DeLaRue

MAKING MONEY. CREATING VALUE.

Annual Report 2006

Highlights

– Profit before tax and exceptional items* from continuing operations up 16.9 per cent to £76.2m (2004/2005 : £65.2m)

– Profit before tax up 81.5 per cent to £73.7m (2004/2005 : £40.6m)

– Operating margins* improved by 2.6 percentage points to 11.4 per cent (2004/2005 : 8.8 per cent)

– Strong cash generation. Operating cash flow was up 8.1 per cent to £106.7m (2004/2005 : £98.7m)

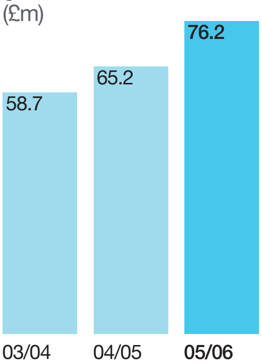
– Closing net cash of £91.6m after capital returns of £103.6m through ordinary dividends, a special dividend and share buy back programme

– Increase in the final dividend of 11.3 per cent to 11.8p per share, bringing the full year dividend to 17.0p per share, an increase of 11.1 per cent in the year (2004/2005 : 15.3p)

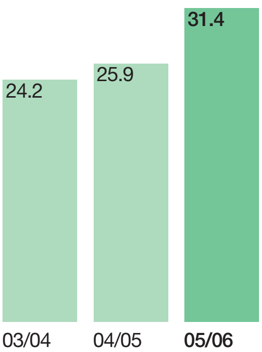
– Intention to continue share buy back programme

*before net exceptional charges of £2.5m (2004/2005 : £24.6m).

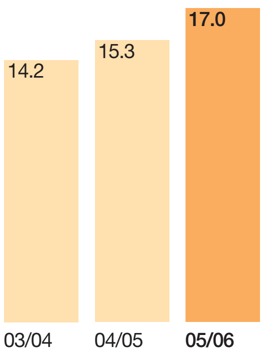
Profit before tax, exceptional items and goodwill amortisation
(£m)



Headline basic earnings per share
(pence)



Dividends per share†
(pence)



†includes proposed final dividend.

Contents

WE ARE THE WORLD'S LARGEST COMMERCIAL SECURITY PRINTER AND PAPERMAKER.

We produce over 150 national currencies and a wide range of security documents such as passports and authentication labels and fiscal stamps. We are also a leading provider of cash handling equipment and software solutions to banks and retailers worldwide helping them reduce the cost of handling cash. We employ over 6,000 people across 31 countries worldwide. We are also pioneering new technologies in government identity solutions for national identification, driver's licence and passport issuing schemes.

Last year we set out our clear strategy to create enhanced shareholder value. Find out what we said last year and what we've done to create that value.

What we said

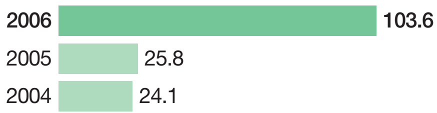
WE RETURNED SURPLUS CASH FLOW TO SHAREHOLDERS.

What we did

This year we returned a total of £103.6m through a combination of special dividend, an ongoing share repurchase scheme and progressive dividend.

£103.6m

Total returns to shareholders
(£m)

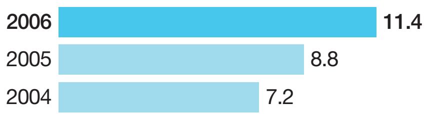


WE CONCENTRATED RESOURCES ON CORE ACTIVITIES.

Group operating margins have increased by 2.6 percentage points.

+2.6 percentage points

Group operating margins (before exceptionals and goodwill amortisation)
(%)



WE HAVE INCREASED CASH GENERATION.

Operating cash flow has increased by 8.1 per cent over the last year.

+8.1%

Operating cash flow
(£m)

What we said

WE HAVE LOWERED OUR COST BASE TO IMPROVE OUR COMPETITIVENESS.

What we did

The consolidation of manufacturing locations is key to us increasing margins and competitiveness. It allows us to co-locate with customers in lower cost regions and reduce foreign exchange exposure with lower fixed costs through fewer manufacturing locations.

De La Rue worldwide manufacturing facilities

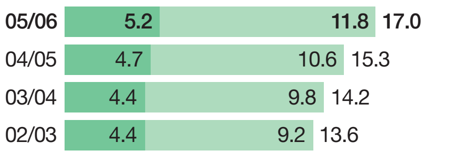
Key
- Security Paper and Print
- Cash Systems
- Factory move
- Factory closure completed

CHAIRMAN'S STATEMENT

'Our shareholder value strategy remains to enhance total returns by distributing surplus cash to our shareholders.'

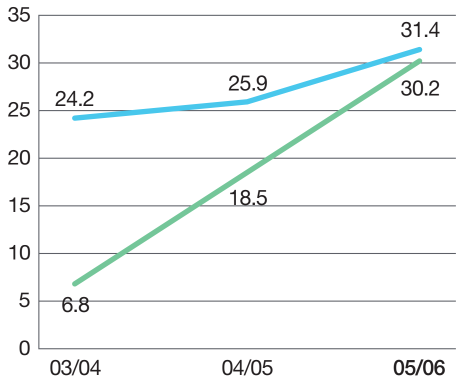
Nicholas K. Brookes
Chairman

Dividends per share
(pence)



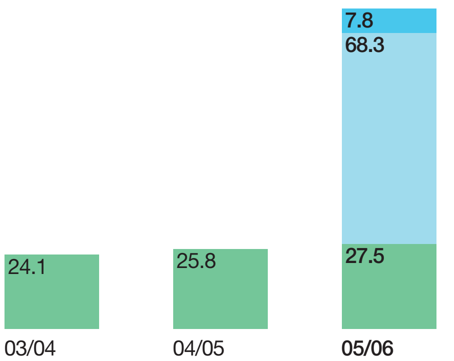
Interim
Final

Earnings per share
(pence)



Earnings per share
Headline earnings per share (before exceptionals)

Total returns to shareholders
(£m)



Buy backs
Special dividends
Ordinary dividends

Group Results

This is an excellent set of results that demonstrates the significant progress that the Group has made in implementing its strategy of concentrating on core activities, addressing underperforming businesses and improving operational productivity.

Continued margin improvement from the restructuring actions in Cash Systems together with another strong year in Security Paper and Print division were the key drivers of the performance. As a result during the year we were able to return £103.6m to our shareholders through a combination of a special dividend, an ongoing share repurchase scheme and ordinary dividends.This demonstrates our continuing commitment to enhance total returns by distributing surplus cash flow to our shareholders.

Changes in the 2006 Report

You may notice changes in the structure and content of this year's annual report and accounts. Although UK statutory requirements to produce a business review do not apply to the Company this year, we have decided to expand our reporting to produce an Operating and Financial Review section on pages 6 to 25. In addition, we have also explained the changes arising from the newly adopted International Financial Reporting Standards (IFRS). Consequently this year you will see not only a much more comprehensive annual report but also one which I hope will give our shareholders and other stakeholders a much better understanding of our current position, the environment in which the Company operates and our strategy for the future.

Returns to Shareholders

Ordinary Dividends

In line with our continued confidence in the cash generative characteristics of the business, the Board is recommending an increased final dividend of 11.8p per share, subject to shareholders' approval. This will be paid on 4 August 2006 to shareholders on the register on 7 July 2006. Together with the increased interim dividend paid in January 2006, this will give a total dividend for the year of 17.0p, an overall increase of 11.1 per cent on last year.

Share Buy Back

The Board announced at the interim results in November its intention to use the existing authorities granted to it at the 2005 Extraordinary General Meeting (EGM) to use surplus cash to purchase the Company's own shares for cancellation. The upper limit of the Board's existing authority is 14.99 per cent of issued capital. During the year the Company acquired 1.6 million shares under the share buy back programme at a cost of £7.8m. The Board expects to continue this programme, funded with surplus cash and will seek shareholder approval to renew its existing authority at the AGM. The exact amount and timing of future purchases will be dependent on market conditions and ongoing cash generation.

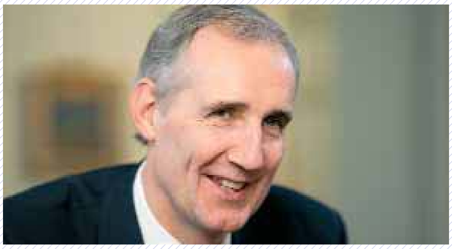
Special Dividend

De La Rue completed the return of £68.3m to shareholders on 5 August 2005, equivalent to 38.0p per share, through a special dividend accompanied by a corresponding share consolidation. The capital return was consistent with the Board's strategy to return surplus cash to shareholders.

Outlook

Looking ahead, the Group's order book provides excellent visibility for the first half of 2006/2007, particularly in the Currency activities where first half banknote and paper volumes are expected to be ahead of last year. This, combined with the ongoing benefits of restructuring and productivity improvements, provides a sound platform for 2006/2007.

OPERATING AND FINANCIAL REVIEW



‘We believe that driving operational efficiency and focusing on investment in our core businesses provides the best opportunity to deliver enhanced shareholder value.’

Leo Quinn
Chief Executive Officer

£76.2m

Profit before tax and exceptional items*:
+16.9 per cent on last year

Group underlying operating profits*
(£m)

+21.2%

Headline earnings per share: 31.4 pence

+8.1%

Operating cash flow
(£m)

*before net exceptional items of £2.5m (2004/2005 : £24.6m).

Group Results

De La Rue is pleased to report a strong performance for the year ended 25 March 2006, with all key performance indicators showing good improvements over 2004/2005. This reflected primarily margin and operational efficiency improvements which demonstrate the significant progress the Group has made this year in implementing its strategy. Underlying profit before tax* increased by £11.0m or 16.9 per cent to £76.2m (2004/2005 : £65.2m) and operating profits* of £69.4m represented an increase of £14.6m or 26.6 per cent compared with last year (2004/2005 : £54.8m).

After charging exceptional items, profit on continuing activities before tax was £73.7m (2004/2005 : £40.6m), an increase of 81.5 per cent on 2004/2005. Headline basic earnings per share* increased by 21.2 per cent to 31.4p (2004/2005 : 25.9p) reflecting the improved trading performance. Basic earnings per share were 30.2p compared with 18.5p in 2004/2005 representing an increase of 63.2 per cent and benefited from no new exceptional charges in the year.

Underlying figures are presented to provide a more meaningful indication of business performance and trends.

The main drivers behind the improved results were another excellent performance in the Security Paper and Print activities and significant margin improvement in Cash Systems as the benefits of the restructuring actions commenced in December 2004 began to come through. Overall, Group margins* improved by 2.6 percentage points to 11.4 per cent.

Cash generation was again strong with operating cash flow of £106.7m representing the third successive year-on-year increase (2004/2005 : £98.7m). This reflected both higher profits and effective working capital management, the latter enhanced by an exceptionally high level of customer advance payments. Following payments of the special dividend, 2004/2005 final dividend and 2005/2006 interim dividend (total £95.8m) and the ongoing share buy back programme (£7.8m), the Group ended the year with net cash on the balance sheet of £91.6m (2004/2005 net cash : £106.5m).

*before net exceptional charges of £2.5m (2004/2005 : £24.6m).

Group Strategy

In December 2004, we focused the De La Rue organisation on improving the operational performance and financial returns of the Group. During 2005/2006, the Group made significant progress against its financial and operational objectives. We believe that driving operational efficiency and focusing our investment in our core businesses provides the best opportunity to deliver improved shareholder value. The Group's strong cash generative characteristics and ungeared balance sheet also give the Board further scope to return surplus cash flow to shareholders through a combination of progressive dividends, share buy backs and where appropriate, other forms of capital return.

During the year we made the following progress on our key strategic initiatives:

Cash Systems Restructuring

In Cash Systems, we are making good progress in implementing the restructuring actions outlined in December 2004. The division is now benefiting from its reorganisation into focused Strategic Business Units.

As expected, we completed the closure of the Eskilstuna (Sweden) and Portsmouth (UK) factories during the final quarter of the year. We are delivering our cost saving programme ahead of schedule and cumulative cost savings of £6.5m have been achieved at the end of 2005/2006. We remain on target to achieve annualised savings of £9.0m by the end of 2006/2007. Total headcount reductions of 468 have been completed, of which 287 people left the business during 2005/2006.

Improving Productivity

Improving operational productivity across the Group is central to achievement of our strategy. We continue to engage the entire organisation in the Group's objectives through clear actions and a methodology to drive improved operational performance across all businesses. The Group's strong cash flow is an indication of the benefits of these focused actions. A working capital reduction of £14.5m, although significantly enhanced by a high level of customer advance payments, was also driven by lower levels of inventory and improved trade creditor management.

The key areas of management focus in 2006/2007 will be to ensure the successful completion of our restructuring plans and to continue to seek out and drive operational improvements in all of our core businesses.

De La Rue Today

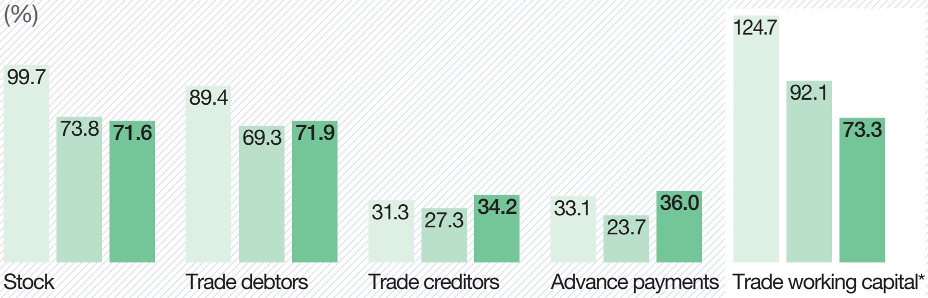
The Group

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

Continuing operations	2005/2006	2004/2005	Change %
Sales	£610.8m	£620.1m	-1.5
Profit before tax and exceptional items*	£76.2m	£65.2m	+16.9
Profit before tax	£73.7m	£40.6m	+81.5
Headline earnings per share	31.4p	25.9p	+21.2
Basic earnings per share	30.2p	18.5p	+63.2
Operating cash flow	£106.7m	£98.7m	+8.1
Net cash at end of year	£91.6m	£106.5m	
Dividends per share	17.0p	15.3p	+11.1

*before net exceptional charges of £2.5m (2004/2005 : £24.6m).

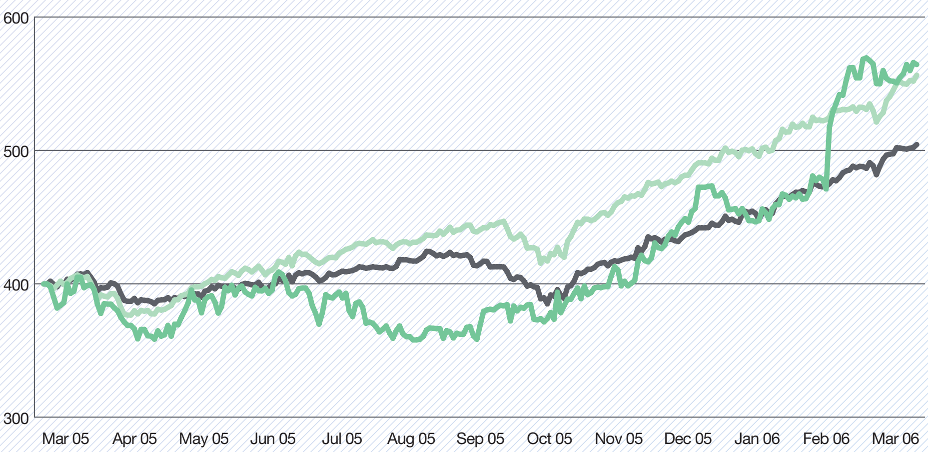
Group working capital year-on-year change
(%)



March 2004
March 2005
March 2006

*trade working capital is comprised of stock plus trade debtors less trade creditors and advance payments.

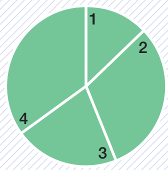
De La Rue plc share price performance 2005/2006



De La Rue
FTSE MID 250 – price index
FTSE All share support services £ – price index

Note: scaled for comparison.

Geographical analysis of Group turnover
(%)



1	UK and Ireland	13%
2	Rest of Europe	31%
3	Americas	21%
4	Rest of World	35%

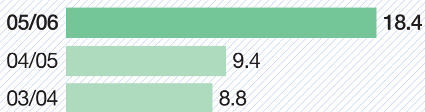
Divisional underlying operating profits (before exceptionals)
(£m)

Security Paper and Print

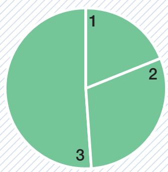
2006 +12.3%

Cash Systems

2006 +95.7%



Group stock position – £71.6m
(%)



1	Raw materials	19%
2	Work in progress	30%
3	Finished goods	51%

Market capitalisation: 25 March 2006

£936m

Employees: operating in 31 countries

6,000

Operating cash flow

£106.7m

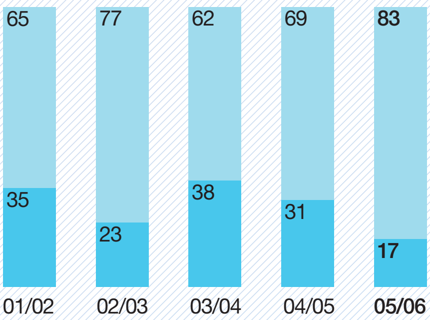
Security Paper and Print

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

	2005/2006 £m	2004/2005 £m	Change %
Sales	318.4	317.9	+0.2
Underlying operating profit*	51.0	45.4	+12.3

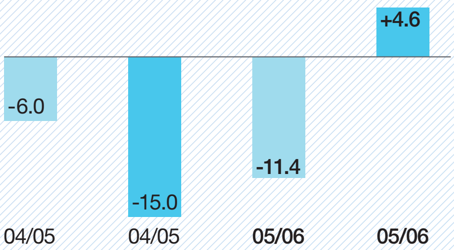
*before exceptional income of £0.9m (2004/2005 : income of £1.2m).

Banknotes base/overspill
(% of sales)



Base
Overspill

Currency volumes
(% increase/decrease)



Underlying banknote volumes
Underlying paper volumes

Products by Strategic Business Unit
Currency
Anti-counterfeit consultancy, banknotes, banknote paper, currency management, design and origination service, and security threads.

Security 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, and vouchers.

Divisional operating profit and margins (before exceptionals)
(£m)

Cash Systems

Underlying operating profits* of £18.4m were strongly ahead of last year, driven by continued margin improvement, reflecting the progressive supply chain benefits from the manufacturing restructuring programme.

	2005/2006 £m	2004/2005 £m	Change %
Sales	292.4	302.2	-3.2
Underlying operating profit*	18.4	9.4	+95.7

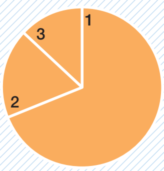
*before net exceptional charges of £3.4m (2004/2005 : £25.8m).

Products by Strategic Business Unit
Branch Teller Automation (BTA)
Teller cash dispensers and recyclers which help to increase teller productivity and improve customer service. Self-service systems and multifunctional ATM solutions which automate routine self-banking operations.

Cash Processing Solutions (Sorters) (CPS)
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.

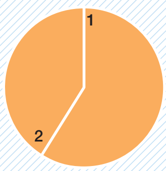
OEM/Desktop Products (DTP)
Note and coin counters, from simple batching to counterfeit checking, including reconciliation of deposits. Cash dispensing mechanisms.

Revenue share by strategic business unit
(%)



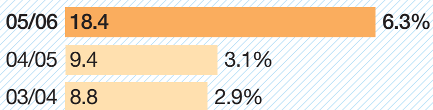
1	BTA	69%
2	OEM/Desktop Products	18%
3	Cash Processing Solutions (Sorters)	13%

Divisional product/service split
(%)



1	Product	£171m	59%
2	Service	£121m	41%

Divisional operating profit and margins (before exceptionals)
(£m)



Security Paper and Print

Key drivers of business performance

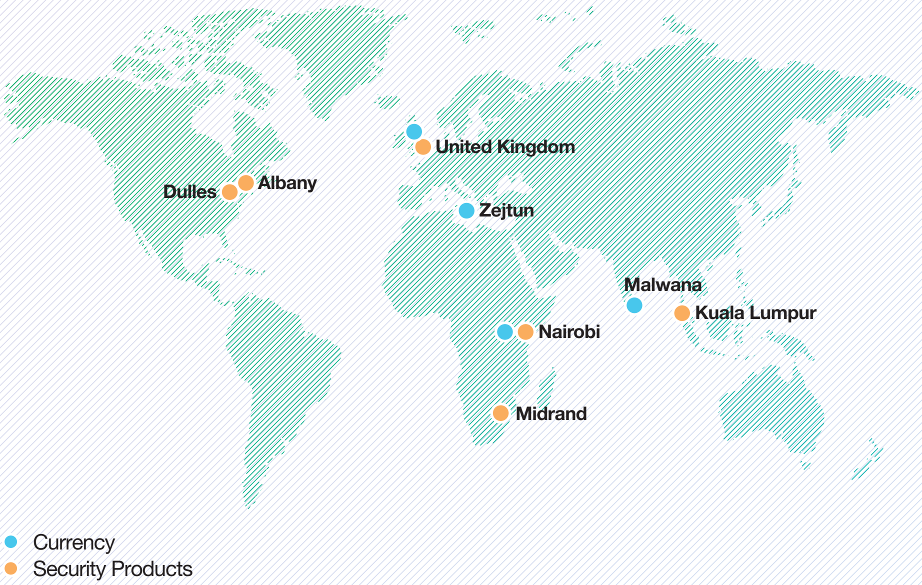
Security Paper and Print

– Ordering patterns of central banks
– Volumes of banknotes/paper
– Capacity utilisation – optimisation of operational gearing
– Volumes of banknotes and paper
– Overspill demand for banknotes
– R&D innovation
– Foreign Exchange (transaction costs)

Security Products

– Market development and level of worldwide security risk
– R&D innovation

World locations



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Underlying operating profit*	51.0	45.4	+12.3

*before exceptional income of £0.9m (2004/2005 : income of £1.2m).

Divisional Strategy

As outlined in the strategic review in December 2004 the strategic focus for Security Paper and Print is outlined below. Within each Strategic Business Unit there is also a continuous emphasis on driving improved operational efficiency.

Build on the Currency business – by maintaining its market leadership position through selective investment in R&D. The Currency business, while mature, provides attractive returns, is cash generative and has a strong competitive position.

Continue to improve the quality of earnings in Security Products – following the consolidation of the business around a core manufacturing base and high value added products, the Board believes there is further potential to develop this business. The focus will be on the authentication labels, passport and fiscal stamps markets and a broadening of the current customer base.

Divisional Performance

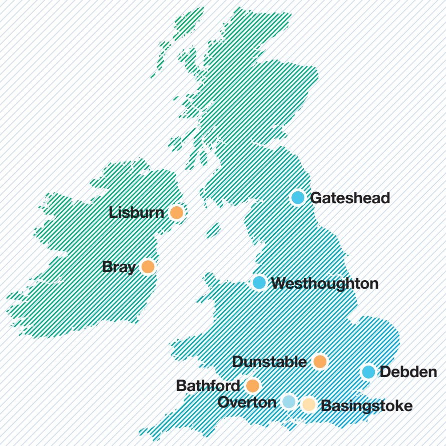
Underlying operating profit* for the Security Paper and Print division of £51.0m were 12.3 per cent ahead of last year (2004/2005 : £45.4m).

*before exceptional income of £0.9m (2004/2005 : income of £1.2m).

Currency

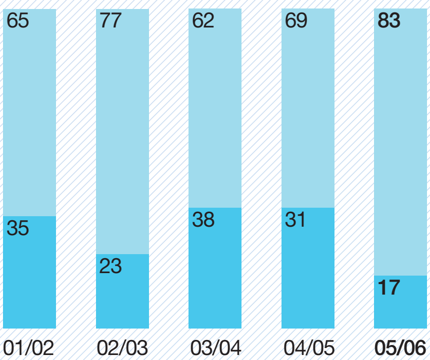
The main driver behind the improved divisional result was the Currency activities which had another excellent year. This was achieved despite the anticipated reduction in volumes in banknote printing and lower overspill levels at 17 per cent compared to 31 per cent last year. Banknote printing volumes overall were down 11.4 per cent compared with 2004/2005 although this reduction was significantly mitigated by the benefit of improved work mix. Banknote paper volumes were up 4.6 per cent on 2004/2005, which, together with improved manufacturing efficiency and increased orders for high specification paper that require more sophisticated banknote threads, contributed significantly to the overall operating result. The Currency business ended the year with a strong order book providing excellent visibility for the

United Kingdom detail



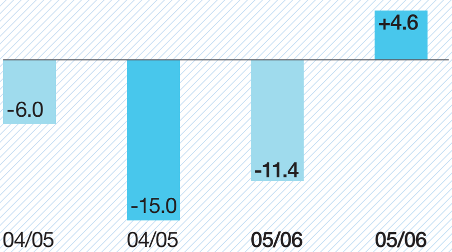
- Currency
- Security Products
- Currency (headquarters)
- Security Products (headquarters)

Banknotes base/overspill
(% of sales)



- Base
- Overspill

Currency volumes
(% increase/decrease)



- Underlying banknote volumes
- Underlying paper volumes

first half of 2006/2007. Looking further forward the outlook as in previous years will continue to be dependent on order volume and the work mix.

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.

Used for over 60 years in banknotes, security threads are visually striking, easy to recognise and durable. During the year we launched Scroll™ which offers a novel way of incorporating a device, pattern or signature onto a security thread. For example, the signature of a Governor of a central bank could be incorporated into the fabric of the note. Scroll, like other security threads, is embedded into the paper substrate so offers a high degree of security.

In addition, this year we also launched another new print feature which reveals hidden lettering or numbering when a banknote is held up to the light. Called Mask™ the new feature has taken four years to develop and depends on sophisticated and tightly-controlled printing techniques, and hence is hard to replicate. It is also an extremely durable feature continuing to be visible when the banknote becomes worn or dirty.

Security Products
The Security Products and Identity Systems businesses also performed strongly. Volume benefits of increased sales in authentication labels, fiscal stamps and passports all contributed to improved results.

The introduction of new biometric enabled passports (ePassports) driven by the new standards set by the International Civil Aviation Organisation (ICAO) represents the largest single overhaul of the system since passports were introduced in their present form in the early 20th Century. The new passports will be introduced later this year by the 27 US Visa Waiver countries, whose citizens do not need a visa to visit the USA. EU member states will also introduce a facial image of a holder by August 2006 and a fingerprint by February 2008.

The new standards will create opportunities for suppliers and in May 2006 De La Rue announced it is establishing a new facility in Malta dedicated to the manufacture of ePassports. We believe this will ensure De La Rue remains at the leading technological edge in the passport market and is able to respond to our customer's requirements in this emerging area.

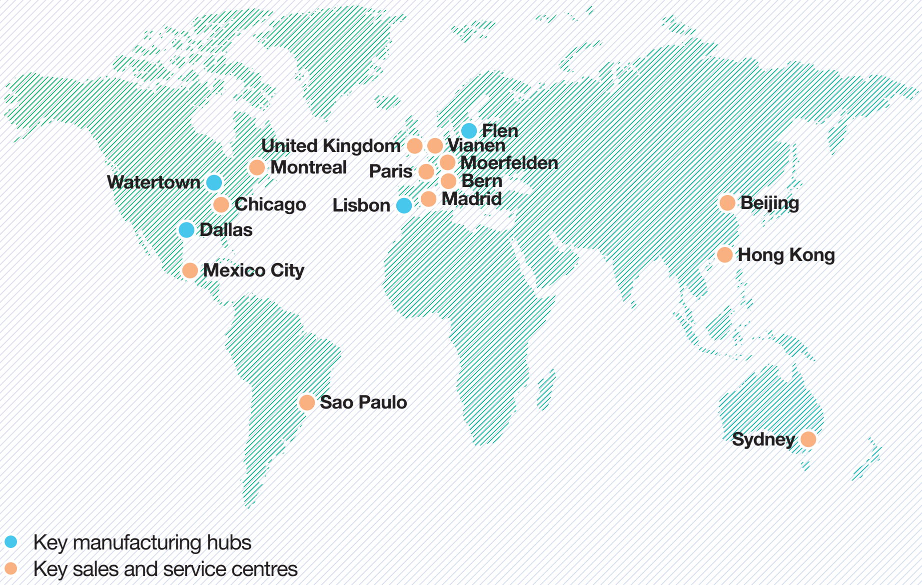
Cash Systems

Key drivers of business performance

Cash Systems

- Size and sophistication of Commercial Banking segment in Country
  - Number of branches and maturity of retail banking sector
- Discretionary spend by central and retail banks
- Security policy relating to the banking sector
- Service offering and in-territory support network
- Price competition
- Supply chain efficiency
- R&D innovation
- Material costs (e.g. steel, printed circuit boards)
- Foreign Exchange (transaction costs)

World locations



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Sales	292.4	302.2	-3.2
Underlying operating profit*	18.4	9.4	+95.7

*before net exceptional charges of £3.4m (2004/2005 : £25.8m).

Divisional Strategy
As outlined in the strategic review in December 2004 the strategic focus for the Cash Systems Strategic Business Units (SBU) is outlined below. Within each SBU there is also a continuous emphasis on driving improved operational efficiency.

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.

Sorters (Cash Processing Solutions)
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 on the attractive segments of this market 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 Automatic Teller Machine (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 through the rationalisation of the manufacturing capacity and optimising the supply chain. We are also focusing on emerging markets such as China and Russia.

Divisional Results
Divisional sales were down overall due to the continued decline of the mature European Teller Cash Dispensers (TCD) markets. This was partially offset by continued growth of Teller Cash Recycler (TCR) volumes in the USA. The performance of the Cash Processing Solutions (Sorter) business improved over the prior year in a continuing competitive environment. The OEM (ATM mechanisms) and Desktop Products businesses performed strongly principally driven by volume growth in the European and Asian markets.

United Kingdom detail

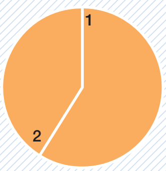
- Key sales and service centres
- Key manufacturing hubs (headquarters)
- R&D facility

6.3%

The restructuring activities undertaken during the year contributed to a 3.2 percentage points improvement in operating margins (before exceptionals) this year to 6.3 per cent.

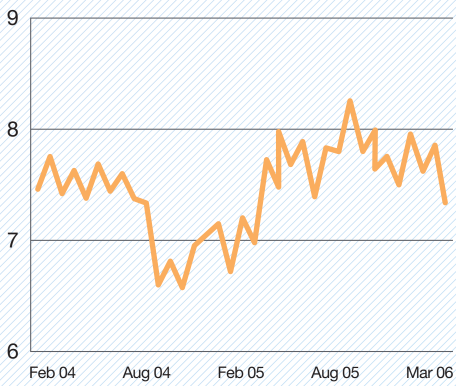
Divisional product/service split

(%)



1	Product	£171m	59%
2	Service	£121m	41%

SKR/US$, exchange rate



Source: Reuters

Underlying operating profits* of £18.4m were strongly ahead of last year, driven by continued margin improvements, reflecting the benefits of restructuring and reducing fixed costs in the mature European markets. In addition, the adverse impact of foreign exchange rates was significantly reduced this year, particularly aided by the strength of the US Dollar.

During the year we continued to focus our attention on relocating production capacity to lower cost facilities in China and Russia to improve the operational productivity and competitiveness of the division. Overall divisional margins more than doubled from 3.1 to 6.3 per cent which included £5m savings from the restructuring programme and a one-off benefit of £0.6m from the settlement of an outstanding customer dispute, previously fully provided. The business remains strongly cash generative with operating cash flow well ahead of operating profits, together with good working capital management, the main drivers. Our focus for the division remains on operational improvements and targeting emerging markets where we can generate growth.

*before net exceptional charge of £3.4m (2004/2005 : £25.8m).

Restructuring Actions

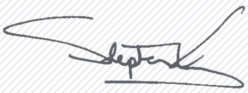
We are making good progress in implementing the restructuring actions outlined in December 2004. The division is now benefiting from its reorganisation into focused Strategic Business Units.

As expected, we completed the closure of the Eskilstuna (Sweden) and Portsmouth (UK) factories during the final quarter of the year. The subsequent relocation of associated manufacturing to lower cost facilities in China and Russia respectively has reached its critical phase with the manufacturing of all product variants now underway. The new supply chain is in the process of being fully established and will be optimised over the next 12 months. Consequently, we continue to adopt a cautious approach in the execution of the programme to ensure continuity of supply of products to our customers. As expected, higher first half inventory levels in the division, arising from our supply chain strategy to build up buffer stocks as a consequence of the restructuring, are now starting to unwind as we complete the transition to the new production arrangements.

We are delivering our cost saving programme ahead of schedule, cumulative cost savings of £6.5m have been achieved by the end of 2005/2006. We remain on target to achieve annualised savings of £9.0m by the end of 2006/2007. Total headcount reductions of 468 have been completed, of which 287 people left the business during 2005/2006.

Financial Review

Stephen King
Finance Director



Key financials

Continuing operations	2005/2006 £m	2004/2005 £m	Change %
Operating profit before exceptional items	**69.4**	54.8	+26.6
Profit before tax and exceptional items	**76.2**	65.2	+16.9
Exceptional items	**(2.5)**	(24.6)	
Profit before tax	**73.7**	40.6	+81.5
Headline earnings per share	**31.4p**	25.9p	+21.2
Basic earnings per share	**30.2p**	18.5p	+63.2
Dividends per share	**17.0p**	15.3p	+11.1

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

	2006 Group Assets £m	2006 Cash/(debt) £m	2006 Net Assets* £m	2005 Net Assets* £m
UK	**(8.0)**	**59.1**	**51.1**	127.5
USA	**(15.1)**	**6.6**	**(8.5)**	(9.4)
Eurozone	**8.8**	**19.7**	**28.5**	35.2
Rest of World	**55.2**	**6.2**	**61.4**	22.1
Total	**40.9**	**91.6**	**132.5**	175.4

*excluding minority interest.

Financial Performance

In this section of the Operating and Financial Review we reflect upon two areas:

- **Financial Performance**
  This section highlights the key business drivers behind the strong results reported for 2005/2006 and an analysis of the financial position of the Group at 25 March 2006. We also consider the accounting and reporting policies and procedures that support De La Rue's financial performance and the key influences on the Group's ongoing financial performance.

- **Risks and Risk Management**
  This section outlines the Group's approach to risk management and sources of assurance and highlights the principal business risks identified by the Board. Further details of the governance arrangements concerning risk are given in the Corporate Responsibility section on pages 22 to 24 and the Corporate Governance section on pages 30 to 34.

Financial Results

Underlying profit before tax* increased by £11.0m or 16.9 per cent to £76.2m (2004/2005 : £65.2m) and operating profits* of £69.4m represented an increase of £14.6m or 26.6 per cent compared with last year (2004/2005 : £54.8m). After charging exceptional items, profit on continuing activities before tax was £73.7m (2004/2005 : £40.6m), an increase of 81.5 per cent on 2004/2005. Headline earnings per share* increased by 21.2 per cent to 31.4p (2004/2005 : 25.9p) reflecting the improved trading performance. Basic earnings per share were 30.2p compared with 18.5p in 2004/2005 representing an increase of 63.2 per cent and benefiting from no new exceptional charges in the year.

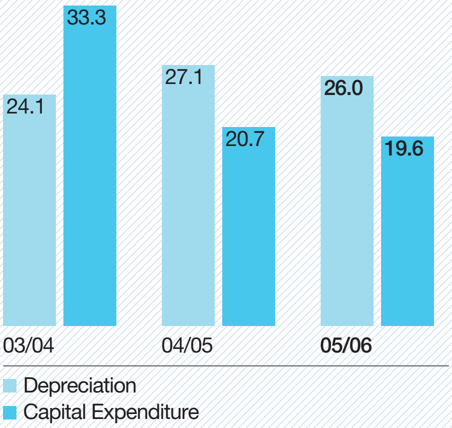
The main drivers behind the improved results were another excellent performance in the Security Paper and Print activities and significant margin improvement in Cash Systems as the benefits of the restructuring actions commenced in December 2004 began to come through. Overall, Group operating margins* improved by 2.6 percentage points to 11.4 per cent.

*before net exceptional charges of £2.5m (2004/2005 : £24.6m).

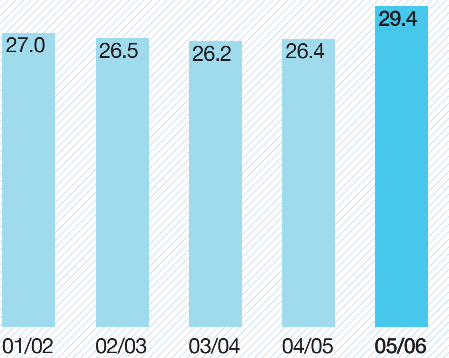
Associates

Profit from associates, after interest and tax, was higher at £6.8m (2004/2005 : £6.4m). The main associated company is Camelot, the UK lottery operator, which reported an improved sales performance on the previous year. Dividends received from associates of £8.1m were higher than last year's income of £5.6m, due to a one-off payment in the year.

Capital expenditure relative to depreciation
(£m)



Underlying effective tax rate (before exceptionals)
(%)



Exceptional Items
A summary of the main exceptional items is set out below:

Reorganisation costs charged in the year in Cash Systems relate to final element of the restructuring of the business which commenced during 2004/2005. The total programme cost of £18.5m is in line with that initially indicated.

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

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

Exceptional items

	2005/2006 £m	2004/2005 £m
Reorganisation costs – Cash Systems	**4.2**	14.3
Reorganisation costs – Security Products	**(0.5)**	(0.8)
Income from investment previously impaired	**(0.4)**	(0.4)
Income from disposal of investment	**(0.8)**	–
Portuguese ATM business goodwill impairment	**–**	11.5
Exceptional items – continuing operations	**2.5**	24.6
Profit on disposal of discontinued operations	**–**	(8.9)

Interest Charge
The Group's net interest income on bank balances was £1.8m, which was £0.7m lower than the previous year, reflecting lower average bank balances following payment of the special dividend in August 2005. In addition the IAS 19 related finance item, arising from the difference between the interest on liabilities and the expected return on assets, is included here and was a charge of £1.8m compared with a credit of £1.5m the previous year.

Taxation
The underlying effective tax rate excluding exceptional items was 29.4 per cent (2004/2005 : 26.4 per cent), the increase reflecting the mix of taxable profits from overseas activities and the elimination of tax losses in the USA. The effective tax rate after exceptional items was 29.7 per cent (2004/2005 : 31.8 per cent).

Cash Flow and Borrowings
During the year operating cash flow was £106.7m compared with £98.7m in 2004/2005 representing the third annual increase in succession and reflected the rise in operating profits and the continued drive to reduce working capital across the Group. This was enhanced by continued high levels of advance payments. Capital expenditure of £19.6m was lower than depreciation and reflected the phasing of expenditure in Security Paper and Print.

After payment in the first half of the special dividend (£68.3m), the 2004/2005 final dividend (£19.1m), the 2005/2006 interim dividend (£8.4m) and £7.8m in respect of the ongoing share buy back programme closing net cash was £91.6m compared with £106.5m at last year end.

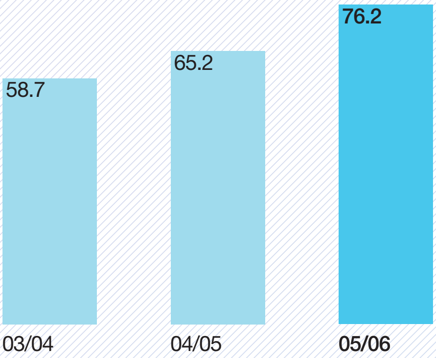
Treasury, Foreign Exchange and Borrowing Facilities
The Group Treasury department provides a central service to Group companies and conducts its operations in accordance with clearly defined guidelines and policies, which have been reviewed and approved by the Board. Treasury transactions are only undertaken 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.

When managing foreign exchange transactional risk, protection is taken in the foreign exchange markets whenever a business has a firm expectation of confirming a sale or purchase in a non-domestic currency unless it is impractical or uneconomical to do so. Translation of overseas earnings is not hedged. For the year ended 25 March 2006 adverse foreign exchange impacted the Group profits by £1.8m mostly arising from transaction exposure.

Principal exchange rates used in translating the Group's results

	2005/2006 Average	2006 Year end	2004/2005 Average	2005 Year end
£				
US Dollar	1.79	1.74	1.84	1.87
Euro	1.46	1.45	1.47	1.44
Swedish Krona	13.69	13.58	13.35	13.13
$				
Swedish Krona	7.65	7.80	7.26	7.02

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



UK Pension Scheme
The Group's last formal (triennial) valuation of the Company's defined benefit pension Scheme took place on 6 April 2003. The Group is currently in the process of completing the latest triennial valuation as at 6 April 2006. The results of this valuation will be available later this year.

The Group has adopted IAS 19, during the year and the pension deficit has been incorporated onto the balance sheet. The valuation under IAS 19 principles indicates a scheme deficit of approximately £80.5m after tax at 25 March 2006 (March 2005 : £81.1m). The charge to operating profits in respect of the UK pension scheme for 2005/2006 was £9.1m (2004/2005 : £10.1m). In addition, under IAS 19 there is a finance charge of £1.8m arising from difference between the interest on liabilities and the expected return on assets (2004/2005 : £1.5m credit). This charge is included with the Group interest charge in the profit and loss account.

The table below summarises the trending of key assumptions over the past three years for the UK defined benefit Scheme. It can be seen that AA bond interest rates have decreased significantly over the period while inflation and salary growth have remained largely stable. Overall the lower the interest rates the higher the liabilities derived from a discounting of the estimated future cash liability profile. This, coupled with rises in mortality assumptions, have been the main factors which have led to the adverse impact on scheme liabilities and the overall scheme funding position.

As part of the current (triennial) valuation, the Group will be consulting with the Trustee and all stakeholders on the development of the UK defined benefit pension scheme.

Key assumptions over the past three years for the UK defined benefit scheme

	2005/2006	2004/2005	2003/2004
Key assumptions			
Interest rate (AA bond rate)	**4.9**	5.5	5.5
Salary growth	**3.9**	4.25	4.25
Inflation	**2.9**	3.0	3.0
UK pension scheme			
Assets	**£510.0m**	£438.1m	£409.4m
Liabilities	**£625.0m**	£554.0m	£504.8m
(Deficit) – gross	**(£115.0m)**	(£115.9m)	(£95.4m)
(Deficit) – after tax	**(£80.5m)**	(£81.1m)	(£66.8m)

Risks and Risk Management

External risks

- Strategy
- Reputation
- Competitive threat
- Shareholder relations and market expectations
- Technology
- Intellectual property
- Customer concentration
- Competitive behaviour
- Associates investments

Operational risks

- Product loss/liability
- Fire/physical loss
- Onerous contracts
- Financial risk factors
- IT
- Environment, Health and Safety
- Security
- Pension fund liabilities
- Fraud

De La Rue's reputation is based on security, integrity and trust. This section summarises the types of risks faced by De La Rue and how it manages them. However no business is risk free even if it has detailed processes and procedures for identifying and managing risks.

The Combined Code on Corporate Governance requires the Board to maintain a sound system of internal control to safeguard shareholders' investment and the company's assets and at least annually to conduct a review of the effectiveness of the Group's system of internal controls. The Board carries out such an annual review covering all material controls, including financial, operational and compliance controls and risk management systems while receiving throughout the year information about the Group's operations enabling it regularly to evaluate the nature and extent of the risks to which the Company is exposed. The Board is therefore able to confirm that its system of internal control has been in place throughout 2005/2006.

Internal Control and Internal Financial Control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. It relies on the Audit Committee and Risk Committee to assist in this process. Details of the Audit and Risk Committees are set out in the Corporate Governance section. 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 Audit and Risk Committees 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 and the updating of a full year forecast;
- monthly reporting of performance to the Board;
- audited annual financial statements; and
- interim financial statements reviewed by the auditors.

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; and

– 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 pages 15 and 20 to 21.

Business risks are either external or strategic or internal and operational in nature.

Many of these risks could also adversely affect the reputation, image and public or shareholder perception of the Group were they to materialise.

External Risks

Strategy

The Board is responsible for strategy, carrying out an annual review based upon extensive, detailed reviews of individual businesses' plans.

The Group's strategy and progress in implementing it is outlined on pages 2 and 3.

Managing the supply chain issues in Cash Systems satisfactorily to deliver the anticipated benefits in accordance with tight time lines is a significant challenge and probably the single biggest risk to the Group in the short term.

Reputation

Damage to reputation may arise from an incident or event which is in monetary terms not material. Matters which could affect De La Rue's reputation would include significant breaches of security or a contravention of law, such as competition law or anti-bribery law, environment or health and safety law or a failure to maintain appropriate standards of corporate responsibility. De La Rue operates throughout the world and in areas where the local standards may not equate to the standards required by the UK or those that De La Rue requires all its subsidiaries and employees to follow as regards business behaviour.

Details of these standards are set out in the Corporate Responsibility Report.

Competitive Threat

De La Rue operates in highly competitive niche markets. The establishment of additional capacity in any of the key markets could affect volumes and margins especially in the currency paper market. In Cash Systems the TCD market in Europe has continued to decline and entry into the newer recycler market of new competitors challenges the business to respond faster to customers' needs.

The Chief Executive and divisional managing directors are responsible for managing this risk supported by up to date marketing information.

The annual budget is sent to the Board for discussion and approval in the March meeting preceding the start of the new financial year. It underpins the financial reporting process. The Board receives a monthly report comparing actual results to budget and the previous year and updated full year forecast compared to previous forecast, budget and last year.

This process is supported by monthly meetings between the Chief Executive and Finance Director and senior divisional management to ensure that all major business issues and their effects are clearly understood and that everyone works toward achieving an open, 'no surprises' culture within the Group.

During 2005/2006 the introduction of new financial reporting systems and enterprise resource planning systems covering sales orders processing and inventory and manufacturing across the Group has put burdens on accounting and IT staff although the new systems are expected to ensure that appropriate reporting is done faster and better.

Managing Market Expectations

One of the major areas of risk is meeting market expectations, particularly with regard to the financial performance of the Group.

This means ensuring market expectations are realistic and promptly reporting to the market if actual results fall behind or exceed market expectations. The Board is responsible for reviewing and approving any statement to the market. Heavy reliance is therefore placed on the accuracy and timeliness of the Group's internal financial reporting systems to ensure the Board has accurate and up to date information.

Technology

Maintaining market position requires De La Rue's businesses to maintain a technological lead. The challenge is for the Group to develop new features which meet the market's need and then release to market faster and within budget.

Intellectual Property

Linked to maintaining a technology lead is the protection of intellectual property generated. The IP department is responsible for generating an IP strategy linked to the business objectives and new inventions with the relevant R&D/ engineering teams in the businesses. It maintains the existing portfolio, monitors new applications or grants of patents by third parties in direct or adjacent areas and deals with oppositions.

Given the nature of patent law, in particular in the USA, there is a risk, notwithstanding the thoroughness of due diligence, that particular products or processes may be affected by a new patent filed by a third party. Continued vigilance in this area is essential.

Customer Concentration

The Currency business operates within a defined market size and the business is exposed to the short term ordering cycles of central banks. Significant year-on-year changes in volume or customer mix could affect profitability. There is no significant geographical dependence although Africa and the Middle East are key banknote markets. Security Product's key customers are Microsoft, Royal Mail and American Express. In Cash Systems, growth depends on the USA.

Competitive Behaviour

The Group's businesses are in niche markets where it has established leading positions. Significant effort is made to ensure that employees understand legal obligations and there is an established anti-trust compliance programme and the Company's Business Code of Conduct (accessible on the Company's website) defines what standards of behaviour are expected.

Associates Investment

Loss of dividends from Camelot were it to lose the National Lottery Operation licence would potentially have a significantly adverse effect. The current licence runs to 2009.

Operational Risks

Product Liability

The Group does not consider that there is a significant product liability risk in any of its products. It operates regular testing and quality control, requires subcontractors to operate to defined standards and seeks to minimise such risks by appropriate management.

The Group carries insurance which it regards as appropriate for the risks to which it assesses it may be exposed but seeks to minimise the likelihood of particular risks materialising by risk management activities which are also described in the Corporate Governance section.

Fire or Physical Loss

The Group is highly dependent on its paper mill at Overton and the business of Security Paper and Print would suffer significant losses to its printing business if the mill were out of action for a sustained period of time. The Group regularly reviews its physical protection systems and updates them as necessary to mitigate this risk. The consequences of fire or physical loss to any of its printing plants are less significant because the Group has the flexibility to switch production to different plants. As the Group outsources production of its Cash Systems products, the risk of loss of its own factories decreases. The Group requires all its businesses and its subcontractors to have business continuity plans based on business impact analyses of the consequences of particular risks.

Onerous Contracts

Much of the Group's business depends on competitive tender where the customer may impose onerous contractual terms. There are established processes for ensuring that onerous contractual liabilities are minimised either in the contract or by alternative means of managing particular risks. There are clear authorisations required so commercial implications are understood before contractual commitments are entered into and review processes including Board sign off where appropriate.

Financial Risk Management

Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk, cash flow interest rate risk and commodity price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures as soon as they arise but does not take speculative positions.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. Group Treasury provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and the investment of excess liquidity. The Board authorises all risk management instruments and policies.

(a) Market Risk

Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro, Swedish Krona and the UK pound. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with Group Treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency by using external forward foreign exchange contracts transacting with financial institutions.

For segment reporting purposes, each subsidiary designates contracts with Group Treasury as fair value hedges or cash flow hedges, as appropriate. External forward foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

The Group's risk management policy is to hedge firm commitments and between 60 per cent and 100 per cent of forecast exposures in each major currency for the subsequent 12 months. Forecast transactions must be highly probable for hedge accounting purposes.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies and through foreign currency swaps.

(b) Credit Risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution. An analysis of net assets per geographical region is shown in Note 2 to the accounts.

(c) Liquidity Risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close our market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash Flow and Fair Value Interest Rate Risk
De La Rue's interest rate management policy is generally to borrow and invest cash at floating rates.

The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's exposure to cash flow interest rate risk arises principally from cash balances held. Current low levels of borrowings are all at floating rate. At higher levels of borrowings the policy is to manage the interest rate exposure through the use of floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates so as to achieve a target split.

(e) Commodity Price Risk
The Group's normal policy is to buy commodities at prevailing market prices under medium term supply contracts. The Group has limited exposure to commodity price risk through the purchase of energy products.

IT
The Group is dependent on its IT systems being robust and its business would be adversely affected if these systems or their back up systems failed. The Group has comprehensive disaster recovery plans which are tested for robustness.

Information systems throughout the Group are externally audited to ensure compliance with best practice and application of a consistent approach.

Environment, Health and Safety (EHS)
The environmental effects of Cash Systems' 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.

Papermaking and security printing involve chemical handling, machinery hazards and emissions to air and water that require treatment before release. Environmental effects are primarily from waste generation, use of solvents and energy consumption, especially at the Overton Mill which is close to a Site of Special Scientific Interest. The mill operates stringent controls on discharges with monitoring systems. Health and safety hazards are those primarily associated with machinery. The Board and Operating Board get regular reports and any accidents or incidents are investigated thoroughly. Further details are set out in the Corporate Responsibility Report.

The business is undertaking a programme to manage compliance with EU directives on the Restriction of Hazardous Substances (RoHS) and Waste Electrical and Electronic Equipment (WEEE).

Security
Prevention of loss of face value items (banknotes, travellers' cheques) which are at De La Rue's risk either being shipped intra Group or until delivered to a customer's premises is critical. High security standards with external auditing by customers are maintained with processes and controls to ensure there is a complete audit trail and reconciliation of items within our factories.

Pension Fund Liabilities
The current position of the Company's UK defined benefit pension scheme is set out on page 16. Key risks are increasing longevity and volatility in interest rates and return on assets.

Fraud
The Group operates, where permissible, pre-employment vetting and has clear and detailed internal controls aimed at the detection of fraud. No systems are, however, foolproof if an individual is determined to commit fraud. Details of the whistleblowing process are set out on page 22.

Corporate Responsibility

Progress against 2005/2006 objectives

- Continue with the ISO140001 certification programme
- Plan the phased ISO18001 certification programme after initial successes
- Ensure all De La Rue managers at all levels receive satisfactory training on EHS issues
- Hold Interlock 2005 conference
- Ensure all significant facilities are progressing with suitable risk assessment programmes
- Review all machinery guarding against current EU standards and upgrade where necessary

• all the above completed in the year.

2006/2007 objectives

– Implement noise reduction and education programmes
– Set EHS targets for reportable injury rates, energy use and waste generation
– Achieve accreditation for two more sites under ISO18001
– Progress with accreditation under ISO14001
– Ensure all internal EHS Information is stored on the Sharepoint based EHS Information system to encourage sharing of good practices
– Implement Safe Driver programmes
– Ensure that in major manufacturing sites all managers and supervisors are given clear EHS related objectives

De La Rue is committed to sound Corporate Responsibility ('CR') policies and business practices. This section deals with how it manages CR issues in relation to its stakeholders – customers, shareholders, employees, suppliers and other business partners and local communities wherever it carries on business throughout the world. Further information on CR within De La Rue can also be found on www.delarue.com in the Investor Centre and via the London Stock Exchange's Corporate Responsibility Exchange.

Policies and Procedures – Business Code of Conduct (the 'Code')

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 as well as being publicly available on the Company's website. Managers must ensure that their staff are properly briefed on the Code.

The Audit Committee has approved a 'whistleblowing' process whereby employees who have concerns about the application of the Code 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.

Accountability and Management Processes

The Board is ultimately responsible for assessing the effect potential CR issues may have on De La Rue's business and setting appropriate policies for the Group. Details of the Board structure and of its Committees are set out on pages 30 to 34. The Chief Executive is the Board member with designated responsibility for CR. The Operating Board is responsible for the day to day management of these issues. The Board and Operating Board receive monthly reports on CR issues. They are also discussed in the quarterly Risk Committee meetings.

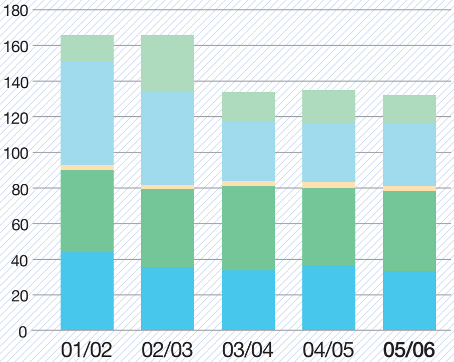
The Environment, Health and Safety ('EHS') Steering Group, chaired by the Company Secretary, is responsible for setting EHS strategy for the Group, responding to regulatory developments, developing appropriate procedures and disseminating information on good practice to Group businesses.

Employees

The Group currently employs over 6,000 staff across 31 countries and continues to encourage creativity and initiative, recognise individual and team contributions and give all employees the chance to develop their full potential. The Company introduced in 2005 an improved talent review procedure. This ensures that employees showing potential are given the opportunity to progress within the organisation and provides a cross-divisional view of skills throughout the business.

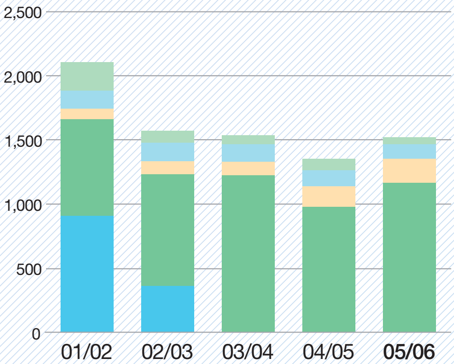
The Group promotes employee involvement through a policy of communication and consultation by individual business unit managers. In addition to the Company newsletter, the intranet and more traditional house notices, the Chief Executive issues a fortnightly electronic 'Insight' on key business issues to all employees who have the opportunity to respond directly to him.

Greenhouse gas emissions
('000 tonnes as CO_2)



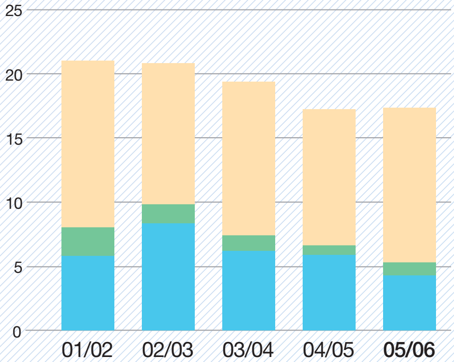
- Passenger transport
- Process
- Other fuels
- Gas
- Electricity

Liquid waste
(m^3)



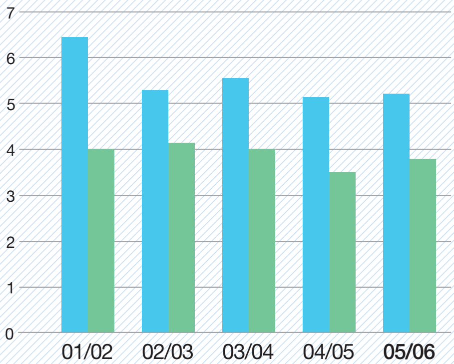
- Other
- Waste inks/solvents
- Photographic and plating waste
- Paper-making waste
- Adhesive waste

Solid waste
('000 tonnes)



- Recycled
- Incinerated
- Landfill

Water consumption by volume
(million m^3)



- Consumption
- Process water discharge

During the year an all-employee 'Great Place to Work' survey was carried out to assess employee opinion on the Group as a place to work, the people they work with and the management they work for.

The survey, which received responses from 63 per cent of global employees, provides national and international benchmarks. It was carried out on an anonymous basis and was available to staff either in electronic or hard copy format and was translated into local languages. The results were fed back to employees and focus groups have been set up to address issues and discuss suggestions made by employees. The Company plans to carry out another survey in 2007 to measure its progress.

The loyalty of our staff remains one of our greatest assets. This year 142 staff were eligible for a 10 year service award and 63 for a 25 year award.

De La Rue's productivity programme 'My Contribution' is now in its second year allowing all employees to share ideas, submit suggestions for improvements to the business and to track key projects. Key Performance Indicators are also tracked to highlight areas for improvement. The 'Spotlight' awards programme which this year was held in Barcelona, celebrates and rewards the most innovative and successful employee projects.

This year we are expanding the information we disclose in the annual report to include gender statistics for our workforce for the first time. In future annual reports we intend to expand further the information we disclose with a key objective for 2006/2007 to start collecting data on staff diversity which we will use to help us monitor our policies and improve best practice in this important area.

The Group is rolling out a new online web based HR management system which will enhance its management processes and enable it to monitor better the implementation of its policies and training.

De La Rue is committed to the fair and equitable treatment of all its employees in recruitment, training and promotion and in terms and conditions of employment irrespective of gender, sexual orientation, religious beliefs, age, colour, 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 (the '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. Details of some of the projects the Trust has been involved with can be found on the CR section of the Company's website.

Suppliers

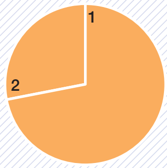
We expect our suppliers to share our CR values and commitment to ISO standards for EHS performance. Potential suppliers are required to meet certain criteria during the supplier selection process for both direct and indirect procurement.

Environment, Health and Safety

We continually 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 while 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.

Gender breakdown (worldwide workforce)

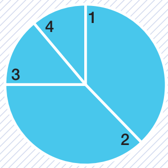
(%)



1	Male	72%
2	Female	28%

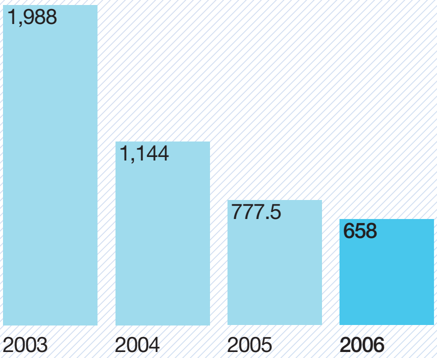
Average number of employees

(%)

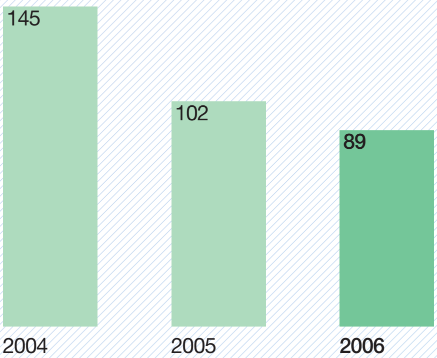


1	UK and Ireland	2,302	38%
2	Rest of Europe	2,200	37%
3	The Americas	873	14%
4	Rest of World	647	11%

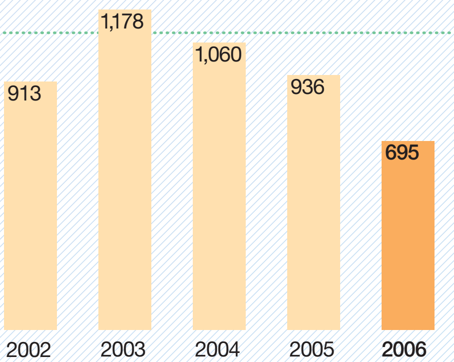
Total days lost



Total lost time accidents
(inc 3 days+)



Annualised reportable injury rate
(RIR)



UK manufacturing average – 1083 (2003/2004 UK HSE statistics)

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. Employees are widely involved in the EHS continuous improvement processes and there have been several successful EHS related 'My Contribution' projects.

Progress Against 2005/2006 Objectives

We have been successful in achieving all of the objectives we set for 2005/2006. Progress has been made in the achievement of ISO14001 accreditation within the Group. Bathford and Mörfelden have achieved ISO18001 certification during the year with three further sites working towards accreditation in the forthcoming financial year.

Managers and supervisors have been trained using the Institute of Safety and Health 'Managing Safely' four day course, with overseas sites sourcing suitable equivalent training for managers and supervisors. Many employees have also been trained on environmental awareness and management systems.

The annual EHS conference in 2005 covered hazard elimination and increased awareness about the key types of accidents which can occur such as falls, manual handling and incorrect use of equipment or chemicals. All businesses have risk assessment programmes in place and risk reduction programmes continue.

An international programme of improving machine guarding standards and safety control systems and educating employees in machine awareness is being rolled out.

In addition the Group is focusing on means to reduce the effects of noise from operation of machinery.

EHS Performance Indicators

Our key performance indicators on pages 23 to 25 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 2005/2006.

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, Interlock, 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 and the UK Employee Forum also discuss EHS matters.

Full copies of our EHS policies are available on our website, or from the Company Secretary, details of which are on page 95.

Air pollutants (tonnes)

	2002	2003	2004	2005	**2006**
Non chlorinated VOC's	128.0	152.6	127.7	157.7	**101.1**
Chlorinated VOC's	0.2	0.4	10.6	12.2	**12.3**

Liquid pollutants

	2002	2003	2004	2005	**2006**
Chemical oxygen demand (tonnes)	158.2	124.9	346.4	190.0	**194.2**
Biological oxygen demand (tonnes)	27.5	25.1	30.9	17.1	**18.4**
Suspended solids	27.5	28.8	27.7	24.0	**26.2**

Energy consumption (GWh)

	2001/2002		2002/2003		2003/2004		2004/2005		**2005/2006**	
Electricity	102.7	29%	124.27	34%	127.24	33%	129.74	35%	**123.74**	**33%**
Gas	241.2	67%	232.13	64%	250.50	64%	229.15	62%	**237.73**	**64%**
Other fuels	12.5	4%	9.21	3%	10.35	3%	13.53	3%	**10.61**	**3%**
Total energy	356.5	100%	365.62	100%	388.09	100%	372.45	100%	**372.08**	**100%**

Directors and Secretary

1 Nicholas Brookes (58)
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 was, until 30 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 (49)
Chief Executive†
joined the Group as Chief Executive Designate on 29 March 2004 and he became Chief Executive on 31 May 2004. He was formerly with Invensys where for nearly 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 (45)
Group Finance Director Ø
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 and Chairman of its audit committee.

4 Sir Jeremy Greenstock GCMG (62)
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 served as HM Government's UK Special Representative for Iraq. He is director of the Ditchley Foundation, a Special Adviser to BP plc and a Governor of the London Business School.

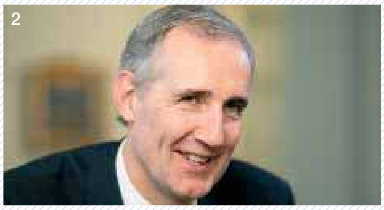
5 Keith Hodgkinson FCMA (62)
Non-executive# † ‡
was appointed to the Board on 19 April 2000. He is Chairman of the Audit Committee of the Board. He is Chief Executive of Chloride Group plc, a post he has held since March 1992. His previous career was with GEC plc where he held a number of senior appointments.

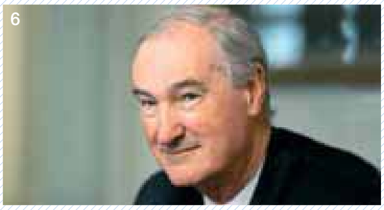
6 Michael Jeffries (61)
Non-executive# † ‡
was appointed to the Board on 19 April 2000. He is the Company's senior independent non-executive Director and since 21 July 2004 the Chairman of the Remuneration Committee of the Board. He was Chairman of WS Atkins plc from 2001 to 2006 prior to which he had been Chief Executive since 1995. He held various senior management positions since joining WS 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, Chairman of Wyless plc in February 2004, Chairman of VT Group plc on 16 May 2005 and Chairman of National Car Parks Limited on 30 August 2005.

7 Philip Nolan (52)
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 and Ulster Bank Ltd.

8 Louise Fluker (52)
General Counsel and Company Secretary Ø
joined De La Rue in 1984 from the UK Civil Aviation Authority. She was appointed General Counsel and Company Secretary in April 1999 and is also responsible for non-financial risk management. She is a trustee of Farnham Castle.

Member of the Audit Committee of the Board.
† Member of the Nomination Committee of the Board.
‡ Member of the Remuneration Committee of the Board.
Ø Member of the Risk Committee of the Board.
Ages stated are those on 25 March 2006.





Directors' Report

The Directors present their annual report together with the audited financial statements of the Group and the Company for the year ended 25 March 2006.

Return to Shareholders
On 25 May 2005, as part the Board's strategy to return surplus cash to shareholders, the Company announced a proposed special dividend of 38p per share amounting to £68.3m subject to shareholders approving the consolidation of the Company's ordinary share capital. This was approved at an Extraordinary General Meeting of the Company on 28 July 2005. Accordingly, shareholders on the Company's Register of Members at the close of business on 29 July 2005 exchanged 10 ordinary shares of 25p each for nine new ordinary shares of 27 7/9p each. As a consequence of the share consolidation the Company's authorised share capital was reduced to 239,063,310 ordinary shares of 27 7/9p each and the issued share capital was reduced from 184,956,520 to 166,460,868 ordinary shares.

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 passports, authentication labels and fiscal stamps. It is a leading provider of cash handling equipment and software solutions to banks and retailers worldwide. De La Rue is pioneering new technologies in government identity solutions for national identification, driver's licence and passport issuing schemes. A review of the business is set out in the Operating and Financial Review Section on pages 6 to 25.

Results and Dividends
Profit before taxation and exceptional items was £76.2m (2004/2005 : £65.2m). The profit attributable to shareholders for the year was £50.9m (2004/2005 : £33.0m). The Directors are recommending a final ordinary dividend for the year of 11.8p. Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 4 August 2006 to ordinary shareholders on the register on 7 July 2006. An interim dividend of 5.2p per ordinary share was paid on 18 January 2006 making a total of 17.0p per share (2005 : 15.3p per share) for the year.

Operating and Financial Review
The Operating and Financial Review on pages 6 to 25 sets out a business review of the Group's position at the end of the financial year including the development and performance of the business, key performance indicators and a description of principal risks and uncertainties facing the Group.

An indication of likely or intended future developments in the Group's business is set out in the Operating and Financial Review.

Share Capital
Details of shares issued during the year are provided in Note 21a to the financial statements on page 70.

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 2005. 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 2005 Extraordinary 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).

Pursuant to that authority the Company acquired for cancellation 1,612,278 ordinary shares of 27 7/9p each representing 0.97 per cent of the issued share capital as at 23 May 2006. The aggregate consideration paid was £7,781,442 and the purpose of the share buy back was to return surplus cash to shareholders. 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 16 June 2006.

Share Schemes and Share Option Schemes
The Company operates a number of share schemes or share option schemes for employees, senior executives and managers. Full details of share schemes are set out in the Remuneration Report on pages 35 to 42.

Substantial Shareholdings
As at 23 May 2006 the following persons on the share register had notified the Company of the following interests of 3 per cent or more in its issued ordinary share capital:

	Number of ordinary shares held	Percentage of shares held
Persons notifying		
Schroders plc	36,653,361	21.56
Silchester International Investors Limited	23,485,337	14.20
Barclays PLC	19,945,984	12.06
Legal & General Group Plc	5,981,004	3.61

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' Report
continued

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 are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that in preparing the financial statements on pages 44 to 94 the Group and Company have consistently applied appropriate accounting policies, supported by reasonable and prudent judgments and estimates, and that all applicable accounting standards have been followed.

Provision of Information to Auditors
The Directors confirm that as far as they are aware there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all steps that ought to have been taken in their capacity as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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.

The amount spent in the year was £13.7m (2004/2005 : £16.8m).

Corporate Governance
A report on corporate governance and compliance with the FRC Combined Code on Corporate Governance 2003 is set out on pages 30 to 34.

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 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 has acted fraudulently or dishonestly.

Directors
Details of each person who was a Director at any time during or since the end of the year and their qualifications, experience and responsibilities are given on page 26. A table giving details of their interests as at 25 March 2006 is shown on page 29. All the Directors held office throughout the year.

In accordance with the Company's Articles of Association, Michael Jeffries and Keith Hodgkinson will retire by rotation and, both being eligible, will offer themselves for re-election at the Annual General Meeting. Nicholas Brookes, having served for three three year terms, will retire and being eligible will offer himself for re-election.

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 35 to 42.

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 2007.

Directors' Interests

The interests of Directors holding office at the end of the financial year in the ordinary shares of the Company are set out below:

	25 March 2006 ordinary shares of 27$\frac{7}{9}$p each	Following share consolidation on 1 August 2005 ordinary shares of 27$\frac{7}{9}$p each	26 March 2005 ordinary shares of 25p each
Nicholas Brookes	13,005	13,005	14,450
Keith Hodgkinson	4,165	4,165	4,628
Michael Jeffries	9,000	9,000	10,000
Philip Nolan	9,000	9,000	10,000
Stephen King	49,950	43,200	48,000
Leo Quinn	41,000	–	–

Sir Jeremy Greenstock has no interest in the Company's ordinary shares. There have been no changes in Directors' interests in ordinary shares since 25 March 2006. All interests of the Directors and their families are beneficial.

Interest in Shares under Trust

As at 25 March 2006 executive Directors are deemed to have an interest as potential discretionary beneficiaries under the De La Rue Employee Share Ownership Trust ('ESOT') and the De La Rue Qualifying Employee Share Ownership Trust ('QUEST'). The shares held in the ESOT and QUEST are as follows:

	25 March 2006 ordinary shares of 27$\frac{7}{9}$p	Following Share Consolidation 1 August 2005 ordinary shares of 27$\frac{7}{9}$p	26 March 2005 ordinary shares of 25p
ESOT	3,400,124*	3,690,000	4,100,000
QUEST	262,727#	900,000	1,000,000

*total after using existing shares to satisfy options under under the De La Rue Executive Share Option Schemes.

#total after using existing shares to satisfy options under the De La Rue Sharesave Scheme.

Further details are contained in Note 21b to the accounts on pages 70 to 74.

Directors' Remuneration

Details of the remuneration and share options of each of the Directors are set out in the Remuneration Report on pages 35 to 42.

Employees

Details of the Company's employment policies are set out in the Corporate Responsibility Report on page 22.

Payments to Suppliers

The Company and Group's policy 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 35 days (2005 : 29 days). The Company does not have any trade creditors.

Charitable and Political Donations

Donations for charitable purposes amounting to £97,000 (2005 : £205,000) were made during the year. Details about the De La Rue Charitable Trust are set out in the Corporate Responsibility Report on page 24.

There were no political donations. The Company will propose to shareholders at this year's Annual General Meeting that the authority granted at the 2002 Annual General Meeting, pursuant to Section 347 of the Companies Act 1985, be renewed and details are included in the Chairman's Letter and Notice of Meeting.

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 10.30 a.m. on Thursday 27 July 2006 at De La Rue House, 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

Louise Fluker
Company Secretary
23 May 2006

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 while 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 January 2006.

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 June 2005. This is discussed further in the Corporate Responsibility Report on page 22. 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 pages 17 to 21. 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 25 March 2006 the Company has complied throughout with the provisions and applied the principles of the Combined Code issued by the Financial Reporting Council in July 2003 (the 'Code').

Board of Directors

Composition of the Board

Throughout the year there were four independent non-executive directors compared to the non-executive Chairman and two executive Directors. 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 26. 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. During 2005/2006 Michael Jeffries was appointed Chairman of VT Group plc and Chairman of National Car Parks Limited and Stephen King was appointed as Chairman of Weir Group plc's Audit Committee. The Board is satisfied that these commitments do not conflict with their ability to carry out effectively their duties as Directors of the Company.

Succession Planning

The Board has in place an orderly process to refresh the composition of the Board regularly without compromising its continued effectiveness. As well as assessing the skills profile, type and number of non-executive Directors required to enhance the Board's composition, the Company follows a rigorous internal talent review process which is used in planning executive Director and senior management succession.

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; and

– 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 while 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 achieving 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. 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 evaluation of the personal performance of executive Directors was also supported by a 360 degree appraisal process which included a peer group review. 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.

This year KPMG reviewed and reported on the effectiveness of the internal audit function.

Key issues raised during 2005/2006 were refining the strategic review process and instigating a review of the way in which the internal audit and risk management processes interact to be completed in 2006/2007.

Corporate Governance
continued

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	13	4	8	1
Nicholas Brookes	13	–	–	–
Leo Quinn	13	–	–	1
Sir Jeremy Greenstock	10	–	3*	–
Keith Hodgkinson	11	4	8	1
Stephen King	13	–	–	–
Michael Jeffries	13	4	8	1
Philip Nolan	10	2	6	1

*Sir Jeremy Greenstock was appointed to the Remuneration Committee in December 2005.

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 international 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, who has not previously been a director of a listed company is required to attend an external course covering such duties and responsibilities. During the year Sir Jeremy Greenstock attended such external course and had an induction programme with the executive Directors, the Company Secretary and other senior staff as well as visiting a number of sites. Keith Hodgkinson also attended a seminar arranged by PricewaterhouseCoopers LLP on IFRS.

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. In particular this year the Board received specific training on the changes made to the Listing Rules, Prospectus Rules and Disclosure Rules in July 2005. Directors, especially Committee chairmen, have the opportunity of attending appropriate training sessions.

At least once a year the Board generally visits an operational site (Dunstable this year) 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 or who are subject to particular conditions, such as Nicholas Brookes who, since March 2006, is required to submit himself for re-election annually after serving nine years on the Board. 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, having carried out the effectiveness and evaluation process, considers the performance of each of the directors standing for 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 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 also available on request. Membership of these Committees is given in the Directors' biographies on page 26. 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. It generally retains appropriate executive search consultants, having prepared a job specification for the particular role to be filled. The principal activity of the Committee during 2005/2006 has been to conduct a search for a new non-executive Director using The Zygos Partnership for the search process.

The Committee consists of four independent non-executive Directors following Sir Jeremy Greenstock's appointment in March 2006 together with the Chairman and the Chief Executive.

Remuneration Committee
Sir Jeremy Greenstock was appointed to the Remuneration Committee in December 2005. Details of the Committee and of the remuneration policy can be found in the Remuneration Report on pages 35 to 42.

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 including the Finance Director and representatives from each division. Any Director is entitled to attend any meeting and the Chairman of the Audit Committee has done so.

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; and
- 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; and
- Human Resources.

Risk Management
Details of risk management and particular risks within the Group are set out on pages 17 to 21.

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 functions effectively. The external auditor, Chairman, Chief Executive and Finance Director, General Counsel and Company Secretary, Group Financial Controller and Head of Internal Audit attend each meeting at the invitation of the Committee Chairman. The internal auditor 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; and
- 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; and
- reviewing reports on the effectiveness of the Group's Whistleblowing Policy, details of which are set out on page 22.

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

Corporate Governance
continued

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; and

– 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 other 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 on use of incumbant auditors might lead to loss of business knowledge that could adversely affect audit quality.

  While 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:

  – work related to disposals by the external auditors because of their knowledge of the business concerned; and

  – corporation tax compliance work assessed on a case by case basis, depending on who is best suited to perform the work.

Incumbent auditors may, but only with 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. During 2005/2006 the amount of consulting related non-audit fees paid to PricewaterhouseCoopers LLP was £0.6m and was principally related to taxation services and work on IFRS. The audit fee was £0.9m. 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. Announcements are also regularly made by RNS to the London Stock Exchange.

The Chairman and Senior Independent non-executive Director are available to meet key shareholders to discuss strategy, governance and other matters. Nicholas Brookes met key shareholders during the year and communicated their views to the Board.

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 and appoint proxies 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 on 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

Louise Fluker
Company Secretary
23 May 2006

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's remuneration;

– details of each director's remuneration and awards under share or share option plans; and

– 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 at the end of 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), Sir Jeremy Greenstock, Keith Hodgkinson and Philip Nolan. Their biographical details appear on page 26. The Committee met eight times and attendance details are set out on page 32. The Committee's terms of reference are set out in full on De La Rue's website and the key requirements are 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; and

– 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 2005/2006 Watson Wyatt Limited was retained to advise on remuneration levels compared with 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 Limited has 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, Ian Lowe, Group Director of Human Resources and, from time to time, Stephen King, Finance Director, 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 discussed. 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 and 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 business objectives;

– a long term incentive for senior management comprising a deferred bonus to be satisfied by shares vesting in three years plus an allocation of matching shares vesting of which depends on the achievement of stretching performance targets; and

– pension and other benefits in line with competitive practice.

The Committee adopted a policy in 2002 that certain key executives (being executive Directors and other members of the Operating Board) should be encouraged to hold and retain a personal shareholding in the Company equivalent to one times salary over a period of five years.

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. Key jobs include executive Directors and members of the Operating Board. The primary external comparator group used by the Committee is companies of similar size and complexity in the FTSE 250. The objective is to ensure that total remuneration packages are fair and competitive, simple to understand and transparent. The Committee also seeks to ensure that the interests of the executives are aligned with those of the shareholders pursuing a policy of high rewards only for high performance.

The Remuneration Committee concluded that it would be appropriate to change the longer term incentive plan for executive Directors and senior key executives for 2005/06. The Deferred Bonus and Matching Share Plan was established during the year and replaced the Matching Shares Scheme. Details of both are set out on pages 39 to 41. Participants in the Deferred Bonus and Matching Share Plan will not participate in future grants or awards under the De La Rue Executive Share Option Plan, details of which are set out on page 40.

Remuneration Report
continued

For 2005/2006 incentives linked to performance were through participation by executive Directors and senior managers in the annual incentive award and the De La Rue Deferred Bonus and Matching Share Plan. The maximum annual incentive bonus, combined with the expected value of allocation of deferred shares and conditional matching shares (using the Watson Wyatt Present Economic Value methodology 'PEV') provides approximately 63 per cent of the executive Directors' direct remuneration.

Salaries for Executive Directors and Senior Executives
Details of each individual executive Director's remuneration are set out on page 39. 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 while having regard to employees' pay and conditions elsewhere in the Group. Basic salaries are reviewed annually by the Remuneration Committee.

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

Annual Incentive Award
The annual incentive award, which is paid as a percentage of basic salary, is based on achieving targets for the year set by the Remuneration Committee. The maximum bonus opportunity as a percentage of salary is 100 per cent for Leo Quinn and 70 per cent for Stephen King. The Committee considers each year what are appropriate performance measures to align the reward strategy with the business strategy.

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 in 2005/2006 on the personal performance of each individual. There are appropriate divisional measures in divisional schemes. 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 2005/2006 Annual Incentive Award achieved maximum payout for executive Directors and some senior management.

Targets set for 2006/2007 follow the same plan design as for 2005/06 but with more challenging performance targets and with an element dependant on achievement of key agreed business imperatives. The Committee has used a combination of these measures for the past six years, including the annual incentive award for 2005/2006. Once the design of the incentive scheme has been approved by the Committee it is then introduced throughout the Group.

External Appointments
The Board considers whether it is appropriate for an executive Director to serve as a non-executive Director of another company. Stephen King was entitled to a fee of £34,500 in respect of his non-executive Directorship of the Weir Group plc, which he was permitted to retain.

Executive Directors' Service Contracts
The executive Directors have rolling service contracts with 12 months' 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 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.

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 39.

Pension
All executive Directors and senior executives in the UK may join the HM Revenue and Customs registered De La Rue Pension Scheme. Executives who are members of the senior section are required to pay a contribution of 7 per cent of basic salary to the Scheme. 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 current 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 dependants of members on their death. A review of pension provision has been carried out taking account of the new legislation arising from the Finance Act 2004. From 6 April 2006 the HM Revenue and Customs earnings cap (£105,600 for 2005/2006) has been removed and full basic earnings will become pensionable through the Scheme. Executive Directors and senior executives who reach the new Lifetime Allowance (the term used to describe the overall maximum benefit which may be provided through tax efficient pension schemes and which is set at £1.5m for 2006/2007) will be offered the option of leaving the Scheme and receiving a cash allowance in lieu of pension provision, or remaining in the Scheme and incurring a personal tax charge, known as the Lifetime Allowance Charge on any excess benefits. The Committee has decided that no executive Director or employee will be compensated by the Company for any additional tax which may be payable as a result of these changes.

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

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 closed FURBS and membership of the senior section of the De La Rue Pension Scheme. He is required to make a contribution of 7 per cent of basic 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. Contributions to the FURBS were suspended during 2003, until the review of the new legislation was completed and benefits on earnings in excess of the earnings cap were provided on an unfunded basis. These contributions, totalling £164,718, will be transferred to the Scheme to fund the previously unfunded past service benefits. The impact of this will be to increase his pension under the defined benefit Scheme as at 6 April 2006 to £16,100 pa.

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. He is required to make a contribution to the senior section of the Scheme of 7 per cent of basic salary and is covered for a lump sum on death in service based on four times basic salary, with a widow's pension of 60% of target pension payable on death in service. Until the review of the new legislation was completed, pension on earnings in excess of the earnings cap was unfunded. From 6 April 2006 his pension will be provided through the Scheme. The Company will make a payment to the Scheme to cover the cost of previously unfunded past service benefits. The Company's external actuary has estimated this cost to be £275,000. The impact of this will be to increase his pension under the defined benefit Scheme as at 6 April 2006 to £24,700 pa.

The increase in defined benefit scheme pension for each of the executive Directors from 6 April 2006 does not represent an increase in either the target pension or Company liability but is a consequence of transferring the funding from a combination of two arrangements to one and the cancellation of past unfunded liabilities.

Directors' Pension Entitlements (audited information)
The table below sets out the pension benefits to which each executive Director is entitled. It shows:

– the accrued pension entitlement at the end of the year, payable from normal retirement age;

– the additional pension accrued during the year, payable at normal retirement age; and

– the transfer value amounts as at 26 March 2005 and 25 March 2006 and the increase in transfer value between the two periods net of Directors' contributions. The transfer values have been calculated in accordance with Actuarial Guidance Note GN11. The increase in transfer value required by the Listing Rules discloses the current value of the increase whereas the change in transfer value shown under the Remuneration Report Regulations 2002 shows the absolute change in the value including the effects of market volatility and inflation.

	Defined benefit schemes (£'000) Directors' Remuneration Report Regulations 2002					Listing Rules			Defined contribution schemes (£'000)	
	Accrued pension at 25 March 2006	**Increase in accrued pension during year**	Transfer value of accrued pension at 26 March 2005	**Transfer value of accrued pension at 25 March 2006**	**Increase in transfer value of accrued pension (excluding Directors' contributions)**	**Accrued pension at 25 March 2006**	Increase in pension (net of inflation) during year	Transfer value of the increase in pension (excluding Directors' contributions)	**Contributions over year to 25 March 2006**	Contributions over year to 26 March 2005
Leo Quinn	**7**	**4**	32	**82**	**43**	**7**	4	41	**0**	0
Stephen King	**11**	**4**	58	**112**	**47**	**11**	4	36	**0**	0
Ian Much (resigned 31 May 2004)	**–**	**–**	–	**–**	**–**	**–**	–	–	**–**	31

Remuneration Report
continued

Directors' Share Options (audited information)
The number of options over De La Rue plc shares held by executive Directors under the executive share option and sharesave schemes is detailed below:

	Date of Grant	26 March 2005	Exercised during year	Lapsed during year	Number of Options 25 March 2006	Exercise price (pence)	Market price at exercise date (pence)	Performance targets (see below)	Date from which exercisable	Expiry date
Leo Quinn Executive Share Options	**Jul '04**	352,422	**–**	**–**	**352,422**	**340.500**	**–**	(a)	**Jul '07**	**Jul '14**
Sharesave Options	**Dec '04**	5,448	**–**	**–**	**5,448**	**303.31**	**–**	(b)	**Mar '10**	**Aug '10**
		357,870			**357,870**					
Stephen King Executive Share Options	**Mar '03**	100,000	**–**	**–**	**100,000**	**200.500**	**–**	(c)	**Mar '06**	**Mar '13**
	Jul '03	204,000	**–**	**–**	**204,000**	**237.333**	**–**	(d)	**Jul '06**	**Jul '13**
	Jul '04	149,779	**–**	**–**	**149,779**	**340.500**	**–**	(a)	**Jul '07**	**Jul '14**
Sharesave Options	**Dec '03**	3,563	**–**	**–**	**3,563**	**258.900**	**–**	(b)	**Mar '07**	**Aug '07**
		457,342			**457,342**					

Notes
(a) Earnings per share growth over three years of at least 3 per cent per annum over rate of increase in retail prices index; headline earnings per share at the start of the performance period were 24.2p.

(b) No performance conditions are attached to the Options under the Sharesave Scheme as it is open to all UK employees.

(c) Earnings per share growth over three years of at least 3 per cent per annum over rate of increase in retail prices index; headline earnings per share at the start of the performance period were 34.4p.

(d) Earnings per share growth over three years of at least 5 per cent per annum over rate of increase in retail prices index; headline earnings per share at the start of the performance period were 18.9p.

During 2005/2006 no executive Director exercised any share options.

Deferred Bonus and Matching Share Plan (audited information)

	26 March 2005	Date of allocation	Deferred allocation during year	Maximum matching allocation	Allocation vesting during year	Lapsed during year	25 March 2006	Mid market share price on date of allocation (pence)	Vesting date
Leo Quinn	–	28.07.05	51,796	103,592(a)	–	–	155,388	386.130	28.07.08
Stephen King	–	28.07.05	19,811	39,622(a)	–	–	59,543	386.130	28.07.08

Notes
(a) Details of the performance condition attached to matching shares are set out on page 40.

(b) An additional award of shares will be released on the vesting date in respect of all deferred shares released equal in value to the amount of dividends which would have been payable on the deferred shares over the performance period.

The closing mid-market price of De La Rue plc shares at 25 March 2006 was 566p and the highest and lowest mid-market prices during the year were:

	Ordinary Shares of 25p to 29 July 2005	Ordinary Shares of 277/9p to 25 March 2006
High	410.50p	571.00p
Low	360.07p	359.50p

Directors' Emoluments (audited information)

	2006 Salary and fees £'000	2006 Benefits £'000	2006 Bonus £'000	2006 Total £'000	2005 Total £'000
Executive Directors					
Leo Quinn	430	34	430	894	871
Stephen King	270	30	189	489	438
Ian Much (retired 31 May 2004)	–	–	–	–	289
	700	64	619	1,383	1,598
Non-executive Chairman					
Nicholas Brookes	150	–	–	150	115
Sir Brandon Gough (retired 22 July 2004)	–	–	–	–	36
Non-executive Directors					
Sir Jeremy Greenstock	30	–	–	30	3
Keith Hodgkinson	37	–	–	37	35
Michael Jeffries	37	–	–	37	34
Philip Nolan	30	6*	–	36	33
Aggregate emoluments	984	70	619	1,673	1,854

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

Sharesave Scheme
All UK employees of the Company may join its HM Revenue and Customs 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 2005 at a price of 357.0p which was a 15 per cent discount, and 36 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 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 Fourth Offering under the Plan began on 1 January 2006 and 23 per cent of eligible employees participated.

The purchase price is 85 per cent of the lower market value of a De La Rue share either at the beginning (294.95p) or end of the Offering Period on 31 December 2006.

Current Schemes
Deferred Bonus and Matching Share Plan
The Company established the Deferred Bonus and Matching Share Plan in July 2005 following a review by the Remuneration Committee of share incentive arrangements which were introduced in 2002 for executive Directors and other senior executives. The objective of the Plan was to replace the existing schemes with a single arrangement which was more in alignment with the Company's strategy of developing its core business.

The Plan involves making awards of deferred allocations of shares to executive Directors and selected senior executives based on the achievement of annual performance targets to be satisfied before the awards are made.

The maximum value of the deferred allocation based on market value of a share at the date of allocation is 50 per cent of the maximum bonus, i.e. 50 per cent of salary in the case of Leo Quinn and 35 per cent of salary in the case of Stephen King. The number of deferred shares will be matched by additional free shares which will be released on the third anniversary of the allocation of the deferred shares provided pre-determined performance targets are satisfied and the participant is still employed by the Company.

Remuneration Report
continued

There are two performance targets each one of which will apply to 50 per cent of the Matching Shares. 50 per cent of Matching Shares will be based on the achievement of an annual rate of increase in earnings per share ('EPS') of a De La Rue share over the annual rate of increase in the retail prices index which is at least a minimum of 3 per cent per annum. If the minimum target is not achieved no matching share allocation will be awarded. If EPS increases by 5 per cent or more above the annual rate of increase in the retail prices index, the eligible participant will receive 100 per cent of Matching Shares subject to the EPS test, with intermediate straightline vesting.

The remaining 50 per cent of the Matching Share element will be based on De La Rue's Total Shareholder Return ('TSR') relative to the TSR of the companies comprising the FTSE Mid 250 (excluding investment trusts) over the relative period. The proportion of any matching allocation subject to this test will be 50 per cent for median performance, and 100 per cent for upper quartile performance, with intermediate straightline vesting.

For executive Directors and certain selected senior executives up to two Matching Shares will be allocated for each deferred share. No shares will be released for performance below that which qualifies for the minimum number of Matching Shares.

An additional award of shares will be released on the vesting date in respect of all deferred shares released equal in value to the amount of dividends which would have been payable on the deferred shares over the performance period.

Executive Share Schemes
Awards are discretionary and subject to the limits approved by the Committee while 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 overleaf.

Executive Share Option Plan
The Executive Share Option Plan which expires on 17 July 2006 provides for the grant of options at a price equal to the average market value of a De La Rue plc ordinary 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.

The Option Plan is in two parts. Part A is approved by HM Revenue and Customs 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.

Options were granted to senior executives in July 2005 at an option price of 407.420p. No options were granted to recipients of awards under the Deferred Bonus and Matching Share Plan. These options will vest subject to achieving the performance condition over three years of earnings per share growth of at least 3 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 twice from the fixed date of the original grant date, 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 considered, when establishing the Plan in July 2002, 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 then 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.

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 performance target remains a challenging and stretching test of performance.

The Plan is being replaced by a long term incentive plan which is cash not share based and only senior employees (other than executive directors or those eligible for participation in the Deferred Bonus and Matching Share Plan) will be eligible for participation.

Superseded Schemes

Executive Share Option Scheme

The Executive Share Option Scheme which has an HM Revenue and Customs approved section and an unapproved section 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 that has been 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 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 total return of a share 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.

Matching Shares Scheme

In order to encourage key executives to build up their personal shareholding, the Company implemented the Matching Share Scheme in 2002. It expires in July 2012 but no grant has been made since 2004 as the Scheme has been superseded by the Deferred Bonus and Matching Share Plan. Qualifying shares newly acquired by key executives would, 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 was an increase in the growth of the Company's earnings per share over the latest two financial years which was at least 3 per cent per annum on average greater than the rate of increase in the retail prices index. The Remuneration Committee concluded at the time of establishing the Scheme that under then 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.

IFRS and Performance Targets

The Remuneration Committee has considered the effect of IFRS 2 'Share based Payments' on the various share based payment plans referred to above, details of which are set out in Note 21b on pages 70 to 74. It has not made any adjustment to the performance targets which have not become any easier to achieve as a result of IFRS.

Shareholder Return

The performance chart opposite illustrates total shareholder return.

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

Total shareholder return
(£)

This graph shows the value, by 25 March 2006, of £100 invested in De La Rue plc on 31 March 2001 compared with the value of £100 invested in the FTSE 250 excluding investment trusts Index. The other points plotted are the values at intervening financial year ends.

Source: Thomson Financial

Dilution Limits

The Executive Share Option Plan and Deferred Bonus and Matching Share Plan incorporate the current (15 December 2005) ABI Guidelines on headroom which provide that over a 10 year period in relation to the Company's issued share capital (or reissue of treasury shares):

– no more than 10 per cent can be issued to satisfy options granted under both executive share option schemes and any other employee share scheme of the Company; and

– no more than 5 per cent can be allocated to satisfy executive share option schemes or share awards.

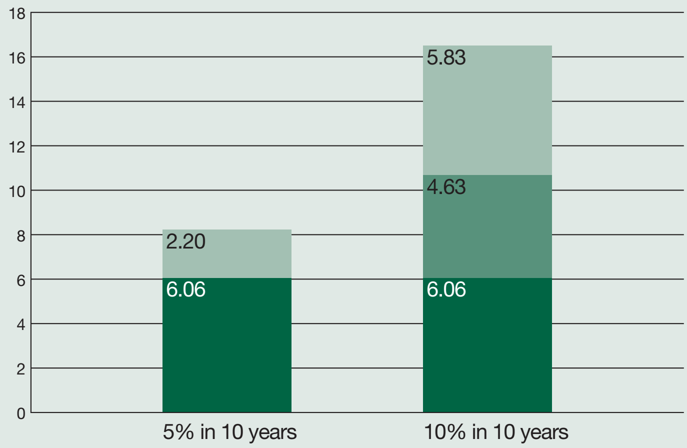
The Remuneration Committee monitors monthly the effect of potential vesting of share options or share awards to ensure that the Company remains within these dilution limits.

Options for which a market purchase commitment has been made are excluded from the headroom calculations.

Remuneration Report
continued

As at 23 May 2006 and taking into account options which are covered by a commitment to satisfy by market purchases and where the Company is able to use shares held in its QUEST and ESOT (details of which are set out in Note 21b on page 74) the current headroom in relation to all outstanding share options or deferred share awards is:

Scheme limits headroom
(m shares)



- Headroom
- SAYE subsisting
- ESOS subsisting

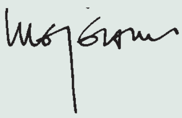
Non-Executive Directors
Non-executive directors have letters of appointment specifying fixed terms of office of three years, renewable for a further three years subject to satisfactory performance. They do not have service contracts. The Board may invite non-executive Directors to serve a third three-year 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	1 April 2006
Michael Jeffries	1 April 2006
Philip Nolan	(effective September 2004) 1 April 2005
Sir Jeremy Greenstock	18 February 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.

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 Limited advised the Board during 2005/2006. Details of fees to the Chairman and other non-executive Directors are set out on page 39. 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
23 May 2006

Independent Auditor's Report to the Members of De La Rue plc

We have audited the Group financial statements of De La Rue plc for the year ended 25 March 2006 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of De La Rue plc for the year ended and on the information in the Directors' Remuneration Report that is described as having been audited.

Respective Responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the Group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Highlights, the Chairman's Statement, the Operating and Financial Review, the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Corporate Governance Report, the Principle Subsidiaries, Branches and Associated Companies, the Five Year Record and the Shareholders' Information.
We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion
In our opinion:

– the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 25 March 2006 and of its profit and cash flows for the year then ended; and

– the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
23 May 2006

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

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

Group Income Statement
For the year ended 25 March 2006

	Notes	2006 Before exceptionals £m	2006 Exceptional items £m	2006 Total £m	2005 Before exceptionals £m	2005 Exceptional items £m	2005 Total £m
Continuing operations							
Sales	2	**610.8**		**610.8**	620.1		620.1
Operating expenses	3	**(541.4)**	**(3.7)**	**(545.1)**	(565.3)	(25.0)	(590.3)
Other income	3	**–**	**1.2**	**1.2**	–	0.4	0.4
Operating profit		**69.4**	**(2.5)**	**66.9**	54.8	(24.6)	30.2
Share of profits of associated companies after taxation	2	**6.8**		**6.8**	6.4		6.4
Interest income	5	**3.8**		**3.8**	5.7		5.7
Interest expense	5	**(2.0)**		**(2.0)**	(3.2)		(3.2)
Retirement benefit obligation net finance (cost)/income	5	**(1.8)**		**(1.8)**	1.5		1.5
Profit before taxation		**76.2**	**(2.5)**	**73.7**	65.2	(24.6)	40.6
Taxation	6	**(22.4)**	**0.5**	**(21.9)**	(17.2)	4.3	(12.9)
Profit after taxation		**53.8**	**(2.0)**	**51.8**	48.0	(20.3)	27.7
Discontinued operations	4			**–**			6.9
Profit for the financial year				**51.8**			34.6
Profit attributable to equity shareholders				**50.9**			33.0
Profit attributable to minority interests				**0.9**			1.6
				51.8			34.6
Basic earnings per ordinary share – continuing operations	7			**30.2p**			14.6p
Diluted earnings per ordinary share – continuing operations	7			**29.4p**			14.5p
Basic earnings per ordinary share – discontinued operations	7			**–**			3.9p
Diluted earnings per ordinary share – discontinued operations	7			**–**			3.9p

Group Balance Sheet
At 25 March 2006

	Notes	Group 2006 £m	Group 2005 £m
ASSETS			
Non-current assets			
Property, plant and equipment	9	**139.3**	148.9
Intangible assets	10	**28.9**	23.8
Investments in associates and joint ventures	11	**12.7**	14.0
Other investments	11	**–**	0.3
Available for sale financial assets	12	**0.5**	–
Deferred tax assets	17	**53.9**	57.1
Trade and other receivables	14	**0.2**	1.1
		235.5	245.2
Current assets			
Inventories	13	**71.6**	73.8
Trade and other receivables	14	**92.2**	86.0
Current tax assets		**1.3**	2.7
Derivative financial instruments	15	**1.3**	–
Cash and cash equivalents	16	**388.8**	140.7
		555.2	303.2
Total assets		**790.7**	548.4
LIABILITIES			
Current liabilities			
Borrowings	19	**(284.6)**	(17.8)
Trade and other payables	18	**(182.5)**	(166.3)
Current tax liabilities		**(29.8)**	(23.1)
Derivative financial instruments	15	**(1.2)**	–
Provisions for other liabilities and charges	20	**(22.3)**	(24.0)
		(520.4)	(231.2)
Non-current liabilities			
Borrowings	19	**(12.6)**	(16.4)
Retirement benefit obligations	24	**(119.6)**	(119.9)
Deferred tax liabilities	17	**(0.8)**	(1.4)
Derivative financial instruments	15	**(0.5)**	–
Other non-current liabilities	18	**(0.5)**	(0.4)
		(134.0)	(138.1)
Total liabilities		**(654.4)**	(369.3)
Net assets		**136.3**	179.1
EQUITY			
Ordinary share capital	1	**45.9**	46.1
Share premium account	1	**20.6**	17.0
Revaluation reserve	1	**1.8**	1.8
Capital redemption reserve	1	**3.9**	3.5
Fair value and other reserves	1	**(0.5)**	–
Cumulative translation adjustment	1	**2.2**	3.4
Other reserve	1	**(83.8)**	(83.8)
Retained earnings	1	**142.4**	187.4
Total shareholders' funds		**132.5**	175.4
Equity minority interests		**3.8**	3.7
Total equity		**136.3**	179.1

Approved by the Board on 23 May 2006.

Nicholas K Brookes

Nicholas Brookes Chairman

Stephen King Finance Director

Group Cash Flow Statement
For the year ended 25 March 2006

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Cash generated from operations	22a	**106.7**	98.7
Tax paid		**(10.1)**	(7.6)
Net cash flows from operating activities		**96.6**	91.1
Cash flows from investing activities			
Disposal of subsidiary undertaking		**–**	7.2
Proceeds from sale of investment		**0.8**	–
Acquisition of minority interests		**–**	(2.2)
Purchases of property, plant and equipment (PPE) and software intangibles		**(19.6)**	(20.5)
Development assets capitalised		**(3.7)**	(2.6)
Proceeds from sale of PPE		**1.6**	7.1
Income from investments		**0.4**	0.4
Interest received		**3.8**	5.7
Interest paid		**(1.5)**	(3.1)
Dividends received from associates		**8.1**	5.6
Net cash flows from investing activities		**(10.1)**	(2.4)
Net cash inflow before financing activities		**86.5**	88.7
Cash flows from financing activities			
Proceeds from issue of share capital		**6.3**	2.7
Own share purchase		**(7.8)**	–
Proceeds from borrowing		**2.4**	3.1
Repayment of borrowings		**(2.4)**	(23.1)
Finance lease principal payments		**(4.3)**	(4.3)
Dividends paid to shareholders		**(95.8)**	(25.8)
Dividends paid to minority interests		**(0.9)**	(0.5)
Net cash flows from financing activities		**(102.5)**	(47.9)
Net increase in cash and cash equivalents in the year		**(16.0)**	40.8
Cash and cash equivalents at the beginning of the year		**126.3**	84.5
Exchange rate effects		**(2.5)**	1.0
Cash and cash equivalents at the end of the year		**107.8**	126.3
Cash and cash equivalents consist of:	22b		
Cash at bank and in hand		**318.6**	40.3
Short term bank deposits		**70.2**	100.4
Bank overdrafts		**(281.0)**	(14.4)
		107.8	126.3

Group Statement of Recognised Income and Expense

For the year ended 25 March 2006

	2006 £m	2005 £m
Exchange differences	**(1.1)**	3.4
Actuarial gains on retirement benefit obligations	**2.3**	(22.1)
Tax on actuarial gain on retirement benefit obligations	**(0.7)**	6.7
Cash flow hedges recognised	**(1.5)**	–
Tax on cash flow hedges	**0.1**	–
Net investment hedge	**0.5**	–
Current tax on share options	**0.8**	–
Deferred tax on share options	**1.2**	0.2
Purchase of shares for cancellation	**(7.8)**	–
Allocation of shares for cancellation	**2.5**	–
Net loss recognised directly in equity	**(3.7)**	(11.8)
Profit for the financial year	**51.8**	34.6
Total recognised income and expense for the year	**48.1**	22.8
Restatement for the effects of IAS 32 and IAS 39	**(0.2)**	–
Total recognised income and expense for the year	**47.9**	22.8
Total recognised income and expense for the year attributable to:		
Equity shareholders of De La Rue plc	**47.9**	22.7
Minority interests	**–**	0.1
	47.9	22.8

Accounting Policies – Group

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Transitional Arrangements
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, available for sale investments, financial assets and liabilities held for trading. A summary of the more important Group accounting polices is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

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

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

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

– cumulative translation differences on net investments in foreign subsidiaries have been set at zero at the date of transition to IFRS; and

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

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

The reconciliations of total equity and reserves and income from UK GAAP to IFRS together with an explanation of the main movements as required by IFRS 1 are set out in Note 29 to this report.

The Group adopted IFRS 5 'Non-current assets held for sale and discontinued operations', from 27 March 2005 prospectively in accordance with the standards provisions. The Group has restated the disposal of Sequoia Voting Systems Inc. to conform with the disclosures required by IFRS 5. The non-current assets or disposal groups held for sale were previously neither classified nor presented as current assets or liabilities. Such non-current assets or disposal groups were not previously measured differently from other assets and liabilities.

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

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 financial information to 25 March except for certain associated companies and one subsidiary whose year end is 31 December. In the case of the subsidiary, whose financial statements are made up to 31 December, results for the period to 25 March 2006 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 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, adjusted for goodwill or fair value adjustments recognised on initial investment plus the Group's share of retained profits.

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

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

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

The assets and liabilities of foreign subsidiaries denominated in foreign currencies are translated into Sterling at rates of exchange ruling at the balance sheet date. Income and expenses for each income statement of foreign subsidiaries are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions) and all resulting exchange differences are recognised as a separate component of equity. When a foreign subsidiary is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale. As permitted by IFRS 1, the balance on the cumulative translation adjustment on retranslation of subsidiaries net assets has been set to zero at the date of transition to IFRS.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Revenue

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

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

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

Intangible Assets

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

Goodwill

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

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

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

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

Development Costs

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

Other Intangible Assets

Intangible assets purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost and amortised on a straight line basis over their useful economic life at rates which vary from between three and five years.

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

Property, Plant and Equipment

Property, plant and equipment are stated at cost or valuation, less accumulated depreciation and any accumulated impairment losses. No depreciation is provided on freehold land. Freehold and long leasehold buildings are depreciated over their estimated useful economic lives of 50 years. Other leasehold interests are depreciated over the lesser of the unexpired period of the lease and 50 years. A long leasehold is defined as one in which the remaining term of the lease is more than 50 years.

The Group's policy is to write off the cost or valuation of all other plant and equipment evenly over their estimated remaining useful life at rates which vary between 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.

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

On revaluation, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement.

Asset Impairment

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

Accounting Policies – Group
continued

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

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

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

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

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

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

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

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

Inventories
Stocks and work in progress are valued at the lower of cost, including relevant production overheads, and net realisable value. Cost is determined on a first in first out or a weighted average cost basis. Cost comprises directly attributable purchase and conversion costs and an allocation of production overheads based on normal operating capacity. Net realisable value is the estimated selling price less estimated costs of completion and selling costs.

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

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

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

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

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

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

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

Share Option Schemes
The Group's Employee Share Ownership 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 shares held in 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.

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

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

Exceptional Items
Items which are both material by size and/or by nature and non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items charged to operating profit helps provide an indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses (other than those within the scope of IFRS 5), restructuring of businesses and asset impairments.

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

Segment Reporting
The Group's primary reporting format is business segments and its secondary format is geographical segments. A business segment is a component of the Group that is engaged in providing a group of related products and is subject to risks and returns that are different from those of other business segments. A geographical segment is a component of the Group that operates within a particular economic environment and that is subject to risks and return that are different from those of components operating in other economic environments. Non specific central costs are allocated on the basis of estimates of time spent and other cost drivers and this policy is consistently applied.

Financial Instruments
(UK GAAP Accounting Policies Applicable up to 27 March 2005)
Financial instruments are used as hedges in the financing and financial risk management of the Group.

Forward foreign exchange contracts (FX contracts) which hedge currency assets and liabilities are recognised in the consolidated financial statements together with the assets and liabilities that they hedge. The contract rate is used for translation. FX contracts which hedge future sales and purchases are not recognised in the consolidated financial statements until the transaction they hedge is itself recognised. If an FX contract ceases to be a hedge then any gain or loss is recognised in the consolidated income statement.

Cross currency swaps are included in the consolidated financial statements at the rates of exchange ruling on the balance sheet date. Exchange differences arising are dealt with in accordance with the Group's accounting policy on foreign currencies. Interest paid or received on cross currency swaps is recorded on an accruals basis. Apart from inclusion at the rate of exchange ruling at the balance sheet date, cross currency swaps are not revalued to fair value at the balance sheet date.

Interest arising under interest rate swaps is recognised in the consolidated income statement in accordance with the Group's accounting policy on interest. Interest rate swaps are not revalued to fair value at the balance sheet date.

Financial Instruments
(IFRS Accounting Policies Applicable from 28 March 2005)
Derivative financial instruments are measured at fair value. Derivative financial instruments utilised by the Group include cross currency swaps and forward foreign exchange contracts.

Certain derivative financial instruments are designated as hedges in line with the Group's risk management policies. Hedges are classified as follows:

(a) Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability.

(b) Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a forecast transaction.

(c) Net investment hedges when they hedge the exposure to changes in the value of the Group's interests in the net assets of foreign operations.

For fair value hedges, any gain or loss from remeasuring the hedging instrument at fair value is recognised in the consolidated income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and similarly recognised in the consolidated income statement.

Accounting Policies – Group
continued

For cash flow hedges and net investment hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity, with any ineffective portion recognised in the consolidated income statement. When hedged cash flows result in the recognition of a non financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the consolidated income statement in the same period in which the hedged cash flows affect the consolidated income statement.

Any gains or losses arising from changes in fair value of derivative financial instruments not designated as hedges are recognised immediately in the consolidated income statement.

Gains and losses on derivative financial instruments related to operating activities are included in operating profit when recognised in the consolidated income statement

Borrowings are measured at amortised cost. Where borrowings are used to hedge the Group's interests in the net assets of foreign operations, the portion of the exchange gain or loss on the borrowings that is determined to be an effective hedge is recognised in equity.

Trade and other receivables are measured at amortised cost less any provision for impairment. Trade and other receivables are discounted when the time value of money is considered material.

Available for sale financial assets are measured at fair value.

Critical Accounting Estimates and Judgements
Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below.

(a) Property, Plant and Equipment
Assets are carried at historical cost less depreciation calculated to write off the cost of such assets over their estimated useful lives. Management determines the estimated useful lives and related depreciation charges at acquisition but will revise the depreciation charge where useful lives are subsequently found to be different to those previously estimated.

(b) Impairment of Assets
The Group tests annually whether goodwill and other assets that have indefinite useful lives suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

(c) Income Taxes
The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(d) Pension Obligations
The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions.

The assumptions used in determining the net cost (income) for pensions include the expected long term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The expected return on plan assets assumption is determined on a uniform basis, taking into consideration long term historical returns, asset allocation and future estimates of long term investment returns. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

Notes to the Accounts

1 Statement of Changes in Shareholders' Equity

	Attributable to equity shareholders									
	Share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Fair value and other reserve £m	Cumulative translation adjustment £m	Other reserve £m	Retained earnings £m	Minority interest £m	Total equity £m
Balance at 28 March 2004	45.8	14.6	1.8	3.5	–	–	(83.8)	194.0	3.8	179.7
Exchange differences	–	–	–	–	–	3.4	–	–	–	3.4
Actuarial loss on retirement benefit obligations	–	–	–	–	–	–	–	(22.1)	–	(22.1)
Tax on actuarial loss on retirement benefit obligations	–	–	–	–	–	–	–	6.7	–	6.7
Deferred tax on share options	–	–	–	–	–	–	–	0.2	–	0.2
Net loss recognised directly in equity	–	–	–	–	–	3.4	–	(15.2)	–	(11.8)
Profit for the financial year	–	–	–	–	–	–	–	33.0	1.6	34.6
Total income recognised for the financial year	–	–	–	–	–	3.4	–	17.8	1.6	22.8
Share capital issued	0.3	2.4	–	–	–	–	–	–	–	2.7
Employee share scheme:										
– value of services provided	–	–	–	–	–	–	–	1.4	–	1.4
Dividend	–	–	–	–	–	–	–	(25.8)	(1.7)	(27.5)
Balance at 26 March 2005	46.1	17.0	1.8	3.5	–	3.4	(83.8)	187.4	3.7	179.1
Adoption of IAS 32 and IAS 39	–	–	–	–	0.4	–	–	(0.6)	–	(0.2)
Balance at 27 March 2005	46.1	17.0	1.8	3.5	0.4	3.4	(83.8)	186.8	3.7	178.9
Exchange differences	–	–	–	–	–	(1.2)	–	–	0.1	(1.1)
Actuarial gain on retirement benefit obligations	–	–	–	–	–	–	–	2.3	–	2.3
Tax on actuarial gain on retirement benefit obligations	–	–	–	–	–	–	–	(0.7)	–	(0.7)
Current tax on share options	–	–	–	–	–	–	–	0.8	–	0.8
Deferred tax on share options	–	–	–	–	–	–	–	1.2	–	1.2
Cash flow hedges recognised	–	–	–	–	(1.5)	–	–	–	–	(1.5)
Tax on cash flow hedges	–	–	–	–	0.1	–	–	–	–	0.1
Net investment hedge	–	–	–	–	0.5	–	–	–	–	0.5
Purchase of shares for cancellation	(0.4)	–	–	0.4	–	–	–	(7.8)	–	(7.8)
Allocation of shares for cancellation	–	–	–	–	–	–	–	2.5	–	2.5
Net loss recognised directly in equity	(0.4)	–	–	0.4	(0.9)	(1.2)	–	(1.7)	0.1	(3.7)
Profit for the financial year	–	–	–	–	–	–	–	50.9	0.9	51.8
Total income recognised for the year	(0.4)	–	–	0.4	(0.9)	(1.2)	–	49.2	1.0	48.1
Share capital issued	0.2	3.6	–	–	–	–	–	–	–	3.8
Employee share scheme:										
– value of services provided	–	–	–	–	–	–	–	2.2	–	2.2
Dividends paid	–	–	–	–	–	–	–	(95.8)	(0.9)	(96.7)
Balance at 25 March 2006	**45.9**	**20.6**	**1.8**	**3.9**	**(0.5)**	**2.2**	**(83.8)**	**142.4**	**3.8**	**136.3**

Notes to the Accounts
continued

2 Segmental Analysis

The Group's primary reporting format is by business segment. The Group is organised on a worldwide basis into two business segments: Cash Systems and Security Paper and Print. The Group disposed of it's investment in Sequoia Voting Systems Inc. during the prior year. The secondary reporting format is by geographical segment. The Cash Systems division is predominantly involved in the provision of cash handling equipment and software solutions to banks and retailers worldwide. Security Paper and Print is involved in the production of national currencies and a wide range of security documents such as authentication labels and identity documents.

Analysis by Business Segment

	Note	2006 Cash Systems £m	2006 Security Paper and Print £m	2006 Group £m	2005 Cash Systems £m	2005 Security Paper and Print £m	2005 Group £m
Continuing operations							
Sales		**292.4**	**318.4**	**610.8**	302.2	317.9	620.1
Underlying profit – segment result		**18.4**	**51.0**	**69.4**	9.4	45.4	54.8
Exceptional items		**(3.4)**	**0.9**	**(2.5)**	(25.8)	1.2	(24.6)
Operating profit/(loss)		**15.0**	**51.9**	**66.9**	(16.4)	46.6	30.2
Share of post tax profits of associates				**6.8**			6.4
Net interest income				**1.8**			2.5
Retirement obligations net finance (cost)/income				**(1.8)**			1.5
Profit before taxation				**73.7**			40.6
Taxation				**(21.9)**			(12.9)
Profit after taxation				**51.8**			27.7
Discontinued activities							
Profit from discontinued operations	4			**–**			6.9
Profit for the year				**51.8**			34.6
Segment assets		**118.6**	**176.6**	**295.2**	**110.6**	**186.6**	**297.2**
Unallocated assets				**495.5**			**251.2**
Total assets				**790.7**			**548.4**
Segment liabilities		**(99.8)**	**(83.9)**	**(183.7)**	**(88.8)**	**(79.8)**	**(168.6)**
Unallocated liabilities				**(470.7)**			**(200.7)**
Total liabilities				**(654.4)**			**(369.3)**
Capital expenditure on property, plant and equipment		**4.7**	**10.4**	**15.1**	**7.4**	**11.9**	**19.3**
Capital expenditure on intangible assets		**5.1**	**3.2**	**8.3**	**3.0**	**1.4**	**4.4**
Depreciation of property, plant and equipment		**6.0**	**17.6**	**23.6**	**6.6**	**19.8**	**26.4**
Amortisation of intangible assets		**2.3**	**1.1**	**3.4**	**1.9**	**0.3**	**2.2**
Impairment of goodwill		**–**	**–**	**–**	**11.5**	**–**	**11.5**

Analysis by Geographical Segment 2006

	UK and Ireland £m	Rest of Europe £m	The Americas £m	Rest of World £m	Group £m
Sales by destination	**76.8**	**190.9**	**129.8**	**213.3**	**610.8**
Segment assets	**146.3**	**79.9**	**49.5**	**19.5**	**295.2**
Unallocated assets					**495.5**
Total assets					**790.7**
Capital expenditure on property, plant and equipment	**8.3**	**3.9**	**1.8**	**1.1**	**15.1**
Capital expenditure on intangible assets	**5.3**	**2.6**	**0.4**	**–**	**8.3**

2 Segmental Analysis continued

Analysis by Geographical Segment 2005

	UK and Ireland £m	Rest of Europe £m	The Americas £m	Rest of World £m	Group £m
Sales by destination	70.0	182.2	153.6	214.3	620.1
Segment assets	147.0	79.7	47.8	22.7	297.2
Unallocated assets					251.2
Total assets					**548.4**
Capital expenditure on property, plant and equipment	9.3	3.6	5.1	1.3	19.3
Capital expenditure on intangible assets	1.8	1.8	0.8	–	4.4

Underlying operating profit comprises operating profit before disposals and other exceptional items. Unallocated assets principally comprise centrally managed property, plant and equipment, associates and other investments, deferred tax assets, derivative financial instrument assets and cash and cash equivalents which are used as part of the Group's financing offset arrangements. Unallocated liabilities comprise borrowings, derivative financial instrument liabilities, current and non-current tax, deferred tax liabilities, retirement benefit obligations, and centrally held accruals and provisions.

3 Operating Expenses and Other Income – Continuing Operations

	Note	**2006 Before exceptionals £m**	**2006 Exceptional items £m**	**2006 Total £m**	2005 Before exceptionals £m	2005 Exceptional items £m	2005 Total £m
Raw materials		**123.6**		**123.6**	129.1		129.1
Employee costs	25	**221.2**		**221.2**	231.1		231.1
Depreciation of property, plant and equipment:							
– purchased		**22.9**		**22.9**	26.3		26.3
– leased		**0.7**		**0.7**	0.1		0.1
Impairment of goodwill		**–**		**–**		11.5	11.5
Amortisation of other intangibles		**3.4**		**3.4**	2.2		2.2
Net impairment of inventories		**2.9**		**2.9**	2.5		2.5
Impairment of trade receivables		**1.1**		**1.1**	1.1		1.1
Operating leases:							
– hire of plant and equipment		**0.4**		**0.4**	0.9		0.9
– hire of property		**2.8**		**2.8**	5.9		5.9
Auditors' remuneration:							
– audit fees		**0.9**		**0.9**	0.9		0.9
– UK non audit related fees		**0.4**		**0.4**	0.4		0.4
– overseas non audit related fees		**0.2**		**0.2**	0.1		0.1
Research and non-capitalised development expense		**10.0**		**10.0**	14.1		14.1
Loss on disposal of fixed assets		**1.2**		**1.2**	–		–
Reorganisation costs			**3.7**	**3.7**		13.5	13.5
Foreign exchange gains		**(1.3)**		**(1.3)**	(0.9)		(0.9)
Discontinuance of cash flow hedge accounting		**–**		**–**	–		–
Interest rate swaps: net investment hedges		**–**		**–**	–		–
Other operating expenses		**151.0**		**151.0**	151.5		151.5
		541.4	**3.7**	**545.1**	**565.3**	**25.0**	**590.3**
Other income:							
Profit on disposal of investments		**–**	**(0.8)**	**(0.8)**	–	–	–
Income from investments previously impaired		**–**	**(0.4)**	**(0.4)**	–	(0.4)	(0.4)
		–	**(1.2)**	**(1.2)**	–	(0.4)	(0.4)

In 2006, net reorganisation costs of £3.7m consisted of £4.2m in Cash Systems relating to the fundamental restructuring of the business which commenced in 2004/2005 offset by a write back of surplus provisions relating to the closure of factories in Security Paper and Print.

In 2005, net reorganisation costs of £13.5m consisted of £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.

Notes to the Accounts
continued

3 Operating Expenses and Other Income – Continuing Operations continued

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

Non audit related fees in 2006 consisted of taxation services of £0.3m (2005 : £0.3m) and further assurance services of £0.3m (2005 : £0.2m).

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

Income from investments previously impaired in both years arises from loan repayments from the Group's associate holding in Valora.

4 Discontinued Operations

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

An analysis of the results of discontinued operations is shown below:

	2006 £m	2005 £m
Sales – Sequoia Voting Systems Inc.	–	23.1
Operating expenses – Sequoia Voting Systems Inc.	–	(23.3)
Operating loss – Sequoia Voting Systems Inc.	–	(0.2)
Profit on disposal – Sequoia Voting Systems Inc.	–	6.0
Warranty provisions no longer required on businesses previously disposed	–	2.9
Taxation on discontinued activities	–	(1.8)
Profit for the year from discontinued operations	–	6.9

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. There were no material investing or financing cash flows.

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 purchaser	1.1
Disposal costs paid	(0.5)
Disposal costs accrued	(1.4)
Total	**6.8**

5 Interest

	2006 £m	2005 £m
Interest income		
Cash and cash equivalents	**3.8**	5.7
Interest expense		
Bank overdrafts	**(0.6)**	–
Bank loans	**(0.6)**	(1.9)
Finance leases	**(0.7)**	(0.9)
Other	**(0.1)**	(0.4)
	(2.0)	(3.2)
Retirement benefit obligation net finance (costs)/income (Note 24)	**(1.8)**	1.5

6 Taxation

	2006 Before exceptionals £m	2006 Exceptional items £m	2006 Total £m	2005 Before exceptionals £m	2005 Exceptional items £m	2005 Total £m
Current tax	**19.0**	**(0.6)**	**18.4**	11.6		11.6
Deferred tax	**3.4**	**0.1**	**3.5**	5.6	(4.3)	1.3
	22.4	**(0.5)**	**21.9**	17.2	(4.3)	12.9

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 30 per cent as follows:

	2006 Before exceptionals £m	2006 Exceptional items £m	2006 Total £m	2005 Before exceptionals £m	2005 Exceptional items £m	2005 Total £m
Profit before tax	**76.2**	**(2.5)**	**73.7**	65.2	(24.6)	40.6
Tax calculated at UK tax rate at 30 per cent	**22.9**	**(0.7)**	**22.2**	19.6	(7.4)	12.2
Rate adjustment to overseas profits	**(1.3)**		**(1.3)**	(2.3)		(2.3)
Overseas dividends	**1.9**		**1.9**	0.6		0.6
Income not subject to tax		**(0.1)**	**(0.1)**		(2.0)	(2.0)
Expenses not deductible for tax purposes	**2.4**	**0.3**	**2.7**	1.3	5.1	6.4
Adjustment for tax on profits of associate	**(2.1)**		**(2.1)**	(1.9)		(1.9)
Prior year adjustments	**(1.1)**		**(1.1)**	(1.2)		(1.2)
Utilisation of previously unrecognised tax losses	**(0.3)**		**(0.3)**			–
Tax losses for which no deferred income tax asset was recognised				1.1		1.1
Tax charge	**22.4**	**(0.5)**	**21.9**	17.2	(4.3)	12.9

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of £6.9m (2005 : £7.2m) in respect of losses amounting to £18.2m (2005 : £21.3m) that can be carried forward against future taxable income.

Deferred income tax liabilities of £106.8m (2005 : £96.2m) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled £380.4m at 31 March 2006 (2005 : £359.5m).

Notes to the Accounts
continued

7 Earnings Per Share

	2006 Pence per share	2005 Pence per share
Basic earnings per share	**30.2**	18.5
Diluted earnings	**29.4**	18.4
Headline earning per share	**31.4**	25.9

Basic earnings per share is calculated by dividing the earning attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted for the impact of dilutive share options.

During the year the Company paid an exceptional dividend of £68.3m and at the same time carried out a consolidation of its share capital. These transactions were conditional on each other. They were specifically designed to achieve the same overall effect on the Company's capital structure as a buy back of shares in a way in which all shareholders could participate. Accordingly, earnings per share is presented on the basis that in substance a share buy back has occurred.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	2006 Earnings £m	2006 Weighted average number of shares m	2006 Per-share amount pence	2005 Earnings £m	2005 Weighted average number of shares m	2005 Per-share amount pence
Basic EPS	**50.9**	**168.6**	**30.2**	33.0	178.3	18.5
Effect of dilutive options	**–**	**4.5**	**(0.8)**	–	1.1	(0.1)
Diluted EPS	**50.9**	**173.1**	**29.4**	33.0	179.4	18.4
Earnings per share from continuing operations						
Basic EPS	**50.9**	**168.6**	**30.2**	33.0	178.3	18.5
Profit on disposal – Sequoia Voting Systems Inc.	**–**		**–**	(6.0)		(3.4)
Warranty provisions no longer required on disposal of business	**–**		**–**	(2.9)		(1.6)
Pre tax loss from discontinued operations	**–**		**–**	0.2		0.1
Taxation on discontinued activities	**–**		**–**	1.8		1.0
Basic EPS from continuing operations	**50.9**	**168.6**	**30.2**	26.1	178.3	14.6
Effect of dilutive options	**–**	**4.5**	**(0.8)**	–	1.1	(0.1)
Diluted EPS from continuing operations	**50.9**	**173.1**	**29.4**	26.1	179.4	14.5
Earnings per share from discontinued operations						
Basic EPS						
Profit on disposal – Sequoia Voting Systems Inc.	**–**		**–**	6.0	178.3	3.4
Warranty provisions no longer required on disposal of business	**–**		**–**	2.9		1.6
Pre tax loss from discontinued operations	**–**		**–**	(0.2)		(0.1)
Taxation on discontinued activities	**–**		**–**	(1.8)		(1.0)
Basic EPS from discontinued operations	**–**		**–**	6.9	178.3	3.9
Effect of dilutive options	**–**		**–**		1.1	–
Diluted EPS from discontinued operations	**–**		**–**	6.9	179.4	3.9

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

	2006 Pence per share	2005 Pence per share
Reconciliation of headline earnings per share		
Basic earnings per share	**30.2**	18.5
Income from investment previously impaired	**(0.2)**	(0.2)
Profit on disposal of investments	**(0.5)**	–
Profit on disposal of discontinued operations	**–**	(5.0)
Impairment of goodwill	**–**	6.4
Reorganisation costs	**1.9**	6.2
Headline earnings per share	**31.4**	25.9

8 Equity Dividends

	2006 £m	2005 £m
Final dividend for the year ended 26 March 2005 of 10.6p paid on 5 August 2005	**19.1**	–
Special dividend of 38.0p paid on 5 August 2005	**68.3**	–
Interim dividend for the period ended 24 September 2005 of 5.2p paid on 18 January 2006	**8.4**	–
Final dividend for the year ended 27 March 2004 of 9.8p paid on 6 August 2004	**–**	17.5
Interim dividend for the period ended 25 September 2004 of 4.7p paid on 19 January 2005	**–**	8.3
	95.8	25.8

A final dividend per equity share of 11.8p has been proposed for the year ended 25 March 2006, payable on 4 August 2006. In accordance with IFRS accounting requirements this dividend has not been accrued in these consolidated financial statements.

9 Property, Plant and Equipment

Year ended 25 March 2006	**Land and buildings £m**	**Plant and machinery £m**	**Fixtures and fittings £m**	**In course of construction £m**	**Total £m**
Group					
Cost or valuation					
At 27 March 2005	57.8	233.9	47.3	6.7	345.7
Exchange differences	0.9	4.3	1.1	0.5	6.8
Additions	1.1	4.6	3.7	5.7	15.1
Transfers from assets in the course of construction	0.1	6.1	0.4	(6.6)	–
Disposals	(1.6)	(7.8)	(13.9)	–	(23.3)
At 25 March 2006	**58.3**	**241.1**	**38.6**	**6.3**	**344.3**
Accumulated depreciation					
At 27 March 2005	16.9	142.0	37.9	–	196.8
Exchange differences	0.6	3.6	0.9	–	5.1
Depreciation charge for the year	1.5	17.8	4.3	–	23.6
Disposals	(0.2)	(7.8)	(12.5)	–	(20.5)
At 25 March 2006	**18.8**	**155.6**	**30.6**	**–**	**205.0**
Net book value					
At 25 March 2006	**39.5**	**85.5**	**8.0**	**6.3**	**139.3**

Year ended 26 March 2005	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	In course of construction £m	Total £m
Group					
Cost or valuation					
At 28 March 2004	56.6	229.7	49.5	9.9	345.7
Exchange differences	0.3	1.5	–	0.1	1.9
Additions	0.6	5.7	2.6	10.4	19.3
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**	**233.9**	**47.3**	**6.7**	**345.7**
Accumulated depreciation					
At 28 March 2004	15.5	134.4	36.4	–	186.3
Exchange differences	–	1.4	–	–	1.4
Depreciation charge for the year	1.5	19.4	5.5	–	26.4
Disposals	(0.1)	(13.2)	(4.0)	–	(17.3)
At 26 March 2005	**16.9**	**142.0**	**37.9**	**–**	**196.8**
Net book value					
At 26 March 2005	**40.9**	**91.9**	**9.4**	**6.7**	**148.9**

Included in the above are leased assets as follows:

Plant and machinery	cost	£17.0m	(2005 : £22.8m)
	net book value	£7.8m	(2005 : £14.3m)

Notes to the Accounts
continued

10 Intangible Assets

Year ended 25 March 2006	Goodwill £m	Research & development £m	Software assets £m	Distribution rights £m	Total £m
Cost					
At 27 March 2005	26.1	8.3	8.0	2.9	45.3
Exchange differences	0.2	–	–	–	0.2
Additions	–	3.7	4.6	–	8.3
Disposals	–	–	(0.4)	–	(0.4)
At 25 March 2006	26.3	12.0	12.2	2.9	53.4
Accumulated amortisation/impairment					
At 27 March 2005	11.5	1.5	5.6	2.9	21.5
Amortisation for the year	–	1.0	2.4	–	3.4
Disposals	–	–	(0.4)	–	(0.4)
At 25 March 2006	11.5	2.5	7.6	2.9	24.5
Carrying value at 25 March 2006	14.8	9.5	4.6	–	28.9

Year ended 26 March 2005	Goodwill £m	Research & development £m	Software assets £m	Distribution rights £m	Total £m
Cost					
At 28 March 2004	26.0	5.6	6.6	2.8	41.0
Exchange differences	0.1	–	–	0.1	0.2
Additions	1.2	3.0	1.4	–	5.6
Disposals	(1.2)	(0.3)	–	–	(1.5)
At 26 March 2005	26.1	8.3	8.0	2.9	45.3
Accumulated amortisation/impairment					
At 28 March 2004	–	–	4.9	2.8	7.7
Exchange differences	–	–	–	0.1	0.1
Amortisation for the year	–	1.5	0.7	–	2.2
Impairment charge for year	11.5	–	–	–	11.5
At 26 March 2005	11.5	1.5	5.6	2.9	21.5
Carrying value at 26 March 2005	14.6	6.8	2.4	–	23.8

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to business segment and country of operation.

A segment level summary of the goodwill allocation is presented below:

	2006 Cash Systems £m	2006 Security Paper and Print £m	2006 Total £m	2005 Cash Systems £m	2005 Security Paper and Print £m	2005 Total £m
United Kingdom and Ireland	1.2	1.3	2.5	1.2	1.3	2.5
Rest of Europe	5.2	1.6	6.8	5.3	1.6	6.9
The Americas	3.9	0.8	4.7	3.6	0.8	4.4
Rest of World	–	0.8	0.8	–	0.8	0.8
	10.3	4.5	14.8	10.1	4.5	14.6

Impairment tests are performed for all CGUs to which goodwill has been allocated at the balance sheet date or whenever there is indication of impairment. For all other intangible assets an impairment test is performed whenever an indicator of impairment exists. In the year ended 25 March 2006, no impairment charges were recognised. The estimates of recoverable amount were based on value-in-use calculations, using a post-tax discount rate of 10.0 per cent. These calculations use cash flow projections covering a five year period based on the financial budget for 2006/2007. Cash flows beyond this period are extrapolated assuming a growth rate of 3 per cent. The growth rate used does not exceed the long term average growth rate for the manufacturing business in which the CGU operates. The discount rates used are post-tax and reflect specific risks relating to the relevant segments.

11 Investments

Investments comprise

	2006 £m	2005 £m
Investments in associated companies	**12.7**	14.0
Other investments	**–**	0.3
	12.7	14.3

Other investments have been classified as available for sale financial assets on adoption of IAS 32 and IAS 39 (Note 12).

	Associates £m
At 27 March 2005	**14.0**
Share of post tax profits	6.8
Dividends paid	(8.1)
At 25 March 2006	**12.7**
At 28 March 2004	13.2
Share of post tax profits	6.4
Dividends paid	(5.6)
At 26 March 2005	**14.0**

At 25 March 2006 and 26 March 2005, the principal associate of the Group is Camelot Group plc.

The Group's share of assets and liabilities for associates are as follows:

	2006 Total associates £m	2006 Camelot Group £m	2005 Total associates £m	2005 Camelot Group £m
Sales	**1,004.5**	**1,002.6**	956.7	953.4
Profit after tax	**6.8**	**6.8**	6.4	6.4
Assets	**75.3**	**75.2**	73.6	69.8
Liabilities	**(62.6)**	**(61.3)**	(59.6)	(55.8)

12 Available for Sale Financial Assets

	2006 £m
At 27 March 2005	**–**
Adoption of IAS 32 and IAS 39	**0.3**
Additions	**0.2**
At 25 March 2006	**0.5**

Available for sale financial assets comprise Wembley and Wimbledon debentures.

13 Inventories

	2006 £m	2005 £m
Raw materials	**13.5**	16.3
Work in progress	**21.4**	24.4
Finished goods	**36.7**	33.1
	71.6	73.8

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

Provisions of £6.7m recognised in operating expenses were made against inventories in 2006 (2005 : £3.3m). The Group also reversed £3.8m (2005 : £0.8m), being part of an inventory write down that was subsequently not required.

Notes to the Accounts
continued

14 Trade and Other Receivables

	2006 £m	2005 £m
Non current assets		
Other receivables	**0.2**	1.1
	0.2	1.1
Current assets		
Trade receivables	**78.7**	78.4
Provision for impairment	**(6.8)**	(9.1)
Net trade receivables	**71.9**	69.3
Amounts due from associated companies and joint ventures	**–**	0.3
Other receivables	**11.6**	8.9
Prepayments and accrued income	**8.7**	7.5
	92.2	86.0
	92.4	87.1

Following adoption of IAS 32 and IAS 39 on 27 March 2005, other trade receivables included in current assets at 26 March 2005 reduced by £0.3m. See Note 29 for details.

The carrying value of trade and other receivables also represent their fair value.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, internationally dispersed.

15 Derivative Financial Instruments

Financial Instruments 2006

Foreign Exchange Management

	2006 Assets £m	2006 Liabilities £m
Forward foreign exchange contracts – cash flow hedges	**1.0**	**0.9**
Embedded derivatives	**0.3**	**0.8**
Total	**1.3**	**1.7**
Less non-current portion:		
Embedded derivatives	**–**	**0.5**
Current portion	**1.3**	**1.2**

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

Forward Foreign Exchange Contracts
The net principal amounts of the outstanding forward foreign exchange contracts at 25 March 2006 are US$62.3m, Swedish Krona 139.8m, Euro 140.6m, Swiss Francs 11.2m, Canadian Dollars 5.4m, Japanese Yen 23.1m and South African Rand 1.5m. The net principal amount outstanding under forward contracts with maturities greater than 12 months is Euro 86.8m.

Gains and losses recognised in the hedging reserve in equity (Note 1) on forward foreign exchange contracts as of 25 March 2006 will be released to the income statement at various dates between one month and 36 months from the balance sheet date.

Embedded derivative assets and liabilities represent the full fair value of uninvoiced amounts outstanding at 25 March 2006 on sales and purchase contracts denominated in currencies other that the functional currency of the customer/supplier, or a currency that is not deemed to be a commonly used currency of the country in which the customer/supplier is based.

15 Derivative Financial Instruments continued

Net Investments

The Group has designated $30m of US Dollar swaps as a hedge of the net investment in the Group's US subsidiary operations. The fair value of the currency swaps at 25 March 2006 was Nil (2005 : £0.5m).

The Group has designated Rand 34m of South African Rand swaps as a hedge of the net investment in the Group's South African subsidiary operations. The fair value of the currency swaps at 25 March 2006 was Nil (2005 : Nil).

The Group has designated Swiss Franc 10m of Swiss Franc swaps as a hedge of the net investment in the Group's Swiss subsidiary operations. The fair value of the currency swaps at 25 March 2006 was Nil (2005 : Nil).

The Group has designated Canadian $4m of Canadian Dollar swaps as a hedge of the net investment in the Group's Canadian subsidiary operations. The fair value of the currency swaps at 25 March 2006 was Nil (2005 : Nil).

Cash Management Swaps

In addition to currency swaps for net investments the Group also uses currency swaps to manage the level of borrowings in foreign currencies. The fair value of cash management currency swaps at 25 March 2006 was Nil (2005 : Nil). Gains and losses on cash management swaps are included in the consolidated income statement.

The net principal amounts outstanding under cash management currency swaps are US Dollars (15.1)m, Euro (23.9)m, Swedish Krona 412.5m, Swiss Francs (3.0)m, Canadian Dollars (0.7)m, Japanese Yen (65)m and South African Rand (13.1)m.

Interest Rate Management

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

	2006 £m
Six months or less	**295.6**
Six–12 months	**0.3**
One–five years	**1.2**
Over five years	**0.1**
	297.2

The maturity of non-current borrowings are as follows:

	2006 £m
Between one and two years	**0.3**
Between two and five years	**1.2**
Over five years	**0.1**
	1.6

The effective interest rates at the balance sheet date were as follows:

	2006 US$	2006 Swedish Krona	2006 €	2006 £	2006 Other
Bank overdrafts	**5.75**	**3.50**	**3.50**	**5.50**	**2.50**
Bank borrowings	**–**	**–**	**–**	**–**	**–**
Obligations under finance leases	**5.10**	**–**	**–**	**4.60**	**–**
Other loans	**–**	**–**	**–**	**–**	**2.20**

The carrying amount of short term borrowings approximate their fair value.

Notes to the Accounts
continued

15 Derivative Financial Instruments continued

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2006 £m
US Dollar	**50.6**
Swedish Krona	**25.7**
Euro	**25.8**
Pound Sterling	**157.7**
Other currencies	**37.4**
	297.2

The Group has the following undrawn borrowing facilities:

	2006 £m
Floating rate:	
– expiring within one year	**11.5**
– expiring beyond one year	**35.0**
Fixed rate:	
– expiring within one year	**–**
	46.5

As at 25 March 2006, the total of undrawn committed borrowing facilities maturing in more than two years was Nil (2005 : £35.0m).

Financial Risk Management
Financial Risk Factors
The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk, cash flow interest rate risk and commodity price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. Group Treasury provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments, and the investment of excess liquidity.

(a) Market Risk
Foreign Exchange Risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro, Swedish Krona and the UK Pound. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with Group Treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency by using external forward foreign exchange contracts transacted with financial institutions.

For segment reporting purposes, each subsidiary designates contracts with Group Treasury as fair value hedges or cash flow hedges, as appropriate. External forward foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

The Group's risk management policy is to hedge firm commitments and between 60 per cent to 100 per cent of forecast exposures in each major currency for the subsequent 12 months. Forecast transactions must be highly probable for hedge accounting purposes.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies and through foreign currency swaps.

15 Derivative Financial Instruments continued

(b) Credit Risk
The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution. An analysis of net assets per geographical region is shown in Note 2 to the accounts.

(c) Liquidity Risk
Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash Flow and Fair Value Interest Rate Risk
De La Rue's interest rate management policy is generally to borrow and invest cash at floating rates.

The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's exposure to cash flow interest rate risk arises principally from cash balances held. Current low levels of borrowings are all at floating rate. At higher levels of borrowings the policy is to manage the interest rate exposure through the use of floating to fixed interest rate swaps.

Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

(e) Commodity Price Risk
The Group's normal policy is to buy commodities at prevailing market prices under medium term supply contracts. The Group has limited exposure to commodity price risk through the purchase of energy products.

Fair Value Estimation
The fair value of financial instruments that are not traded in an active market (over-the-counter derivatives) is determined by using valuation techniques. In estimating fair values the Group makes assumptions based on market conditions existing at each balance sheet date. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

Financial Instruments 2005
Narrative disclosures required by FRS 13 'Derivatives and Financial Instruments' in respect of the prior year, are within the Accounting Policies and in the Treasury operations, foreign exchange and borrowing facilities section of the Financial Review of the prior year Report and Accounts. Numerical disclosures are set out below.

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

These disclosures apply to the comparative year ending 26 March 2005 only as the Group adopted IAS 32 and IAS 39 as at 27 March 2005. The disclosures required by IAS 32 and IAS 39 for the year ended 25 March 2006 are shown above and are not comparable to the prior year disclosures presented here.

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.

Notes to the Accounts
continued

15 Derivative Financial Instruments continued

As at 26 March 2005 and per the FRS 13 definition the Group's financial liabilities comprised short term borrowings of £17.8m; long term borrowings of £16.4m; other long term creditors of £12.8m; and provisions for other liabilities and charges of £24.0m.

Currency	2005 Total £m	2005 Floating £m	2005 Fixed £m	2005 Interest free £m
Sterling	41.8	17.9	–	23.9
US Dollar	6.6	1.6	–	5.0
Eurozone	8.7	3.0	–	5.7
Other	15.7	11.7	–	4.0
	72.8	34.2	–	38.6

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 per cent 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
Within one year	39.4
Between one and two years	13.5
Between two and five years	17.5
More than five years	2.4
	72.8

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:

	2005 Cash and deposits £m
Sterling	97.2
US Dollar	6.0
Eurozone	21.3
Other	16.2
	140.7

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.

15 Derivative Financial Instruments continued

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 IAS 39.

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 2004/2005 income	(1.7)	1.1	(0.6)
Gains and losses not included in 2004/2005 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 2004/2005	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 2005/2006 income	1.6	(0.7)	0.9
Gains and losses expected to be included in 2006/2007 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.

16 Cash and Cash Equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**318.6**	40.3
Short term bank deposits	**70.2**	100.4
	388.8	140.7

The effective interest rate on short term bank deposits was 4.2 per cent (2005 : 4.5 per cent); these deposits have an average maturity of 22 days.

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	2006 £m	2005 £m
Cash and cash equivalents	**388.8**	140.7
Bank overdrafts repayable on demand	**(281.0)**	(14.4)
Balance per Group cash flow statement	**107.8**	126.3

Notes to the Accounts
continued

17 Deferred Taxation

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2006 £m	2005 £m
Deferred tax assets:		
– deferred tax asset to be recovered after more than 12 months	**51.6**	53.5
– deferred tax asset to be recovered within 12 months	**2.3**	3.6
	53.9	57.1
Deferred tax liabilities:		
– deferred tax liability to be recovered after more than 12 months	**(0.8)**	(1.4)
– deferred tax liability to be recovered within 12 months	**–**	–
	(0.8)	(1.4)
	53.1	55.7

The gross movement on the deferred income tax account is as follows:

	2006 £m	2005 £m
Beginning of the year	**55.7**	50.8
Exchange differences	**0.3**	0.4
Disposal of subsidiary		(1.1)
Income statement charge	**(3.5)**	(1.3)
Tax charged to equity	**0.6**	6.9
End of the year	**53.1**	55.7

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Liabilities

	Accelerated tax depreciation £m	Fair value gains £m	Development costs £m	Other £m	Total £m
At 28 March 2004	4.2	0.4	1.4	1.7	7.7
Charged/(credited) to the income statement	4.8	–	–	2.6	7.4
At 27 March 2005	9.0	0.4	1.4	4.3	15.1
Charged/(credited) to the income statement	(0.9)	–	1.5	0.8	1.4
At 25 March 2006	8.1	0.4	2.9	5.1	16.5

Assets

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
At 28 March 2004	(0.1)	(29.5)	(7.0)	(21.9)	(58.5)
(Credited)/charged to the income statement	(0.2)	0.4	1.2	(7.5)	(6.1)
(Credited)/charged to equity	(0.2)	(6.7)	–	–	(6.9)
Disposal of subsidiary	–	–	1.1	–	1.1
Exchange differences	–	–	(0.3)	(0.1)	(0.4)
At 27 March 2005	(0.5)	(35.8)	(5.0)	(29.5)	(70.8)
(Credited)/charged to the income statement	(0.3)	(0.7)	1.8	1.3	2.1
(Credited)/charged to equity	(1.2)	0.7	–	(0.1)	(0.6)
Exchange differences	–	–	(0.1)	(0.2)	(0.3)
At 25 March 2006	**(2.0)**	**(35.8)**	**(3.3)**	**(28.5)**	**(69.6)**

18 Trade and Other Payables

	2006 £m	2005 £m
Current liabilities		
Payments received on account	**36.0**	23.7
Trade payables	**34.2**	27.3
Amounts owed to associated companies	**0.4**	0.3
Social security and other taxation	**9.6**	9.4
Accrued expenses and deferred income	**88.6**	91.1
Other payables	**13.7**	14.5
	182.5	166.3
Non current liabilities		
Accrued expenses and deferred income	**–**	0.1
Other payables	**0.5**	0.3
	0.5	0.4

Following adoption of IAS 32 and IAS 39 on 27 March 2005, other payables included in current liabilities at 26 March 2005 increased by £0.7m. See Note 29 for details.

19 Borrowings

The Group has implemented IAS 32 and IAS 39 at 26 March 2005 without restatement of comparatives as permitted by IFRS1.

	2006 £m	2005 £m
Current liabilities		
Bank loans and overdrafts	**282.4**	15.4
Finance leases	**2.2**	2.4
	284.6	17.8
Non current liabilities		
Bank loans repayable otherwise than by installments	**1.6**	2.0
Finance leases	**11.0**	14.4
	12.6	16.4

Bank loans and overdrafts of £250.5m are pooled for interest purposes against cash and cash equivalents.

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

The minimum lease payments under finance leases fall due as follows:

	2006 £m	2005 £m
Not later than one year	**4.2**	4.8
Later than one year but not more than five	**10.6**	13.4
More than five years	**–**	1.1
	14.8	19.3
Future finance charges on finance leases	**(1.6)**	(2.5)
Present value of finance lease liabilities	**13.2**	16.8

Present value of finance lease payments falling due:

	2006 £m	2005 £m
Not later than one year	**2.2**	2.4
Later than one year but not more than five	**11.0**	13.6
More than five years	**–**	0.8
	13.2	16.8

Notes to the Accounts
continued

20 Provisions for Liabilities and Charges

	Restructuring £m	Business disposals £m	Other £m	Total £m
At 27 March 2005	10.7	3.6	9.7	**24.0**
Exchange differences	–	0.1	0.1	**0.2**
Charge for the year	4.2	2.2	8.0	**14.4**
Utilised in year	(8.0)	–	(5.3)	**(13.3)**
Released in year	(0.5)	(2.2)	(1.9)	**(4.6)**
Transfer from other creditors	–	–	1.6	**1.6**
At 25 March 2006	**6.4**	**3.7**	**12.2**	**22.3**

Restructuring provisions relate to amounts set aside for various reorganisations within the Group, principally Cash Systems operations. Most of the utilisation of these provisions is likely within the next year.

Business disposal provisions represent amounts provided in respect of business previously disposed by the Group.

Other provisions relate to warranty costs, legal costs and other present obligations. There are no other individually material provisions held within other provisions.

21a Share Capital

	2006 £m	2005 £m
Authorised		
239,063,310 ordinary shares of 27 7/9p each (2005 : 265,625,900 ordinary shares of 25p each)	**66.4**	66.4
Authorised, called up and fully paid		
165,361,177 ordinary shares of 27 7/9p each (2005 : 184,200,565 ordinary shares of 25p each)	**45.9**	46.1

	2006 '000	2005 '000
Allotments during the year		
Ordinary shares in issue at 27 March 2005	**184,201**	183,070
Shares bought back for cancellation	**(1,612)**	–
Issued under savings related share option schemes	**312**	126
Issued under executive share option schemes	**871**	900
Issued under US employee share purchase plan	**80**	99
Issued under the matching shares scheme	**5**	6
Shares consolidated*	**(18,496)**	–
Ordinary shares in issue at 25 March 2006	**165,361**	184,201

*on 1 August 2005, the Group carried out a share consolidation of nine new shares for every ten shares in issue accompanied by the payment of a special dividend to all shareholders.

21b Share Based Payments

At 25 March 2006, De La Rue plc have a number of share based payment plans, which are described below. The plans have been accounted for in accordance with the fair value recognition provisions of IFRS 2 'Share Based Payments'. IFRS 2 applies to equity settled awards granted after 7 November 2002 not vested at 1 January 2005 and all cash settled awards outstanding as at 1 January 2005.

The compensation cost and related liability that have been recognised for De La Rue's share based compensation plans are set out in the table below:

	Expense recognised for the year		Liability at end of year	
	2006 £m	2005 £m	2006 £m	2005 £m
Executive share option plan and scheme	**2.0**	1.0	**–**	–
Deferred bonus and matching share plan	**0.9**	–	**–**	–
Savings related share option scheme	**0.3**	0.4	**–**	–
Matching shares scheme	**–**	–	**–**	–
US employee share purchase plan	**–**	–	**–**	–
Phantom share option plan and scheme	**–**	–	**0.6**	0.4
	3.2	1.4	**0.6**	0.4

21b Share Based Payments continued

The fair value of share options is estimated at the date of grant using a binomial lattice based option valuation model except the savings related share option scheme, which is valued using the Black-Scholes formula. The significant assumptions used in the valuation model are disclosed below.

Arrangement	Executive share option plan	Deferred bonus and matching share plan	Savings related share option scheme	Matching shares scheme	US employee share purchase plan	Phantom share option scheme
Dates of current year grants	5 Jul ’05	28 Jul ’05	29 Dec ’05		n/a	5 Jul ’05
Number of options granted	458,457	594,111	457,303 (3 yr) 205,325 (5 yr)		n/a	19,365
Exercise price	407.42p	386.13p	357.00p	n/a	n/a	407.42p
Contractual life (years)	10	3	3/5	2	n/a	10
Settlement	Shares	Shares	Shares	Shares	Shares	Cash
Vesting period (years)	3	3	3/5	2	n/a	3
Dividend yield	4.5%	4.5%	4.5%	4.5%	n/a	4.5%
Fair value per option at grant date	£0.93	£3.91 deferred allocation £2.84 matching allocation	£0.81 for 3 yr plan £0.89 for 5 yr plan		n/a	£0.76 remeasured at period end

An expected volatility rate of 30.0 per cent has been used for grants throughout the period. This rate is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The rate applied during the year was in the region of 4.3 per cent to 4.6 per cent depending on exact grant date. Early exercise has been modelled assuming 10 per cent of option holders leave each year after vesting and that 50 per cent of remaining option holders will exercise per year subject to a minimum acceptable gain. This is consistent with actual exercise patterns.

Reconciliations of option movements over the year to 25 March 2006 for each class of options are shown below. The weighted average share price during the year was 416.71p.

Executive Share Option Plan

The Executive Share Option Plan is open to senior executives around the Group. Options are granted at a price equal to the average market price of a 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. The performance condition relates to the achievement over three years of at least 3.0 per cent per annum earnings per share growth over the rate of increase in the retail price 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 twice, on the fourth and fifth anniversaries of the grant date. A pre vesting forfeiture rate of 5.0 per cent per annum has been assumed.

	2006 Number of options ’000	**2006 Weighted average exercise price pence per share**	2005 Number of options ’000	2005 Weighted average exercise price pence per share
Options outstanding at start of year	**4,463**	**300.03**	2,990	269.20
Granted	**458**	**407.42**	2,095	365.86
Forfeited	**(60)**	**313.57**	(181)	328.90
Exercised	**(484)**	**293.50**	(258)	249.00
Expired	**(264)**	**309.28**	(183)	319.17
Outstanding at end of year	**4,113**	**312.22**	4,463	253.21
Exercisable at year end	**100**	**200.50**	–	–

The range of exercise prices for the share options outstanding at the end of the year is 200.50p–407.42p (2005 : 200.50p–356.83p).

The remaining contractual life of the outstanding share options is up to 5 July 2015 (2005 : up to 8 December 2014).

Notes to the Accounts
continued

21b Share Based Payments continued

Executive Share Option Scheme
The Company operates an Executive Share Option Scheme with a HM Revenue and Customs 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 that has been 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 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 total return of a share over a rolling three-year period exceeds the average total return of the FTSE All Share Index. A pre vesting forfeiture rate of 5 per cent per annum has been assumed.

	2006 Number of options '000	2006 Weighted average exercise price pence per share	2005 Number of options '000	2005 Weighted average exercise price pence per share
Options outstanding at start of year	**2,748**	**477.80**	3,530	405.91
Granted	**–**	**–**	–	–
Forfeited	**–**	**–**	(10)	672.95
Exercised	**(678)**	**324.10**	(642)	255.70
Expired	**(443)**	**609.80**	(130)	522.30
Outstanding at end of year	**1,627**	**507.30**	2,748	477.32
Exercisable at year end	**334**	**485.21**	1,102	430.98

The range of exercise prices for the share options outstanding at the end of the year is 275.25p–637p (2005 : 275.25p–934p).
The remaining contractual life of the outstanding share options is 3 December 2011 (2005 : up to 3 December 2011).

Deferred Bonus and Matching Share Plan
The plan is open to senior executives around the Group. The plan is a combination of three elements: deferred allocation, dividend allocation and matching allocation. The matching allocation is linked to the deferred allocation and is subject to the following performance conditions: up to 50.0 per cent of the award is released subject to an earnings per share test and up to 50.0 per cent of the remaining matching allocation is based on De La Rue's total shareholder return (TSR) compared against the companies in the FTSE Mid 250 excluding investment trusts. The performance conditions are described in more detail on page 40. The TSR performance condition has been incorporated into the Monte Carlo simulation model used to estimate the fair value of these options.

	2006 Number of options '000	2005 Number of options '000
Options outstanding at start of year	**–**	–
Granted – deferred shares	**236**	–
Granted – matching shares	**358**	–
Forfeited	**–**	–
Exercised	**–**	–
Expired	**(47)**	–
Outstanding at end of year	**547**	–
Exercisable at year end	**–**	–

The deferred and matching shares have been allocated based on a share price of 386.130p.

21b Share Based Payments continued

Savings Related Share Option Scheme

The scheme is open to all UK employees. Options are granted at the prevailing market share price at the time of the grant (with a discretionary discount to the market share price), to employees who agree to save between £5 and £250 per month over a period of three to five years.

There are no performance conditions attaching to the options. After the three or five year term has expired, employees normally have six months in which to decide whether or not to exercise their options. A pre vesting forfeiture rate of 5.0 per cent has been assumed.

	2006 Number of options '000	**2006 Weighted average exercise price pence per share**	2005 Number of options '000	2005 Weighted average exercise price pence per share
Options outstanding at start of year	**2,710**	**273.39**	2,625	261.31
Granted	**663**	**357.00**	570	303.31
Forfeited	**(186)**	**275.25**	(310)	323.10
Exercised	**(949)**	**364.61**	(126)	207.28
Expired	**(96)**	**417.07**	(49)	305.40
Outstanding at end of year	**2,142**	**304.50**	2,710	273.39
Exercisable at year end	**46**	**261.00**	89	434.10

The range of exercise prices for the share options outstanding at the end of the year is 244.5p–434.1p (2005 : 221.1p–434.1p). The weighted average remaining contractual life of the outstanding share options is 1 September 2011 (2005 : 1 September 2010).

Matching Shares Scheme

The Matching Shares Scheme was open to certain key executives (see page 41 of the Remuneration Report). For every two shares lodged with a nominee or trustee for a two year period the executive will receive a further share (a 'matching share'). The award of the matching share is subject to a performance target based on the increase in the Company's earnings per share over a consecutive two year period exceeding inflation plus 3.0 per cent per annum.

	2006 Number of options '000	**2006 Weighted average exercise price pence per share**	2005 Number of options '000	2005 Weighted average exercise price pence per share
Options outstanding at start of year	**9**	**303.50**	6	331.50
Granted	**–**	**–**	3	275.25
Forfeited	**–**	**–**	–	–
Exercised	**(5)**	**275.25**	–	–
Expired	**–**	**–**	–	–
Outstanding at end of year	**4**	**331.50**	9	303.50
Exercisable at year end	**–**	**–**	–	–

The range of exercise prices for the share options outstanding at the end of the year is 331.5p (2005 : 257.5p–331.5p). The weighted average remaining contractual life of the outstanding share options is 22 June 2006 (2005 : up to 14 August 2005).

Notes to the Accounts
continued

21b Share Based Payments continued

Phantom Share Option Scheme
This scheme operates under similar rules to the Executive Share Option Scheme but provides a payment in the form of cash rather than shares.

	2006 Number of options '000	**2006 Weighted average exercise price pence per share**	2005 Number of options '000	2005 Weighted average exercise price pence per share
Options outstanding at start of year	**581**	**353.44**	602	348.72
Granted	**20**	**407.42**	106	356.83
Forfeited	**–**	**–**	–	–
Exercised	**(182)**	**300.65**	(91)	278.24
Expired	**(68)**	**401.98**	(36)	442.96
Outstanding at end of year	**351**	**365.25**	581	353.44
Exercisable at year end	**90**	**327.85**	295	319.82

The range of exercise prices for the share options outstanding at the end of the year is 237.33p–534.00p (2005 : 187.84p–607.00p. The weighted average remaining contractual life of the outstanding share options is up to 5 July 2015 (2005 : 5 July 2014).

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 value of a De La Rue plc share either at the beginning or the end of the offering period, less a 15 per cent discount. In 2005/2006, 79,972 shares (2004/2005 : 98,861 shares) were allotted pursuant to the plan. It is estimated that 69,925 shares will be required to satisfy the Company's 2006/2007 obligations in respect of employee's savings under the plan as at 25 March 2006.

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 the Trustee. The Trustee at 26 March 2005 held 4.1 million shares until due for release to participants of the ESOS and ESOP and this was reduced to 3,690,000 following the share consolidation in August 2005. 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 25 March 2006, 289,876 shares have been transferred to option holders under the ESOP or ESOS.

(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 to employees and directors of the Company and its subsidiaries.

The QUEST at 26 March 2005 held one million shares to be distributed on maturity of savings-related share option schemes and this was reduced to 900,000 following the share consolidation in August 2005. The QUEST has waived all rights to receive dividends payable on its registered shareholding except for 0.0001p per share and accordingly such shareholding is not included in the Company's EPS calculation referred to in Note 7. At 25 March 2006, 637,273 shares have been transferred to option holders under savings related share option schemes.

22a Notes to Group Cash Flow Statement

	2006 £m	2005 £m
Cash generated from operating activities		
Profit before tax	**73.7**	49.3*
Adjustments for:		
Finance income and expense	**–**	(4.0)
Depreciation and amortisation	**27.0**	28.6
Goodwill impairment	**–**	11.5
Decrease in inventories	**3.5**	25.5
(Increase)/decrease in trade and other receivables	**(5.6)**	22.7
Increase/(decrease) in trade and other payables	**16.6**	(20.7)
Decrease in reorganisation provisions	**(3.4)**	(0.9)
Profit on the disposal of discontinued operations	**–**	(8.9)
Loss on disposal of fixed assets	**1.2**	–
Share of income from associates after tax	**(6.8)**	(6.4)
Income from investments	**(1.2)**	(0.4)
Other non-cash movements	**1.7**	2.4
Cash generated from operations	**106.7**	98.7

22b Notes to Group Cash Flow Statement

	2006 £m	2005 £m
Analysis of net cash		
Cash at bank and in hand	**318.6**	40.3
Short term bank deposits	**70.2**	100.4
Bank overdrafts	**(281.0)**	(14.4)
Total cash and cash equivalents	**107.8**	126.3
Other debt due within one year	**(3.6)**	(3.4)
Borrowings due after one year	**(12.6)**	(16.4)
Net cash at end of period	**91.6**	106.5

*profit before tax includes pre-tax result of discontinued operations of £8.7m, consisting of profit on disposal of £8.9m and loss before tax of £0.2m.

23 Group Operating Leases

	2006 Property £m	2006 Plant and equipment £m	2005 Property £m	2005 Plant and equipment £m
Total commitments expiring				
– within one year	**6.2**	**1.2**	7.4	0.8
– between one and two years	**4.4**	**1.1**	6.2	0.8
– between two and five years	**7.5**	**0.9**	12.8	1.5
– over five years	**26.7**	**–**	22.9	-
Payments to be made during next year	**44.8**	**3.2**	49.3	3.1

Notes to the Accounts
continued

24 Retirement Benefit Obligations

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 schemes are generally held in separately administered trusts or are insured.

(i) Defined Benefit Pension Plans

	UK defined benefit pension £m	Overseas defined retirement benefit £m	Defined benefit pension £m	Deferred tax £m	Net defined benefit pension £m
At 27 March 2005	(115.9)	(4.0)	(119.9)	35.8	(84.1)
Current service cost included in operating profit	(9.1)	(0.2)	(9.3)	2.8	(6.5)
Net finance cost	(1.6)	(0.2)	(1.8)	0.6	(1.2)
Actuarial gains and losses arising over the year	2.3	–	2.3	(0.7)	1.6
Cash contributions and benefits paid	9.3	(0.2)	9.1	(2.7)	6.4
Transfers	–	–	–	–	–
At 25 March 2006	**(115.0)**	**(4.6)**	**(119.6)**	**35.8**	**(83.8)**

	UK defined benefit pension £m	Overseas defined retirement benefit £m	Defined benefit pension £m	Deferred tax £m	Net defined benefit pension £m
At 28 March 2004	(95.4)	(3.3)	(98.7)	29.5	(69.2)
Exchange differences					
Current service cost included in operating profit	(10.1)	(0.2)	(10.3)	3.1	(7.2)
Net finance cost	1.7	(0.2)	1.5	(0.5)	1.0
Actuarial gains and losses arising over the year	(22.1)	–	(22.1)	6.7	(15.4)
Cash contributions and benefits paid	10.5	(0.3)	10.2	(3.0)	7.2
Transfers	(0.5)	–	(0.5)	–	(0.5)
At 26 March 2005	(115.9)	(4.0)	(119.9)	35.8	(84.1)

Amounts recognised in the consolidated balance sheet:	**2006 UK £m**	**2006 Overseas £m**	**2006 Total £m**	2005 UK £m	2005 Overseas £m	2005 Total £m
Fair value of plan assets	**510.0**	**15.1**	**525.1**	438.1	14.9	453.0
Present value of funded obligations	**(619.2)**	**(18.4)**	**(637.6)**	(546.6)	(17.8)	(564.4)
Funded defined benefit pension plans	**(109.2)**	**(3.3)**	**(112.5)**	(108.5)	(2.9)	(111.4)
Present value of unfunded obligations	**(5.8)**	**(1.3)**	**(7.1)**	(7.4)	(1.1)	(8.5)
Net liability	**(115.0)**	**(4.6)**	**(119.6)**	(115.9)	(4.0)	(119.9)
Amounts recognised in the consolidated income statement:						
Included in employee benefits expense:						
Current service cost	**(9.1)**	**(0.2)**	**(9.3)**	(10.1)	(0.2)	(10.3)
Included in net finance cost:						
Expected return on plan assets	**28.6**	**0.5**	**29.1**	28.7	0.2	28.9
Interest cost	**(30.2)**	**(0.7)**	**(30.9)**	(27.0)	(0.4)	(27.4)
	(1.6)	**(0.2)**	**(1.8)**	1.7	(0.2)	1.5
Total recognised in the consolidated income statement	**(10.7)**	**(0.4)**	**(11.1)**	(8.4)	(0.4)	(8.8)
Actual return on plan assets	**83.7**	**0.7**	**84.4**	40.3	(0.1)	40.2
Amounts recognised in the statement of recognised income and expense:						
Actuarial gains/(losses) on plan assets	**55.1**	**0.2**	**55.3**	11.6	(0.3)	11.3
Actuarial (losses)/gains on defined benefit pension obligations	**(52.8)**	**(0.2)**	**(53.0)**	(33.7)	0.3	(33.4)
Amounts recognised in the statement of recognised income and expense	**2.3**	**–**	**2.3**	(22.1)	–	(22.1)

24 Retirement Benefit Obligations continued

Major categories of plan assets as a percentage of total plan assets:

	2006 UK %	2006 Overseas %	2006 Total %	2005 UK %	2005 Overseas %	2005 Total %
Equities	**60.2**	**–**	**58.5**	59.0	–	57.1
Bonds	**39.3**	**–**	**38.0**	40.8	–	39.4
Other	**0.5**	**100.0**	**3.5**	0.2	100.0	3.5

Principal actuarial assumptions:

	2006 UK %	2006 Overseas %	2005 UK %	2005 Overseas %
Future salary increases	**3.90**	**3.00**	4.25	3.00
Future pension increases – past service	**3.00**	**1.50**	3.00	1.50
Future pension increases – future service	**2.75**	**1.50**	3.00	1.50
Discount rate	**4.90**	**4.90**	5.50	5.50
Inflation rate	**2.90**	**2.40**	3.00	2.50
Expected return on plan assets:				
Equities	**7.75**	**–**	8.00	–
Bonds	**4.75**	**–**	5.00	–
Other	**4.25**	**4.10**	4.00	4.00

The expected return on plan assets has been determined following advice from the plans' independent actuary and is based on the expected return on each asset class together with consideration of the long term asset strategy.

The mortality assumptions used to assess the defined benefit obligation for the UK plan, the largest plan, at 25 March 2006 and 26 March 2005 are based on the 92 series tables issued by the Continuous Mortality Investigation Bureau.

History of experience gains and losses:

	2006 £m	2005 £m
Fair vale of plan assets	**525.1**	453.0
Present value of defined benefit pension obligations	**(644.7)**	(572.9)
Net liability	**(119.6)**	(119.9)
Cumulative actuarial gains and losses recognised in the Statement of Recognised Income and Expense	**(19.8)**	(22.1)

	2006	2005
Experience gains/(losses) arising on defined benefit obligations:		
Amount (£m)	**–**	4.9
Percentage of present value of defined benefit obligations	**–**	(0.9)%
Experience gains arising on plan assets:		
Amount (£m)	**55.3**	11.3
Percentage of plan assets	**10.5%**	2.5%

The largest defined benefit pension plan operated by the Group is in the UK. A full actuarial valuation of the plan was carried out by a qualified actuary as at 6 April 2003, and updated to 25 March 2006. The plan is valued formally every three years, the next valuation being as at April 2006.

Notes to the Accounts
continued

24 Retirement Benefit Obligations continued

Changes in the fair value of UK plan assets:

	2006 £m	2005 £m
At 27/28 March 2005/2004	**438.1**	409.4
Expected return on plan assets	**28.6**	28.7
Actuarial gains	**55.1**	11.6
Employer contributions	**8.7**	10.2
Plan participant contributions	**3.2**	2.6
Claims from insurance policy	**0.6**	0.3
Benefits paid	**(22.0)**	(22.4)
Plan administration expenses	**(1.2)**	(1.0)
Life assurance premiums	**(0.5)**	(0.7)
Investment management expenses	**(0.6)**	(0.6)
At 25/26 March 2006/2005	**510.0**	438.1

The Group expects to contribute around £8.6m to its material defined benefit pension plans in 2007.

Changes in the fair value of UK defined benefit pension obligations:

	2006 £m	2005 £m
At 27/28 March 2005/2004	**(554.0)**	(504.8)
Current service cost	**(9.1)**	(10.1)
Interest cost	**(30.2)**	(27.0)
Actuarial losses	**(52.8)**	(33.7)
Plan participant contributions	**(3.2)**	(2.6)
Benefits paid	**22.0**	22.4
Plan administration expenses	**1.2**	1.0
Life assurance premiums	**0.5**	0.7
Investment management expenses	**0.6**	0.6
Transfers	**–**	(0.5)
At 25/26 March 2006/2005	**(625.0)**	(554.0)

Movements in the fair value of plan assets and defined benefit pension obligations for overseas plans have not been disclosed as these plans are not considered sufficiently material to warrant such disclosure.

(ii) Defined Contribution Pension Plans
The Group operates a number of defined contribution plans for which the charge in the consolidated income statement for the year was £2.8m (2005 : £2.7m).

25 Employees

	2006	2005
Average number of employees		
United Kingdom and Ireland	**2,302**	2,453
Rest of Europe	**2,200**	2,340
The Americas	**873**	1,087
Rest of World	**647**	636
	6,022	6,516
Average number of employees		
Cash Systems	**3,038**	3,354
Security Paper and Print	**2,984**	3,162
	6,022	6,516

25 Employees continued

	2006 £m	2005 £m
Employee costs (including directors' emoluments)		
Wages and salaries	**190.7**	199.1
Social security costs	**15.2**	17.6
Share incentive schemes	**2.9**	1.0
Sharesave schemes	**0.3**	0.4
Pension costs	**12.1**	13.0
	221.2	231.1

Aggregate gains on the exercise of share options during the year was £0.4m (2005 : £0.4m).

Details of directors' emoluments are set out in the Remuneration Report on page 39.

26 Capital Commitments

	2006 £m	2005 £m
The following commitments existed at the balance sheet date:		
Contracted but not provided for in the accounts	**4.7**	3.0
Authorised but not contracted	**2.8**	1.1
	7.5	4.1

27 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.

28 Related Party Transactions

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

The Group's trading activities with these companies include £5.2m for the purchase of ink and other consumables; £0.3m for the provision of management services; £0.8m for the purchase of banknotes; and £0.1m for the sale of ink, paper and plates. At the balance sheet date there were £0.4m creditor balances with these companies.

Key Management Compensation	2006 £'000	2005 £'000
Salaries and other short term employee benefits	**2,488.5**	3,560.8
Termination benefits	**687.1**	349.0
Retirement benefits:		
– defined contribution	**731.2**	150.2
– defined benefit	**768.3**	243.3
Share-based payments	**848.3**	360.1
	5,523.4	4,663.4

Key management comprises members of the Board (including fees of non-executive Directors) and the Operating Board. Key management compensation includes compensation for loss of office, ex-gratia payments, redundancy payments, enhanced retirement benefits and any related benefits-in-kind connected with a person leaving office or employment.

Notes to the Accounts
continued

29 Reconciliation of Net Assets and Profit Under UK GAAP to IFRS

De La Rue plc reported under UK GAAP in its previously published financial statements for the year ended 26 March 2005. The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP as at 26 March 2005 to the revised net assets and profit under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for this company, being 28 March 2004.

Reconciliation of Equity at 28 March 2004 (Date of Transition to IFRS)

	Note	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
ASSETS				
Non-current assets				
Property, plant and equipment	g, e	164.4	(4.9)	159.5
Intangible assets	c, d, e	28.2	5.1	33.3
Investments: associates		13.2	–	13.2
Other investments		0.2	–	0.2
Deferred tax assets	h	33.1	21.5	54.6
Trade and other receivables		0.3	–	0.3
		239.4	21.7	261.1
Current assets				
Inventories		99.7	–	99.7
Trade and other receivables		116.3	–	116.3
Cash and cash equivalents		85.5	–	85.5
		301.5	–	301.5
Total assets		**540.9**	**21.7**	**562.6**
LIABILITIES				
Current liabilities				
Borrowings		8.3	–	8.3
Trade and other payables	f	207.4	(15.6)	191.8
Current tax liabilities		7.1	–	7.1
Provisions for liabilities and charges		24.9	1.2	26.1
		247.7	(14.4)	233.3
Non-current liabilities				
Borrowings		36.1	–	36.1
Retirement benefit obligations	a	24.0	74.6	98.6
Deferred tax liabilities	h	1.9	(0.6)	1.3
Other non-current liabilities		13.6	–	13.6
		75.6	74.0	149.6
Total liabilities		**323.3**	**59.6**	**382.9**
Net assets		**217.6**	**(37.9)**	**179.7**
EQUITY				
Capital and reserves attributable to equity holders				
Ordinary share capital		45.8	–	45.8
Share premium account		14.6	–	14.6
Revaluation reserve		1.8	–	1.8
Capital redemption reserve		3.5	–	3.5
Other reserve		(83.8)	–	(83.8)
Retained earnings		232.2	(38.2)	194.0
Total shareholders' funds		214.1	(38.2)	175.9
Equity minority interests		3.5	0.3	3.8
Total equity		**217.6**	**(37.9)**	**179.7**

29 Reconciliation of Net Assets and Profit Under UK GAAP to IFRS continued

Reconciliation of Equity at 26 March 2005 Prior to Adoption of IAS 32 and IAS 39

	Note	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
ASSETS				
Non-current assets				
Property, plant and equipment	g, e	154.6	(5.7)	148.9
Intangible assets	c, d, e	15.4	8.4	23.8
Investments: associates		14.0	–	14.0
Other investments		0.3	–	0.3
Deferred tax assets	h	30.8	26.3	57.1
Trade and other receivables		1.1	–	1.1
		216.2	29.0	245.2
Current assets				
Inventories		73.8	–	73.8
Trade and other receivables		86.0	–	86.0
Current tax assets		2.7	–	2.7
Cash and cash equivalents		140.7	–	140.7
		303.2	–	303.2
Total assets		**519.4**	**29.0**	**548.4**
LIABILITIES				
Current Liabilities				
Borrowings		17.8	–	17.8
Trade and other payables	f	183.5	(17.2)	166.3
Current tax liabilities		23.1	–	23.1
Provisions for liabilities and charges		22.7	1.3	24.0
		247.1	(15.9)	231.2
Non-current liabilities				
Borrowings		16.4	–	16.4
Retirement benefit obligations	a	25.1	94.8	119.9
Deferred tax liabilities	h	2.0	(0.6)	1.4
Other non-current liabilities		0.4	–	0.4
		43.9	94.2	138.1
Total liabilities		**291.0**	**78.3**	**369.3**
Net assets		**228.4**	**(49.3)**	**179.1**
EQUITY				
Capital and reserves attributable to equity holders				
Ordinary share capital		46.1	–	46.1
Share premium account		17.0	–	17.0
Revaluation reserve		1.8	–	1.8
Capital redemption reserve		3.5	–	3.5
Cumulative translation adjustment		3.4	–	3.4
Other reserve		(83.8)	–	(83.8)
Retained earnings		236.7	(49.3)	187.4
Total shareholders' funds		224.7	(49.3)	175.4
Equity minority interests		3.7	–	3.7
Total equity		**228.4**	**(49.3)**	**179.1**

Notes to the Accounts
continued

29 Reconciliation of Net Assets and Profit Under UK GAAP to IFRS continued

Reconciliation of the Consolidated Balance Sheet at 27 March 2005 on Adoption of IAS 32 and IAS 39

	Note	Under IFRS at 26 March 2005 £m	Impact of adoption of IAS 32 and IAS 39: Forward foreign exchange swaps £m	Forward foreign exchange contracts £m	Embedded derivatives £m	Cash offset £m	Available for sale financial assets £m	Under IFRS at 27 March 2005 £m
ASSETS								
Non-current assets								
Property, plant and equipment		148.9						148.9
Intangible assets		23.8						23.8
Investments: associates		14.0						14.0
Other investments	m	0.3					(0.3)	–
Available for sale financial assets	m	–					0.3	0.3
Deferred tax assets		57.1						57.1
Trade and other receivables		1.1						1.1
		245.2	–	–	–	–	–	245.2
Current assets								
Inventories		73.8						73.8
Trade and other receivables	i	86.0		(0.3)				85.7
Current tax assets		2.7						2.7
Derivative financial instruments	i	–		2.1	0.5			2.6
Cash and cash equivalents	j	140.7				237.2		377.9
		303.2	–	1.8	0.5	237.2	–	542.7
Total assets		**548.4**	–	1.8	0.5	237.2	–	**787.9**
LIABILITIES								
Current Liabilities								
Borrowings	j	(17.8)				(237.2)		(255.0)
Trade and other payables	i	(166.3)		(0.7)				(167.0)
Current tax liabilities		(23.1)						(23.1)
Derivative financial instruments	i	–	(0.5)	(1.1)	(0.2)			(1.8)
Provisions for liabilities and charges		(24.0)						(24.0)
		(231.2)	(0.5)	(1.8)	(0.2)	(237.2)	–	(470.9)
Non-current liabilities								
Borrowings		(16.4)						(16.4)
Retirement benefit obligations		(119.9)						(119.9)
Deferred tax liabilities		(1.4)						(1.4)
Other non-current liabilities		(0.4)						(0.4)
		(138.1)	–	–	–	–	–	(138.1)
Total liabilities		**(369.3)**	(0.5)	(1.8)	(0.2)	(237.2)		**(609.0)**
Net assets		**179.1**	(0.5)	–	0.3	–	–	**178.9**
EQUITY								
Capital and reserves attributable to equity holders								
Ordinary share capital		46.1						46.1
Share premium account		17.0						17.0
Revaluation reserve		1.8						1.8
Capital redemption reserve		3.5						3.5
Fair value and other reserves	i	–	(0.5)	1.0	(0.1)			0.4
Cumulative translation adjustment		3.4						3.4
Other reserve		(83.8)						(83.8)
Retained earnings	i	187.4		(1.0)	0.4			186.8
Total shareholders' funds		175.4	(0.5)	–	0.3	–	–	175.2
Equity minority interests		3.7						3.7
Total equity		**179.1**	**(0.5)**	**–**	**0.3**	**–**	**–**	**178.9**

29 Reconciliation of Net Assets and Profit Under UK GAAP to IFRS continued

Reconciliation of Profit at 26 March 2005

	Note	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Revenue	k	643.2	(23.1)	620.1
Operating expenses	a, b, c, d, k	(590.0)	24.7	(565.3)
Exceptional items		(24.6)	–	(24.6)
Operating profit		**28.6**	**1.6**	**30.2**
Share of associates operating profit	l	9.4	(3.0)	6.4
Non-operating exceptionals		8.9	(8.9)	–
Profit on ordinary activities before finance costs		**46.9**	**(10.3)**	**36.6**
Net interest	a	2.5	1.5	4.0
Profit on ordinary activities before taxation		**49.4**	**(8.8)**	**40.6**
Taxation	h	(15.9)	3.0	(12.9)
Profit on ordinary activities after taxation		33.5	(5.8)	27.7
Discontinued operations		–	6.9	6.9
Net profit		**33.5**	**1.1**	**34.6**

Profit for the period

	Year ended 26 March 2005 £m
Profit for the period under UK GAAP	33.5
Adjustments to conform to IFRS	
Pension costs – IAS 19	1.9
Other employee benefits	(0.1)
Capitalisation of development costs	1.1
Share based payments	(1.4)
Goodwill	1.4
Taxation on above	(1.8)
Profit for the period under IFRS	**34.6**

Total equity and reserves

	26 March 2005 £m	28 March 2004 £m
Total equity and reserves under UK GAAP	228.4	217.6
Adjustments to conform to IFRS		
Additional pension deficit	(66.4)	(52.2)
Other employee benefits	(2.2)	(2.4)
Capitalisation of development costs	6.6	5.5
Property, plant and equipment	(2.7)	(2.7)
Goodwill	(0.6)	(2.0)
Dividends	19.0	17.7
Taxation	(3.0)	(1.8)
Total equity and reserves under IFRS	**179.1**	**179.7**

Explanation of material adjustments to the cash flow statement for 26 March 2005 :

(i) Under IFRS, movements in cash and cash equivalents are reconciled; under UK GAAP the statement reconciles cash only. This change makes no difference to the levels of free cash generated.
(ii) Income taxes paid during 2005 are classified as operating cash flows under IFRS, but were included in a separate category of tax cash flows under UK GAAP.
(iii) Finance costs paid and finance income received is shown under investing activities but were included in a separate category of returns on investments and servicing of finance cash flows under UK GAAP.
(iv) Dividends received from associated undertakings during 2005 are classified as investing activities under IFRS, but were included in a separate category of dividends received cash flows under UK GAAP.
(v) Equity dividends paid during 2005 are classified as financing activities under IFRS, but were included in a separate category of dividends paid cash flows under UK GAAP.
(vi) There are no other material differences between the cash flow statement under IFRS and the cash flow statement presented under UK GAAP.

Notes to the Accounts
continued

29 Reconciliation of Net Assets and Profit Under UK GAAP to IFRS continued

Explanation of Reconciling Items Between UK GAAP and IFRS

(a) The Group has previously accounted for the defined benefit pension schemes in line with SSAP 24 Accounting for pension costs. Full FRS 17 disclosures have been made in the consolidated financial statements. IAS 19 is broadly similar to FRS 17 in that the standard requires the net valuation of the Group's defined benefit scheme to be reflected on the balance sheet and prescribes certain assumptions as to the valuation of liabilities. These differ from those used under SSAP 24 and in general represent a significantly more prudent valuation assuming investment returns are restricted to prescribed bond yields. The charge to the income statement comprises of 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. The balance sheet provision is shown gross of the related deferred tax asset.

The operating charge for 2004/2005 has decreased by £0.4m with a beneficial impact of £1.5m to finance costs, giving rise to an overall increase in profit before tax of £1.9m.

(b) Under IFRS 2 a charge is required for all share-based payments including share options. The charge in the profit and loss account is based on the fair value of options at grant date. The Group has not previously recognised any expense under UK GAAP as intrinsic value was immaterial. In the year ended 26 March 2005, a charge of £1.4m (£2.2m after taxation) was required under IFRS 2. There is no impact on net assets.

(c) Goodwill is no longer subject to annual amortisation under IFRS 3 Business Combinations. Instead, goodwill will be subject to an annual impairment review or more frequently where any indication of impairment exists. Under UK GAAP goodwill was capitalised and amortised over an appropriate period, not exceeding 20 years.

The Group has elected to apply the IFRS 1 optional exemption to not apply IFRS 3 retrospectively. Consequently the net book value of goodwill as at 27 March 2004 becomes the deemed cost upon transition to IFRS. Negative goodwill shown within intangible assets of £0.8m in the published March 2004 balance sheet has been credited directly to reserves in the transitional IFRS balance sheet as negative goodwill is not permitted under IFRS 3.

In line with IFRS 3, the UK GAAP amortisation charge has been reversed in the restated financial information, which has resulted in an increase to profits of £1.4m for 2004/2005.

The exceptional charge of £11.5m within the UK GAAP financial statements relates to an impairment charge and is therefore unchanged by the application of IFRS.

(d) IAS 38 Intangible assets requires that development costs meeting certain criteria are capitalised and amortised over an appropriate period. Under UK GAAP De La Rue has historically expensed all research and development expenditure in the year in which it is incurred.

In accordance with IAS 38, at 26 March 2005, development assets with a net book of £6.6m have been capitalised, which has uplifted net assets accordingly. During 2004/2005 £2.6m of costs were capitalised, offset by an amortisation charge for the year of £1.5m.

(e) Under IFRS, capitalised software costs which are not an integral part of the associated hardware are required to be classified as intangible assets. The Group has previously capitalised eligible software costs within tangible fixed assets.

The impact is the reclassification of software assets with a net book value of £2.6m from tangible fixed assets to intangible assets as at March 2005. The amortisation policy in respect of these assets is unchanged.

(f) Under UK Company law, companies were required to provide for their final dividend in their closing balance sheet and in advance of the dividend being declared and approved at the Annual General Meeting. IAS 10 Post balance sheet events does not allow dividends declared after the balance sheet date to be recognised as a liability at the period end as they do not meet the definition of a 'present obligation' as set out by IAS 37 Provisions, contingent liabilities and contingent assets. The final dividends for the years ended 27 March 2004 and 26 March 2005 have been reversed and recognised as paid during the following period. The result is an increase in net assets of £17.7m at 27 March 2004 and £19.0m at 26 March 2005.

(g) IFRS 1 First-time adoption on International Financial Reporting Standards permits fair value to be used as deemed cost for any individual item of property, plant or equipment at the date of transition to IFRS. Following a review of our property portfolio a downward adjustment of £3.3m has been made to the transitional balance sheet at 27 March 2004. This reflects the fair value of certain properties as valued by an external independent valuer as at that date.

29 Reconciliation of Net Assets and Profit Under UK GAAP to IFRS continued

Explanation of reconciling items between UK GAAP and IFRS continued

(h) Under UK GAAP, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date and which could give rise to a future obligation to pay more or less tax.

Deferred tax is recognised in respect of all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their accounting carrying value under IAS 12 Income taxes.

The current tax assets and liabilities in the balance sheet are unaffected by IFRS as the tax payable was based on the relevant local GAAP accounts. With the exception of current tax relief on share based payments, which has been recognised in equity, the current tax charge in the income statement has been unaffected by IFRS.

Various deferred tax adjustments have been made in line with other IFRS adjustments, the most significant being the recognition of a deferred tax asset in respect of the defined benefit pension schemes.

(i) In accordance with IAS 39, derivatives held by the entity have to be carried at fair value with movements in the fair value being taken to the income statement or currency reserves dependent on instrument classification. An asset of £2.1m and a liability of £1.1m were recognised at March 2005 in respect of forward foreign exchange contracts held exclusively as cash flow hedges.

The Group also holds some foreign exchange swaps some of which are designated as hedges of net investments and others which are measured at fair value though profit and loss. A liability of £0.5m was recognised on adoption of IAS 39 at March 2005.

A number of embedded derivatives were identified in respect of contracts not in the functional currency of the Group or the counterparty. At March 2005 embedded derivative assets and liabilities of £0.5m and £0.2m respectively were recognised in accordance with IAS 39.

In addition, £1.0m of closing exchange rate to forward exchange rate adjustments made under UK GAAP have been reversed to comply with IAS 39.

(j) Under UK GAAP various cash and borrowings were offset for disclosure purposes. IAS 32 restricts the circumstances in which cash and borrowings can be offset and hence both balances have been grossed up by £237.2m at March 2005.

(k) As a result of showing discontinued operations as required by IFRS 5, revenue in the year ended 26 March 2005 was reduced by £23.1m, operating costs by £24.7m, pre-tax profits by £8.7m and taxation by £1.8m. Discontinued operations are shown in one line in the Group income statement.

(l) A change to the way in which the share of associates' profits is presented on the face of the income statement is required by IFRS. Under UK GAAP, the share of associates' profits is shown gross of tax, with associates' tax disclosed as part of the overall tax charge. IFRS requires that the share of associates' profits is disclosed net of tax within Group operating profit. This has the impact of reducing profit before tax by £3.0m, with no consequent change to profit after tax or earnings.

(m) Upon the adoption of IAS 32 £0.3m of other investments are reclassified as available for sale financial assets.

Five Year Record

Profit and Loss Account

	Note	UK GAAP 2002 £m	UK GAAP 2003 (restated) £m	UK GAAP 2004 £m	IFRS 2005 £m	IFRS 2006 £m
Turnover						
– Continuing operations		641.7	557.5	638.3	620.1	**610.8**
– Discontinued operations – Sequoia Voting Systems Inc.	a	–	25.2	44.2	–	**–**
– Other discontinued operations	a	9.5	–	–	–	**–**
Total		651.2	582.7	682.5	620.1	**610.8**
Operating profit/operating profit from continuing activities						
Continuing operations		77.6	42.3	51.2	54.8	**69.4**
Reorganisation and arbitration costs		(11.1)	(31.9)	(15.2)	(13.5)	**(3.7)**
Goodwill impairment					(11.5)	**–**
(Loss)/profit on impairment of investments		–	(1.3)	–	0.4	**1.2**
Discontinued operations – Sequoia Voting Systems Inc.	a	–	(3.7)	(1.9)	–	**–**
Other discontinued operations	a	(1.4)	–	–	–	**–**
Total		65.1	5.4	34.1	30.2	**66.9**
Amortisation of goodwill		(2.8)	(19.6)	(21.2)	–	**–**
Share of profits of associated companies		11.8	9.2	10.0	6.4	**6.8**
Profit on the sale of continuing operations		–	–	0.2	–	**–**
Profit on the disposal of discontinued operations		1.5	–	–	–	**–**
Profit on sale of investments		22.7	–	–	–	**–**
Profit/(loss) on ordinary activities before interest		98.3	(5.0)	23.1	36.6	**73.7**
Net Interest: Group/associates		2.6	0.9	(0.6)	2.5	**1.8**
Retirement benefit obligation net finance cost				–	1.5	**(1.8)**
Profit/(loss) on ordinary activities before taxation		100.9	(4.1)	22.5	40.6	**73.7**
Taxation on profit on ordinary activities		(22.2)	(2.5)	(10.0)	(12.9)	**(21.9)**
Profit/(loss) on ordinary activities after taxation		78.7	(6.6)	12.5	27.7	**51.8**
Discontinued operations		–	–	–	6.9	**–**
Equity minority interests		(1.5)	(0.7)	(0.4)	(1.6)	**(0.9)**
Profit/(loss) for the financial year		77.2	(7.3)	12.1	33.0	**50.9**
Dividends		(25.5)	(24.6)	(24.8)	(25.8)	**(95.8)**
Retained profit for the period		51.7	(31.9)	(12.7)	7.2	**(44.9)**
Earnings per ordinary share		40.7p	(4.0)p	6.8p	18.5p	**30.2p**
Diluted earnings per share		40.0p	(4.0)p	6.8p	18.4p	**29.4p**
Adjusted earnings per ordinary share (before exceptionals)		34.4p	19.2p	24.2p	25.9p	**31.4p**
Dividends per ordinary share	c	13.4p	13.6p	14.2p	15.3p	**17.0p**
Profit on ordinary activities before taxation, exceptional items and goodwill		90.6	48.7	58.7	65.2	**76.2**

Balance sheet	2002 £m	2003 £m	2004 £m	2005 £m	**2006 £m**
Fixed assets/non current assets	253.2	231.7	206.0	245.2	**235.5**
Net current assets	63.0	47.2	34.9	(50.9)	**(69.4)**
Net cash	50.0	8.2	41.1	106.5	**91.6**
Other liabilities	(50.3)	(58.1)	(64.4)	(121.7)	**(121.4)**
Equity minority interests	(3.1)	(4.2)	(3.5)	(3.7)	**(3.8)**
Equity shareholders' funds	312.8	224.8	214.1	175.4	**132.5**

Notes

The years 2002, 2003 and 2004 have not been restated for IFRS. A summary of the principal differences between UK GAAP and IFRS for the consolidated income statement are set out in Note 29 to the consolidated financial statements.

(a) Discontinued operations refer to all businesses discontinued between 2002 and 2006. Thus continuing operations refer to those businesses continuing as at 26 March 2006.

(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.

(c) Includes proposed final dividend in 2005 and 2006, which in accordance with IFRS accounting requirements have not been accrued in the consolidated financial statements.

Independent Auditor's Report to the Members of De La Rue plc

We have audited the parent company financial statements of De La Rue plc for the year ended 25 March 2006 which comprise the De La Rue plc balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of De La Rue plc for the year ended 25 March 2006.

Respective Responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the annual report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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 parent company 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 other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Highlights, the Chairman's Statement, the Operating and Financial Review, the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Corporate Governance Report, the Principle Subsidiaries, Branches and Associated Companies, the Five-Year Record and the Shareholders' Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:

– the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 25 March 2006; and

– the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
23 May 2006

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

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

Company Balance Sheet
At 25 March 2006

	Notes	2006 £m	2005 £m
Fixed assets			
Investments in subsidiaries	4a	**151.6**	151.6
		151.6	151.6
Current assets			
Debtors receivable within one year	5a	**235.0**	42.8
Cash at bank and in hand		**0.1**	34.7
		235.1	77.5
Creditors: amounts falling due within one year			
Borrowings	7a	**(75.2)**	(89.2)
Other creditors	6a	**(0.4)**	(0.4)
		(75.6)	(89.6)
Net current assets/(liabilities)		**159.5**	(12.1)
Total assets less current liabilities		**311.1**	139.5
Creditors: amounts falling due after more than one year			
Borrowings	7a	**(22.7)**	(1.6)
		(22.7)	(1.6)
Net assets		**288.4**	**137.9**
Capital and reserves			
Called up share capital	8a	**45.9**	46.1
Share premium account	9a	**20.6**	17.0
Capital redemption reserve	9a	**3.9**	3.5
Retained earnings	9a	**218.0**	71.3
Total shareholders' funds		**288.4**	**137.9**

Approved by the Board on 23 May 2006.

Nicholas Brookes Chairman

Stephen King Finance Director

Accounting Policies – Company

Basis of Preparation
The De La Rue plc entity financial statements 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. As permitted by Section 230 of the Companies Act 1985, the profit and loss account is not presented.

The accounts have been prepared as at 25 March 2006, being the last Saturday in March. The comparatives for the 2005 financial year are for the year ended 26 March 2005.

The Directors have reviewed the Company's existing accounting policies and consider that they are consistent with the requirements of Financial Reporting Standard ('FRS') 18 'Accounting Policies'. The following new standards have been implemented: FRS 20 'Share-based Payments, FRS 21 'Events after the Balance Sheet Date', FRS 23 'The effects of Changes in Foreign Exchange Rates', FRS 25 'Financial Instruments: disclosure and presentation' and FRS 26 'Financial Instruments: measurement'. The Company's accounting policies are otherwise consistent with the prior year.

As a result of the adoption of the above accounting standards, restatements have been made to the corresponding amounts as set out in the various notes to the company financial statements. The adoption of FRS 23, FRS 25 and FRS 26 has had no impact on the amounts reported in the Company's financial statements.

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements'. The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with entities that are part of the De La Rue Group.

Foreign Currencies
Amounts receivable from overseas subsidiaries which are denominated in foreign currencies are translated into Sterling at the appropriate year end rates of exchange. Exchange gains and losses on translating foreign currency amounts are included within the interest section of the profit and loss account except for exchange gains and losses associated with hedging loans that are taken to reserves.

Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the dates of the individual transactions. Monetary assets and liabilities denominated in foreign currencies are subsequently retranslated at the rate of exchange ruling at the balance sheet date. Such exchange differences are taken to the profit and loss account, except those arising on long term foreign currency borrowings used to finance or hedge foreign currency investments which on consolidation are taken directly to shareholders' equity.

Trade Receivables
Trade and other receivables are measured at amortised cost less any provision for impairment. Trade and other receivables are discounted when the time value of money is considered material.

For details of De La Rue management disclosures required under FRS 25, refer to disclosures on pages 62 to 67 within the consolidated financial statements.

Investments
Investments are stated at cost or valuation in the balance sheet, less provision for any permanent diminution in the value of the investment. Revaluation movements due to foreign exchange are transferred to the foreign exchange reserve and those due to changes in the currency value of the investment are taken to the revaluation reserve.

Retirement Benefits
The pension rights of De La Rue plc employees are dealt with through a self administered scheme, the assets of which are held independently of the Group's finances. The scheme is a defined benefit scheme that is funded partly by contributions from members and partly by contributions from De La Rue plc and its subsidiaries at rates advised by independent professionally qualified actuaries. In accordance with FRS 17, De La Rue plc accounts for its contributions as though it were a defined contribution scheme. This is because the underlying assets and liabilities of the scheme cover De La Rue plc and a number of its subsidiaries and it cannot be split between each subsidiary on a consistent and reasonable basis. Full details of the scheme and its deficit (measured on an IAS 19 basis) can be found in Note 24 to the consolidated financial statements.

Share Based Payment
De La Rue plc operates various equity settled and cash settled option schemes although the majority of plans are settled by the issue of shares. The services received from employees are measured by reference to the fair value of the share options. The fair value is calculated at grant date and recognised in the profit and loss account, together with a corresponding increase in shareholders' funds, on a straight line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value. FRS 20 has been applied to share settled share options granted after 7 November 2002.

Dividends
Under FRS 21, final ordinary dividends payable to the shareholders of De La Rue plc are recognised in the period that they are approved by the shareholders. Interim ordinary dividends are recognised in the period that they are paid.

Notes to the Accounts – Company

2a Employee Costs and Numbers

Employee costs are borne by De La Rue Holdings plc. For details of Directors' remuneration refer to disclosures in the Directors' Remuneration Report on page 39. The average number of employees during the year was two (2005 : two).

3a Equity Dividends

For details of equity dividends see Note 8 to the consolidated financial statements.

4a Investments

	2006 £m	2005 £m
Investments comprise		
Investments in subsidiaries	**151.6**	151.6

For details of investments in Group companies, refer to Principal Subsidiaries, Branches and Associated Companies on pages 92 to 94.

5a Debtors

	2006 £m	2005 restated £m
Amounts due within one year		
Amounts owed by Group undertakings	**235.0**	42.8

Following the adoption of FRS 20, amounts owed by Group undertakings previously reported at 26 March 2005 were restated by £2.1m.

6a Other Creditors

	2006 £m	2005 restated £m
Amounts falling due within one year		
Accruals and deferred income	**0.4**	0.4
Other creditors	**0.4**	0.4

Following adoption of FRS 21 final equity dividends are recognised only when approved by shareholders. Previously reported at 26 March 2005, other creditors falling due within one year included £19.1m with respect to the final 2005 equity dividend.

7a Borrowings

	2006 £m	2005 £m
Short term borrowings		
Bank loans and overdrafts	**75.2**	89.2
Long term borrowings		
Amounts due to Group undertakings	**22.7**	1.6

All amounts due to Group undertakings are repayable in more than five years.

The carrying amounts of short and long term borrowings approximate their fair value.

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2006 £m	2005 £m
US Dollar	**28.3**	69.5
Euro	**18.1**	18.2
Pound Sterling	**49.1**	1.6
Other currencies	**2.4**	1.5
	97.9	90.8

8a Share Capital

For details of share capital see Note 21a to the consolidated financial statements.

9a Other reserves

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 27 March 2005	46.1	17.0	3.5	71.3	137.9
Share capital issued	0.2	3.6			3.8
Purchase of shares for cancellation	(0.4)		0.4	(7.8)	(7.8)
Allocation of shares for cancellation				2.5	2.5
Retained profit for the year				149.8	149.8
Employee share scheme:					
– value of services provided				2.2	2.2
At 25 March 2006	45.9	20.6	3.9	218.0	288.4
At 28 March 2004	45.8	14.6	3.5	41.6	105.5
Adoption of FRS 21				17.7	17.7
Adoption of FRS 20				0.7	0.7
At 28 March 2004 restated	45.8	14.6	3.5	60.0	123.9
Share capital issued	0.3	2.4			2.7
Retained profit for the year				9.8	9.8
Employee share scheme:					
– value of services provided				1.5	1.5
At 26 March 2005	46.1	17.0	3.5	71.3	137.9

10a Share based payments

For details of share based payments see Note 21b to the consolidated financial statements and the Remuneration Report on page 39.

Principal Subsidiaries, Branches and Associated Companies
As at 25 March 2006

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 S.A.S.	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

Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
Europe continued		
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 A.B.	Manufacturer of cash handling equipment	100
Switzerland		
Thomas De La Rue A.G.	Holding company	100
Fidink S.A.	Security ink marketing	33.33*
De La Rue Cash Systems A.G.	Distribution, 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
India		
De La Rue Cash Systems India Private Limited	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 (S.A.) (Proprietary) Limited	Security Printing	100

Principal Subsidiaries, Branches and Associated Companies
As at 25 March 2006
continued

Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
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	100
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

*associated company.

Shareholders' Information

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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)870 703 6375
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, 27 July 2006 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	4 August 2006
Record Date	7 July 2006
Ex-Dividend Date	5 July 2006
Interim	January 2007

Results Announcements

Final Results	May
Interim Results	November

Analysis of Shareholders at 25 March 2006

	Shareholder		Shares	
By range of holders	Number	%	Number	%
1–1,000	5,401	64.61	2,173,983	1.31
1,001–2,000	1,357	16.23	1,936,988	1.17
2,001–4,000	793	9.49	2,193,057	1.33
4,001–20,000	521	6.23	4,025,486	2.43
20,001–200,000	191	2.28	14,290,076	8.65
200,000 and above	96	1.16	140,741,587	85.11
Total	**8,359**	**100**	**165,361,177**	**100**

Share Dealing Facilities
The Company's Stockbroker, JPMorgan 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 JPMorgan 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.

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