheme	2005 '000	2004 '000
Options over matching shares outstanding at 28 March 2004	**6**	–
New options granted during year	**3**	6
Matching Shares Scheme options outstanding at 26 March 2005	**9**	6

At 26 March 2005 there was a total of two key executives holding options under the Matching Shares Scheme. Participants subscribed for 11,649 Retained Shares at 275.25p on 14 August 2003 and for 6,033 Retained Shares at 331.50p on 22 June 2004. Retained Shares must be held in trust for two years from the date of subscription and a performance condition satisfied before qualifying for Matching Shares at a ratio of one Matching Share to every two Retained Shares.

US Employee Share Purchase Plan

De La Rue operates a US Employee Share Purchase Plan for US employees. Under the Plan, employees have an option to purchase De La Rue plc shares at the end of each 12-month savings period at a price which is the lower of the market value of a De La Rue plc share either at the beginning or end of the offering period, less a 15 per cent discount. In 2004/05, 98,861 shares (2003/04 : 107,223 shares) were allotted pursuant to the Plan. It is estimated that 88,000 shares will be required to satisfy the Company's 2005/06 obligations in respect of employees' savings under the Plan as at 26 March 2005.

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 the De La Rue Executive Share Option Plan (ESOP), (or any other share option plan established by the Company) to executive Directors and senior employees. Bachmann Trust Company Limited is Trustee. The Trustee currently holds 4.1 million shares until due for release to participants of the Schemes and the Plans. The Trustee has agreed to waive dividends on these shares except for 0.0001 per cent per share and accordingly such shareholding is not included in the Company's EPS calculation referred to in note 7. At 26 March 2005, no shares have been transferred to option holders under the ESOP or ESOS.

19 Share capital continued

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

The QUEST was established on 30 March 2000 to administer shares granted under the De La Rue Sharesave Scheme ('the Scheme') to employees and Directors of the Company and its subsidiaries. The QUEST currently holds one million shares to be distributed on maturity of savings-related share option schemes. The QUEST has waived all rights to receive dividends payable on its registered shareholding except for 0.0001 pence per share and accordingly such shareholding is not included in the Company's EPS calculation referred to in note 7. The future operation of the QUEST is being reviewed following recent changes to legislation.

20 Notes to Group Cash Flow Statement

	2005 £m	2004 £m
a **Reconciliation of operating profit to net cash inflow from operating activities**		
Operating profit	**28.6**	12.9
Depreciation and amortisation	**40.0**	45.3
Decrease/(increase) in stocks	**25.5**	(3.8)
Decrease in debtors	**22.7**	10.2
(Decrease)/increase in creditors	**(20.8)**	30.0
Decrease in reorganisation provisions	**(0.9)**	(2.5)
Other items	**1.0**	–
Net cash inflow from operating activities	**96.1**	92.1
b **Returns on investments and servicing of finance**		
Interest received	**5.7**	2.0
Interest paid	**(3.1)**	(2.4)
Dividends paid to minority shareholders	**(0.5)**	(1.1)
Net cash inflow/(outflow) from returns on investments and servicing of finance	**2.1**	(1.5)
c **Capital expenditure and financial investment**		
Purchase of tangible fixed assets	**(20.5)**	(33.3)
Sale of tangible fixed assets	**7.1**	1.5
Income from investments	**0.4**	–
Net cash outflow for capital expenditure and financial investment	**(13.0)**	(31.8)
d **Acquisitions and disposals**		
Purchase of minority interests	**(2.2)**	(0.9)
Net overdraft acquired with subsidiary undertakings	**–**	(9.8)
Sale of subsidiary undertakings (note 22)	**7.2**	6.4
Net cash sold with subsidiary undertakings	**–**	(0.8)
Net cash inflow/(outflow) from acquisitions and disposals	**5.0**	(5.1)
e **Management of liquid resources**		
Net increase in short-term deposits	**(42.9)**	(30.3)

20 Notes to Group Cash Flow Statement continued

	2005 £m	2004 £m
f Financing		
Debt due within one year:		
Loans raised	1.1	7.9
Loans repaid	(3.8)	–
Debt due beyond one year:		
Loans raised	2.0	17.1
Loans repaid	(19.3)	(19.0)
Capital element of finance lease rental repayments	(4.3)	(0.9)
Share capital issued	2.7	2.5
Net cash (outflow)/inflow from financing	(21.6)	7.6

	At 28 March 2004 £m	Cash flow £m	Exchange movement £m	At 26 March 2005 £m
g Analysis of net funds				
Cash at bank and in hand	85.5	54.1	1.1	140.7
Less liquid resources	(57.5)	(42.9)	–	(100.4)
Overdrafts	(1.0)	(13.3)	(0.1)	(14.4)
Cash – Group Cash Flow Statement	27.0	(2.1)	1.0	25.9
Liquid resources	57.5	42.9	–	100.4
Debt due within one year, excluding bank overdrafts	(7.3)	3.9	–	(3.4)
Debt due after one year	(36.1)	20.4	(0.7)	(16.4)
	(43.4)	24.3	(0.7)	(19.8)
Net debt	41.1	65.1	0.3	106.5

Liquid resources comprises cash on short term deposit, the withdrawal of which is subject to any notice period or other restriction.

21 Group operating leases

	2005 Land and buildings £m	2004 Land and buildings £m	2005 Other £m	2004 Other £m
Annual commitments expiring				
Within one year	0.5	0.8	0.6	1.5
Between one and two years	0.3	1.7	0.6	1.1
Between two and five years	1.8	1.3	1.4	0.8
Over five years	1.6	1.5	–	–
Payments to be made during next year	4.2	5.3	2.6	3.4

22 Acquisitions and disposal

Acquisitions

During the year, the Group acquired the remaining ordinary share capital of Arbok Zao (now De La Rue CIS) for a consideration of £0.6m, increasing its shareholding from 50 per cent to 100 per cent. The book value and fair value of assets and liabilities of the subsidiary at the the date of acquisition were not materially different from the purchase consideration, so no goodwill has been recognised on acquisition.

Prior to the disposal of Sequoia Voting Systems Inc, the Group acquired the remaining ordinary share capital of that company for a consideration of £1.6m, increasing its shareholding from 85 per cent to 100 per cent. The book value and fair value of assets and liabilities of the subsidiary at the date of acquisition were not materially different. Goodwill of £1.2m was recorded on acquisition.

Disposal

During March 2005, the Group disposed of its shareholding in Sequoia Voting Systems Inc. The net assets disposed, profit on disposal and consideration are summarised as follows:

	£m
Tangible fixed assets	0.1
Intangible fixed assets	1.2
Stock	0.7
Trade debtors	1.6
Trade creditors	(1.4)
Other current assets and liabilities	1.3
Deferred income	(2.7)
Net assets disposed	0.8
Profit on disposal	6.0
Total	6.8
Comprising	
Amounts paid by purchaser	7.6
Amounts payable by purchase	1.1
Disposal costs paid	(0.5)
Disposal costs accrued	(1.4)
Total	6.8

Operating cash flow for Sequoia Voting Systems Inc up to the date of disposal was £4.6m due mainly to collection of outstanding debtor balances.

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 £22.0m (2004 : £21.1m) is included in provisions for liabilities and charges to cover the excess of the accumulated pension costs (£19.4m) and other post-retirement benefits (£2.6m) over the amounts funded.

The total pension cost for the Group was £13.0m (2004 : £13.1m), of which £11.6m relates to plans in the United Kingdom and the United States which cover 71 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 2003 by AON Limited, independent consulting actuaries. The scheme is valued formally every 3 years, the next valuation being as at April 2006.

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

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

	2004/05 £m
Regular pension cost	**7.6**
Variation from regular cost	**2.8**
Net pension cost for 2005	**10.4**

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

Other post-retirement benefits of £0.2m were utilised in the year (2004 : £0.2m). These benefits relate mainly to healthcare and life assurance for beneficiaries in the United States. The benefits are covered by an unfunded defined benefit scheme and a provision is carried in the balance sheet for the accumulated liabilities. These were assessed in accordance with independent actuarial advice as at 31 March 1997 using the projected unit credit method. The assumed discount rate was 7.25 per cent p.a. and annual healthcare costs were assumed to increase by 7.0 per cent p.a.

The Group continues to report pension costs in accordance with SSAP24. However the Group is following the extended transitional arrangements under which additional disclosure on retirement benefits is required in the notes to the financial statements under FRS 17. The standard requires pension deficits and surpluses, to the extent that these are considered recoverable, to be recognised in full. Annual service costs and net financial income or expense on the assets and liabilities of the schemes will be recognised through the profit and loss account. Other fluctuations in the value of the surplus will be recognised in the Statement of Recognised Gains and Losses.

The Group operates a defined benefit pension scheme in the UK. A full actuarial valuation was carried out at 6 April 2003 by a qualified independent actuary, and the valuation results have been updated to 26 March 2005 in accordance with the FRS. The Group also operates a number of minor defined contribution programmes in the UK and overseas, as well as minor defined benefit arrangements overseas. The latest valuations for these defined benefit arrangements have been updated to 26 March 2005 by local actuaries. The latest valuation for the US scheme was prepared as at 1 January 2003.

Details of post retirement benefit scheme assets and liabilities of the Group at 26 March 2005, valued in accordance with FRS 17, are set out below.

The financial assumptions used are:			**2004/05**			2003/04			2002/03
	UK %	**USA %**	**Other %**	UK %	USA %	Other %	UK %	USA %	Other %
Discount rate	**5.5**	**5.5**	**5.5**	5.5	6.0	6.0	5.6	7.0	6.8
Inflation rate	**3.0**	**–**	**2.5**	3.0	–	2.7	2.6	–	2.8
Rate of increase in pension payment	**3.0**	**–**	**1.5**	3.0	–	1.0	3.0	–	–
Rate of increase in salaries	**4.3**	**–**	**3.0**	4.3	–	3.3	3.9	–	4.5

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 26 March 2005	Expected return on assets at 26 March 2005 UK %	USA %	Other %	Expected return on assets at 27 March 2004 UK %	USA %	Other %	Expected return on assets at 29 March 2003 UK %	USA %	Other %
Equities	8.0	–	–	8.6	–	–	8.9	–	–
Bonds	5.0	–	–	4.7	–	–	4.6	–	–
Other	4.0	7.0	5.0	3.0	7.0	6.3	2.6	7.0	–

	Value at 27 March 2005 UK £m	USA £m	Other £m	Total £m	Value at 27 March 2004 UK £m	USA £m	Other £m	Total £m	Value at 29 March 2003 UK £m	USA £m	Other £m	Total £m
Equities	258.6	–	–	258.6	272.3	–	–	272.3	223.4	–	–	223.4
Bonds	178.6	–	–	178.6	129.1	–	–	129.1	124.9	–	–	124.9
Other	0.9	1.3	0.6	2.8	8.0	1.3	0.7	10.0	5.7	1.4	0.4	7.5
	438.1	1.3	0.6	440.0	409.4	1.3	0.7	411.4	354.0	1.4	0.4	355.8

The following amounts at 26 March 2005 and 27 March 2004 were measured in accordance with the requirements of FRS 17:

	26 March 2005 UK £m	USA £m	Other £m	Total £m	27 March 2004 UK £m	USA £m	Other £m	Total £m
Total market value of assets	438.1	1.3	0.6	440.0	409.4	1.3	0.7	411.4
Present value of liabilities	(545.9)	(1.6)	(3.3)	(550.8)	(496.6)	(1.4)	(2.7)	(500.7)
Deficit	(107.8)	(0.3)	(2.7)	(110.8)	(87.2)	(0.1)	(2.0)	(89.3)
Related deferred tax asset	32.4	0.1	0.8	33.3	26.2	0.0	0.5	26.7
Net pension liability	(75.4)	(0.2)	(1.9)	(77.5)	(61.0)	(0.1)	(1.5)	(62.6)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 26 March 2005 and 27 March 2004 would be as follows:

	26 March 2005 Group £m	27 March 2004 Group £m
Net assets		
Net assets including SSAP 24 pension liability	228.4	217.6
SSAP 24 provision (net of deferred tax)	15.4	15.9
Pension liability under FRS 17	(77.5)	(62.6)
Net assets including FRS 17 pension liability	166.3	170.9
Reserves		
Profit and loss reserve including SSAP 24 pension liability	240.1	232.2
SSAP 24 provision (net of deferred tax)	15.4	15.9
Pension liability under FRS 17	(77.5)	(62.6)
Profit and loss reserve including FRS 17 pension liability	178.0	185.5

23 Pensions and other post-retirement benefits continued

The following amounts would have been recognised in the performance statements in the years to 26 March 2005 and 27 March 2004 under the requirements of FRS 17:

Analysis of amount charged to operating profit	2004/05 Group £m	2003/04 Group £m
Operating cost		
Current service cost	(11.0)	(9.9)
Past service cost	–	(1.6)
Gains due to settlements/curtailments	0.1	0.3
Financing cost		
Expected return on assets	29.7	25.5
Interest on liabilities	(27.3)	(24.5)
Net charge	(8.5)	(10.2)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	2004/05 Group £m	2003/04 Group £m
Actual return less expected return on pension scheme assets	11.2	39.4
Experience gains/(losses) arising on pension scheme liabilities	5.2	(13.1)
Changes in financial assumptions underlying pension scheme liabilities	(38.5)	(27.4)
Currency (losses)/gains arising on pension schemes	(0.2)	0.2
Actuarial loss recognised in STRGL	(22.3)	(0.9)

Movement in deficit during the year	Group £m	Group £m
Deficit in the scheme at the beginning of the year	(89.3)	(90.6)
Movement in the year:		
Current service cost	(11.0)	(9.9)
Past service cost	–	(1.6)
Employer contributions	9.3	12.4
Other finance income	2.4	1.0
Settlements/curtailments	0.1	0.3
Actuarial loss recognised in STRGL	(22.3)	(0.9)
Deficit in the scheme at the end of the year	(110.8)	(89.3)

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

	2005	2004
Actual return less expected return on pension scheme assets		
Amount (£m)	11.2	39.4
Percentage of pension scheme assets	2.5%	9.6%
Experience gains/(losses) arising on pension scheme liabilities		
Amount (£m)	5.2	(13.1)
Percentage of pension scheme liabilities	(0.9)%	2.6%
Actuarial loss recognised in STRGL		
Amount (£m)	(22.3)	(0.9)
Percentage of pension scheme liabilities	4.0%	0.2%

24 Employees

	2005	2004
Average number of employees		
United Kingdom and Ireland	**2,453**	2,773
Rest of Europe	**2,340**	2,402
The Americas	**1,087**	1,065
Rest of World	**636**	601
	6,516	6,841

	2005 £m	2004 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	**199.1**	195.5
Social security costs	**17.6**	17.9
Pension costs	**13.0**	13.1
	229.7	226.5

Aggregate gains on the exercise of share options during the year was £0.4m (2004: nil).
Details of directors' emoluments are set out in the Remuneration Report on page 28.

25 Capital commitments

	2005 Group £m	2004 Group £m
The following commitments existed at the balance sheet date:		
Contracted but not provided for in the accounts	**3.0**	3.8
Authorised but not contracted	**1.1**	0.3
	4.1	4.1

26 Contingent liabilities

There are contingent liabilities, arising in the ordinary course of business, in respect of litigation and guarantees in various countries, for which the directors believe adequate provisions have been made in the accounts. Pursuant to the provisions of Section 17 Companies (Amendment) Act 1986 of the Republic of Ireland, the Company has guaranteed the liabilities of certain of its Irish subsidiaries and as a result such subsidiaries have been exempted from the provisions of Section 17 Companies (Amendment) Act 1986 of the Republic of Ireland.

27 Related party transactions

During the year the Group traded with the following associated companies: Fidink (33.3 per cent), Valora-Servicos de Apoio a Emissão Monitária SA (25 per cent) and Royal Mint Services (50 per cent).

The Group's trading activities with these companies include £8.2m for the purchase of ink and other consumables; £0.2m for the provision of management services; £1.5m for the purchase of Banknotes; £0.6m for the sale of ink, paper and plates and £0.1m consultancy costs. At the balance sheet date there were £0.3m creditor and £0.3m debtor balances with these companies.

28 Derivatives and other financial instruments

The narrative disclosures required by FRS 13, Derivatives and Financial Instruments, are set out in this section, within the Accounting Policies and in the Treasury operations, interest charge and exchange paragraphs of the Financial Review on pages 12 and 13. 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 set out in the Financial Review.

Fair value of financial assets and liabilities

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

There is no significant difference between book value and fair values of the Group's financial assets and liabilities except as shown in the table of unrecognised gains and losses on hedging instruments below.

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 £17.8m (note 15); long term borrowings of £16.4m (note 16); other long term creditors of £12.8m (note 16) and provisions for other liabilities and charges of £25.8m (note 17).

Currency	**2005 Total £m**	**2005 Floating £m**	**2005 Fixed £m**	**2005 Interest free £m**	2004 Total £m	2004 Floating £m	2004 Fixed £m	2004 Interest free £m
Sterling	**41.8**	**17.9**	**–**	**23.9**	48.7	18.6	–	30.1
US dollar	**6.6**	**1.6**	**–**	**5.0**	23.3	7.3	13.8	2.2
Eurozone	**8.7**	**3.0**	**–**	**5.7**	8.6	0.6	–	8.0
Other	**15.7**	**11.7**	**–**	**4.0**	5.2	4.1	–	1.1
	72.8	**34.2**	**–**	**38.6**	85.8	30.6	13.8	41.4

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

The Group entered into an interest rate swap in October 2002 to fix the interest rate on US$25m of financial liabilities at 3.00% until September 2005. As at 26 March 2005, there were no financial liabilities outstanding under this interest rate swap.

The Group intends to maintain significant undrawn available committed facilities. Borrowings under these facilities at 26 March 2005 and the current facility maturity pattern were as follows:

	Total facilities £m	Drawings £m	Undrawn £m
Within one year	**16.8**	**3.0**	**13.8**
Between one and two years	**13.8**	**3.1**	**10.7**
Between two and five years	**43.4**	**8.4**	**35.0**
More than five years	**1.1**	**1.1**	**–**
	75.1	**15.6**	**59.5**

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

	2005 £m	2004 £m
Within one year	**39.4**	30.5
Between one and two years	**13.5**	13.8
Between two and five years	**17.5**	37.4
More than five years	**2.4**	4.1
	72.8	85.8

28 Derivatives and other financial instruments continued

Interest rate risk profile of financial assets

The Group's financial assets comprise cash and deposits together with other investments as per note 11.
Composition of the Group's cash and deposits is set out below:

Cash and deposits	2005 £m	2004 £m
Sterling	97.2	57.4
US dollar	6.0	10.2
Eurozone	21.3	12.2
Other	16.2	5.7
	140.7	85.5

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.

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 in accordance with IAS39.

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

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

	Gains £m	Unrecognised losses £m	Total net gains/losses £m
Gains and losses on hedges at 28 March 2004	**4.3**	**(1.3)**	**3.0**
Arising in previous years included in 2004/05 income	(1.7)	1.1	(0.6)
Gains and losses not included in 2004/05 income			
Arising before 28 March 2004	2.6	(0.2)	2.4
Fair value changes at 26 March 2005	(0.9)	0.2	(0.7)
Arising in 2004/05	0.7	(0.7)	–
Gains and losses on hedges at 26 March 2005	**2.4**	**(0.7)**	**1.7**
Of which:			
Gains and losses expected to be included in 2005/06 income	1.6	(0.7)	0.9
Gains and losses expected to be included in 2006/07 income or later	0.8	–	0.8

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

Principal subsidiaries, branches and associated companies

As at 26 March 2005

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

Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
Europe		
United Kingdom		
De La Rue Holdings plc	Holding and general commercial activities	100+
De La Rue International Limited	Security paper and printing, sale and maintenance of cash handling products and services, identity systems, brand protection and holographics	100
De La Rue Overseas Limited	Holding company	100
De La Rue Investments Limited	Holding company	100
Portals Group Limited	Holding company	100
Portals Property Limited	Property holding company	100
Currency Consulting International Limited	Consultancy	100
Camelot Group plc	Lottery operator	20*
Channel Islands		
The Burnhill Insurance Company Limited	Insurance	100
De La Rue (Guernsey) Limited	General commercial company	100
Belgium		
De La Rue Cash Systems N.V.	Distribution, service and marketing	100
Ireland		
De La Rue Smurfit Limited	Security printing	50
De La Rue Cash Systems Limited	Distribution, service and marketing	100
France		
De La Rue France Holdings SAS	Holding company	100
De La Rue Cash Systems S.A.	Distribution, service and marketing	100
Germany		
De La Rue Cash Systems GmbH	Distribution, service and marketing	100
De La Rue Systems GmbH	Holding company and distribution and marketing of cash handling products for export	100
Malta		
De La Rue Currency and Security Print Limited	Security printing	100
The Netherlands		
De La Rue BV	Holding company and distribution and marketing of cash handling products	100
Portugal		
Valora-Serviços de Apoio à Emissão Monitária S.A.	Currency printing	25*
De La Rue Systems – Automatização, S.A.	Manufacturing, distribution, service and marketing	100
Russia		
De La Rue CIS	Manufacturing, distribution, service and marketing	100
Spain		
De La Rue Systems S.A.	Distribution, service and marketing	100
Sweden		
De La Rue Cash Systems AB	Manufacturer of cash handling equipment	100

Principal subsidiaries, branches and associated companies continued

As at 26 March 2005

Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
Switzerland		
Thomas De La Rue A.G.	Holding company	100
Fidink S.A.	Security ink marketing	33.33*
De La Rue Cash Systems AG	Distribution, service and marketing	100
De La Rue International Limited, Swiss Branch	Design and development centre, principally for cash handling products and solutions	100
North America		
United States of America		
De La Rue Inc.	Holding company	100
De La Rue Security Print Inc.	Security printing	100
De La Rue Cash Systems Inc.	Design, assembly, distribution, marketing and identity systems	100
Canada		
De La Rue Cash Systems Inc.	Distribution, service and marketing	100
South America		
Brazil		
De La Rue Cash Systems Limitada	Distribution, service and marketing	100
Mexico		
De La Rue México, S.A. de C.V.	Distribution, marketing and identity systems	100
Asia		
India		
De La Rue Cash Systems India Private Limitad	Distribution, service and marketing	100
Africa		
Kenya		
De La Rue Currency & Security Print Limited	Security printing	100
South Africa		
De La Rue South Africa (Proprietary) Limited	Distribution, service and marketing	100
De La Rue Global Services (Pty) Limited	Security printing	100
Far East		
Australia		
De La Rue Cash Systems Pty Limited	Distribution, service and marketing	100
China		
Shenzhen De La Rue Nantian Banking Technology Corporation Limited	Manufacturer of cash handling equipment	51
Hong Kong		
De La Rue Systems Limited	Distribution, service and marketing	100
Malaysia		
De La Rue (Malaysia) Sdn Bhd	Identity systems	100
Sri Lanka		
De La Rue Lanka Currency and Security Print (Private) Limited	Security printing	60
Thailand		
De La Rue (Thailand) Limited	Distribution, service and marketing	100

Debden Security Printing Limited was divisionalised into De La Rue International Limited on 28 March 2004.
De La Rue Systems Limited Partnership and Currency Systems International Inc. were merged into De La Rue Cash Systems Inc. on 21 August 2004.
+ Shares held by De La Rue plc
* Associated company

Five-year record

Profit and loss account		2001 £m	2002 £m	2003 (restated) £m	2004 £m	**2005 £m**
Turnover						
Continuing operations		517.4	641.7	557.5	638.3	**620.1**
Discontinued operations – Sequoia Voting Systems	(note a)	–	–	25.2	44.2	**23.1**
Other discontinued operations	(note a)	7.4	9.5	–	–	**–**
Total		524.8	651.2	582.7	682.5	**643.2**
Operating profit						
Continuing operations		68.4	77.6	42.3	51.2	**54.8**
Reorganisation and arbitration costs		(0.8)	(11.1)	(31.9)	(15.2)	**(13.5)**
(Loss)/profit on impairment of investment		–	–	(1.3)	–	**0.4**
Discontinued operations – Sequoia Voting Systems	(note a)	–	–	(3.7)	(1.9)	**(0.2)**
Other discontinued operations	(note a)	(1.5)	(1.4)	–	–	**–**
Total		66.1	65.1	5.4	34.1	**41.5**
Amortisation of goodwill		(0.5)	(2.8)	(19.6)	(21.2)	**(12.9)**
Share of profits of associated companies		4.8	11.8	9.2	10.0	**9.4**
(Loss)/Profit on the sale of continuing operations		(3.0)	–	–	0.2	**–**
Profit on the disposal of discontinued operations		–	1.5	–	–	**8.9**
Profit on sale of investments		–	22.7	–	–	**–**
Profit/(loss) on ordinary activities before interest		67.4	98.3	(5.0)	23.1	**46.9**
Net Interest: Group		(1.2)	(0.4)	0.5	(0.6)	**2.5**
Associates		4.4	3.0	0.4	–	**–**
Profit/(loss) on ordinary activities before taxation		70.6	100.9	(4.1)	22.5	**49.4**
Taxation on profit on ordinary activities		(7.5)	(22.2)	(2.5)	(10.0)	**(15.9)**
Profit/(loss) on ordinary activities after taxation		63.1	78.7	(6.6)	12.5	**33.5**
Equity minority interests		(0.2)	(1.5)	(0.7)	(0.4)	**(1.6)**
Profit/(loss) for the financial year		62.9	77.2	(7.3)	12.1	**31.9**
Dividends		(24.0)	(25.5)	(24.6)	(24.8)	**(27.4)**
Transferred to/(from) reserves		38.9	51.7	(31.9)	(12.7)	**4.5**
Earnings per ordinary share		33.1p	40.7p	(4.0)p	6.8p	**17.9p**
Diluted earnings per share (per FRS 14)		32.6p	40.0p	(4.0)p	6.8p	**17.8p**
Headline earnings per ordinary share		35.8p	29.4p	7.3p	18.4p	**19.8p**
Adjusted earnings per ordinary share (before exceptionals)		30.9p	34.4p	19.2p	24.2p	**26.0p**
Dividends per ordinary share		12.6p	13.4p	13.6p	14.2p	**15.3p**
Profit on ordinary activities before taxation, exceptional items and goodwill		78.3	90.6	48.7	58.7	**66.5**

Balance sheet	£m	£m	£m	£m	**£m**
Fixed assets	235.6	253.2	231.7	206.0	**184.3**
Net current assets	31.8	63.0	47.2	34.9	**0.2**
Net funds	36.1	50.0	8.2	41.1	**106.5**
Other liabilities	(46.0)	(50.3)	(58.1)	(64.4)	**(62.6)**
Equity minority interests	(2.6)	(3.1)	(4.2)	(3.5)	**(3.7)**
Equity Shareholders' funds	254.9	312.8	224.8	214.1	**224.7**

Notes

(a) Discontinued operations refer to all businesses discontinued between 2001 and 2005. Thus continuing operations refer to those businesses continuing as at 26 March 2005.

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

Shareholders' information

Registered Office

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

Registrar

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

Shareholder Enquiries and Holder Amendments

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

Electronic Communications

You can register online at www-uk.computershare.com/investor to stop receiving statutory communications through the post. If you choose this option you will receive an e-mail notification each time we publish new shareholder documents on our website and you will be able to download and read them at your own convenience.

To register you will need an internet-enabled PC. You will also need to have your shareholder reference number (SRN) available when you first log in. This 11 character number (which starts with the letter C or G) can be found on share certificates and dividend tax vouchers. Shareholders who subscribe for electronic communications can revert to postal communications 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 10.30 a.m. on Thursday 28 July 2005 at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS. 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	5 August 2005
Record Date	8 July 2005
Ex-Dividend Date	6 July 2005
Interim	January 2006

Results Announcements

Final Results	May
Interim Results	November

Analysis of Shareholders at 26 March 2005

By range of holders	Shareholder Number	Shareholder %	Shares Number	%
1 – 1,000	5,601	59.40	2,367,209	1.29
1,001 – 2,000	1,709	18.12	2,501,819	1.36
2,001 – 4,000	1,141	12.10	3,222,535	1.75
4,001 – 20,000	671	7.12	5,205,434	2.82
20,001 – 200,000	214	2.27	15,790,844	8.57
200,000 and above	93	0.99	155,112,724	84.21
Total	**9,429**	**100**	**184,200,565**	**100**

Share Dealing Facilities

The Company's Stockbroker, JP Morgan Cazenove Limited, provides a simple, low cost **postal** dealing facility in De La Rue plc shares. Commission is charged at the rate of 1 per cent (up to £5,000), with a minimum charge of £20. Further information and forms can be obtained from JP Morgan Cazenove Limited, 20 Moorgate, London, EC2R 6DA UK. Telephone: +44 (0)20 7155 5155. A copy of the low-cost dealing form is also available at www.delarue.com

A low cost **telephone** dealing service has also been arranged with Stocktrade which provides a simple way for buying or selling De La Rue plc shares. Basic commission is 0.5 per cent (subject to a minimum commission of £15). For further information please call +44 (0)845 601 0995 and quote reference Low Co103.

Capital Gains Tax – March 1982 Valuation

Shareholders should be aware that the price per share on 31 March 1982 was 617.5p.

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

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

T +44 (0)1256 605000
F +44 (0)1256 605004

www.delarue.com

Designed and produced by Pauffley Ltd. www.pauffley.com Printed by St Ives Westerham Press