Annual Report 2001

De La Rue

SECURE SOLUTIONS FOR PAYMENT, IDENTITY AND BRAND PROTECTION

Financial Highlights

		2001	2000
Turnover	– Continuing operations	**£524.8m**	£518.9m
	– Discontinued operations	**–**	£98.2m
		£524.8m	£617.1m
Operating profit	– Continuing operations	**£65.4m**	£55.2m
	– Acquisitions	**£1.0m**	–
		£66.4m	£55.2m
	– Discontinued operations	**–**	£5.1m
		£66.4m	£60.3m
Profit before tax and exceptional items		**£77.8m**	£75.0m
Headline earnings per share		**32.4p**	26.5p
Dividend per share		**12.6p**	12.0p
Net funds		**£36.1m**	£2.1m

- **Operating profits from continuing operations (before exceptional items) up £11.2m at £66.4m**
- **Solid performance from the Currency division with further improvement in margins building on restructuring gains made last year**
- **Cash Systems exits the year at operating margins of 10 per cent as predicted**
- **Following pension revaluation, results have benefited from £1.8m increase in amortisation of pension surplus**
- **Profit before taxation and exceptional items up £2.8m at £77.8m after lower contribution from associates**
- **Headline earnings per share (before exceptional items) of 32.4p, up 5.9p or 22 per cent on comparable period**
- **Recommended 7.5 per cent increase in the final dividend to 8.6p**
- **Continued strong cash generation with £68.6m of cash inflow from operating activities. Closing cash position of £36.1m up from £2.1m last year**
- **Excellent all round performance reflected in the Group's profitability, leading market positions and strong cash generation**

This is De La Rue

Payment
security of tokens of monetary value

Identity
trust in the identity of the individual

Brand Protection
confidence in the integrity of goods and services

"De La Rue secures transactions for governments, banks and commercial institutions worldwide by providing the primary means of payment, identity and brand protection"

The world is changing… in today's global economy people want to do more, access more, and buy more – and do it all faster and more conveniently than ever before. The challenge for De La Rue has always been to empower people, businesses and the world's governments to do this both safely and securely.

Known as the cash to secure transactions Group, we employ over 6,000 people in 28 countries. De La Rue is a trusted partner and adviser to the world's governments, banks and commercial organisations. As the world's largest commercial security printer we are involved in the production of around 150 national currencies as well as a wide range of security documents and issuing systems. We are also a leader in the provision of cash handling solutions, to a range of industries enabling them to improve the efficiency of their business.

We are constantly applying our core principles of security, integrity and trust to open up new and exciting opportunities. Using our knowledge and expertise of secure transactions, we help our customers achieve success and they trust in De La Rue technology to offer them market focused end-to-end solutions. We help them manage secure transactions in three core areas:

By enabling payments… we produce secure payment instruments including high security banknotes and travellers cheques and provide cash processing solutions to a range of customers including financial institutions and retailers.

By securing identity... we secure the physical and digital identity of individuals by providing a range of high security identity documents such as passports and identity cards and document issuing systems for the world's governments.

By protecting brands… we help brand owners protect their products from counterfeiting or copying and help them control their supply chains where they are at risk from product counterfeit, tampering and diversion.

In an ever-changing world, the challenge for De La Rue is always to make life easier for our customers and more difficult for the counterfeiter. It is a process that never stands still and one which has made us the driving force behind many of the world's transactions and security solutions.

And as the world changes, so does De La Rue…

This is De La Rue: divisional overview

Payment Identity Brand Protection

Cash Systems

PROFILE

Provides coin and note handling equipment, services and solutions to banks, retailers, transport and leisure companies enabling them to reduce the cost of handling cash and improve the efficiency of their business.

PRODUCTS AND SERVICES

Branch Cash Solutions
Provides dispensers and recyclers primarily for the secure and efficient handling of cash in bank branches.

Original Equipment Manufacture (OEM)
OEM Mechanisms and Technologies is a leading independent supplier of cash dispensing mechanisms to the ATM industry.

Cash Processing
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.

Desktop Products
Offering low cost, simple-to-use cash counters, often sold through local dealers, Desktop Products targets the banking, retail, gaming, leisure and cash-in-transit markets.

The **Customer Services** business supports each of the four business streams and ensures we provide a consistent level of service and support both to users and to our distribution partners. The business is managed as a separate profit centre and accounts for 28 per cent of divisional sales.

Security Paper and Print

PROFILE

Currency
De La Rue is the world's leading commercial producer of banknotes.

Aims to be the preferred partner of Central Banks for banknotes and paper worldwide, exploiting our technology, service and quality, tailored to meet their individual needs.

PRODUCTS AND SERVICES

Anti-counterfeiting solutions to around 150 countries worldwide including:
Banknotes
Banknote paper
Anti counterfeit consultancy
Currency management
Coins

PROFILE

Security Products
Provides a range of secure printed products, services and solutions to businesses and governments around the world.

PRODUCTS AND SERVICES

Offers a one-stop-shop service to retailers, governments and financial institutions. Products include stamps, vouchers, passports, cheques and travellers cheques, as well as security paper, security threads and tear tapes.

Global Services

PROFILE

Aims to provide total solutions to customers in areas that capitalise on De La Rue's reputation for security, integrity and trust. The division is focused around the core De La Rue business activities of payment, identity and brand protection.

PRODUCTS AND SERVICES

Payment Services
The **Transaction Services** business facilitates cash payments for goods and services supplied remotely via networks of payment terminals placed in convenience stores.

Digital and Identity Security Services
The **Identity Systems** business provides secure, integrated, tailored identity solutions for national identification and registration programmes, driver's licence and passport issuing schemes.
The **InterClear** UK digital security business is developing a Global Trusted Third Party business.

Brand Protection Services
The **Brand Protection** business provides bespoke solutions to protect a wide range of products and industries from the threat of counterfeit, tamper and illegal trading.

The **Holographics** business provides security holograms to financial institutions and governments as well as brand owners in a wide range of industries.

GLOBAL REACH

Headquarters:
Basingstoke (UK)

Key Manufacturing Hubs:
Flen (Sweden)
Portsmouth (UK)
Watertown (USA)

Key Regional Sales & Service Centres
Berne (Switzerland)
Chicago (USA)
Frankfurt (Germany)
Hong Kong (China)
Knutsford (UK)
Madrid (Spain)
Paris (France)
Sao Paulo (Brazil)
Vianen (Holland)

Plus 33 local (sales and service) offices worldwide

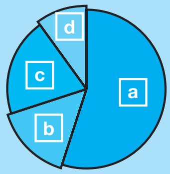
MARKET POSITION

Cash Systems is:

- The world's number one provider in branch cash automation
- The leading single supplier of recycling machines outside Japan
- Through our OEM business, supplier of one in five of the world's ATM mechanisms
- Has the industry's widest network of specialist independent distributors, agents, service-providers and partners

Sales breakdown by business streams

a Branch Cash Solutions 55%
b OEM 15%
c Desktop Products 20%
d Cash Processing 10%



GLOBAL REACH

● Currency
Headquarters:
Overton (UK)

Key Manufacturing Locations
Gateshead (UK)
Kenya
Overton (UK)
Malta
Singapore
Sri Lanka

● Security Products
Headquarters:
Basingstoke (UK)

Key Manufacturing Locations:
UK: Bathford, Dunstable
High Wycombe, Horwich
Lisburn (Northern Ireland)
Peterborough

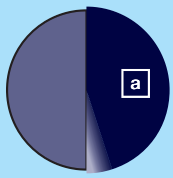
Overseas:
Bray (Republic of Ireland)
Dulles (USA)
Nairobi (Kenya)

MARKET POSITION

De La Rue's banknote market share

a De La Rue 45%-50%

About 10% of the total currency market is available to commercial manufacturers. The rest is produced by State Printing Works attached to central banks, usually in very large countries and in most European countries.

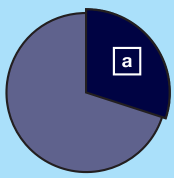


Available banknote market

Portals banknote paper market share

a Portals 30%

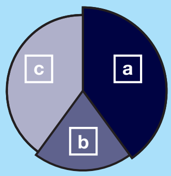
Almost half the banknote paper market is available to the commercial paper sector.



Available banknote paper market

Security Products

a Commercial 40%
b Government 20%
c Financial 40%



Business is segmented into three primary business streams: **Financial** eg travellers cheques, cheques; **Government** eg passports, visas; **Commercial** eg vouchers, prepay stamps. The businesses enjoy leading positions in many of their markets.

GLOBAL REACH

Headquarters:
Basingstoke (UK)

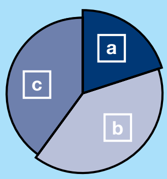
Other locations:
Basingstoke (UK)
Dunfermline (Scotland)
Kuala Lumpur (Malaysia)
New York State (USA)
Northwich (UK)

MARKET POSITION

The division is divided into three business streams based on a nucleus of five existing businesses which transferred into the division on launch in April 2000.

Sales breakdown by business stream

a Payment Services 20%
b Digital and Identity Services 40%
c Brand Protection 40%



pay

De La Rue has long been involved in the manufacture and secure processing of cash and many other tokens of monetary value such as stamps or travellers cheques. Today, our expertise spans every area of design and origination of banknotes and we also provide a range of processing solutions to suit our customers' needs. Whether we are working with the world's governments, commercial or retail banks, retailers or cash in transit companies we are pioneering developments in anti-counterfeit design and secure cash processing.

Cash is still the preferred method of payment globally, with an estimated 180-190 billion banknotes in circulation today. By value, over 50 per cent of all payments are still made with notes and coins. As the demand for cash remains high it will continue to be a priority to ensure its secure and cost effective availability where and when people need it.

identi

Governments need total security for their national identity systems, plus convenience and speed of movement for their citizens. Consequently they are turning to De La Rue to assist them in the design, implementation and operation of high-security national identity, driver's licence and passport schemes. De La Rue's identity solutions draw on our experience in secure document production and issuance, as well as our expertise in the complete 'ID Lifecycle' – the end-to-end process of how individuals apply for, obtain and verify their personal identity in order to obtain goods, services and access.

ty

International travel is increasing at over 10 per cent every year. More governments are introducing social, national identity and licence schemes and these documents are increasingly serving as the ID basis for more automated transactions. Today, an estimated five billion identity documents are in circulation around the world and with the ever present threat of counterfeiting, each must offer protection from identity fraud.

brand

Our expertise is used by some of the world's leading brands. De La Rue provides bespoke solutions to protect a wide range of products in a variety of sectors from the threat of counterfeit, tamper and illegal trading. We aim to provide a one-stop-shop service to brand owners by leveraging the broad range of De La Rue's security and anti-counterfeit capabilities. This enables us to provide tailored products and solutions for securing supply chains for major brands.

protection

While occasional disasters grab the headlines, a far more insidious attack on brand asset value comes through dilution. From counterfeiters, who steal new designs and have fake versions on the market before legitimate items have even been launched; to manufacturers, who produce a batch for the brand owner and one for themselves. These risks add up to one thing – the slow erosion of a brand's integrity which over time sees the product diminished in the eyes of consumers, retailers and investors.

Brandon Gough Chairman

Chairman's Statement

GROUP RESULTS

De La Rue is pleased to report an excellent all round performance for the year ended 31 March 2001, showing a further improvement which underlines the continued progress in the revitalisation of our operations. Overall trading performance was strong with operating profit from continuing operations (before re-organisation costs) at £66.4m, up £11.2m compared to last year. The main driver behind this increase has been a further improvement in the operating performance by the Cash Systems division with margins sharply higher in the second half. This result was achieved despite the planned revenue investment in the Global Services division, where profits were reduced by £5.9m.

Despite the £5.1m decline in associates' profit before tax (and exceptional items), because of poor trading at De La Rue Giori, profits before tax and exceptional items increased by £2.8m to £77.8m. Compared with last year headline earnings per share (before exceptional items) increased by 22 per cent to 32.4p.

Cash flow continues to be positive with £68.6m being generated by operations during the period, and the overall net cash position increased to £36.1m, up from £2.1m last year.

CORPORATE DEVELOPMENTS

It was pleasing to announce on 18 May 2001 the settlement of the arbitration proceedings brought by the other shareholders in our associate company, De La Rue Giori SA. coupled with the disposal of our shareholding in the business for good value, which we expect to complete shortly, this represents a very satisfactory action for shareholders. More importantly, it frees up senior management time to concentrate on growing our business and it is very satisfying that we have been able to announce two acquisitions in Cash System this year.

DIVIDEND

Subject to shareholders' approval, the Board is recommending an increased final dividend of 8.6p per share, up 7.5 per cent on last year's, which will be paid on 13 August 2001 to shareholders on the register on 13 July 2001. This will give a total dividend for the year of 12.6p, an overall increase of 5 per cent on last year.

OUTLOOK

We believe we are well placed to take advantage of the opportunities to deliver a broad range of secure transaction solutions to our existing and future customers. The success of the reorganisation and the strength of our financial position provide a strong base from which to concentrate on growth opportunities in the year ahead. De La Rue is therefore well placed to continue its forward momentum.

Brandon Gough

Brandon Gough Chairman

results

Ian Much Chief Executive

Chief Executive's Review

PROGRESS MADE

This year we have taken significant steps in expanding the Group's operations, consolidating our strong financial position and concentrating on future growth opportunities. The main achievements have been:

- A strong balance sheet which provides us with an excellent platform to grow the business
- Improvement in the profitability of Cash Systems with the division exiting the year at margins of 10 per cent as predicted and with a much stronger order book
- Several bolt-on acquisitions in Cash Systems expanding the product range and geographical reach of the division
- Bringing together our non-banknote Security Products operations and Global Services division under common management so as to take better advantage of common market opportunities in a more cost effective manner
- Excellent cash generation for a second consecutive financial year

GROUP RESULTS

This was an excellent all round performance and during 2000/2001 we continued to make progress in the revitalisation of our operations which showed through in our results. Following the reorganisation of Cash Systems division in 1999, it is particularly pleasing to report a dramatic improvement in the profitability of the division. The increase of 7.5 per cent in the final dividend to our shareholders demonstrates the Board's confidence in the ongoing strength of the Group's operations. Although associates' results were disappointing (£5.1m down) it is pleasing that our main trading operations continue to more than make up for this decline.

ACQUISITIONS

The strength of the Group's financial position is such that it gives us considerable scope for making further acquisitions. We have adopted a rigorous approach when looking at opportunities and have set strict criteria for their evaluation and selection and we will not be rushed into making them. Critical to this is that they must be complementary to the overall strategic direction of the Group in the areas of payment, identity and brand protection and that they must represent fair market value for shareholders' funds.

ASSOCIATES

The share of operating profits (before exceptional items) from Camelot was similar to last year at £10.4m (1999/2000 £10.8m). Profits have held up well as Camelot approaches the end of the current licence period. We were delighted that Camelot successfully retained the contract to operate the next lottery licence. As previously announced, The Post Office which has worked in partnership with Camelot during the recent bid, has now become a shareholder in Camelot Group plc so that each shareholder has a 20 per cent stake (compared with our previous holding of 26.67 per cent).

The current contract to run the lottery ends on 30 September 2001 although due to the delays in awarding the licence the National Lottery Commission has granted an interim licence to Camelot which expires in January 2002. The new lottery licence, which commences on 27 January 2002, will reduce the shareholders' return from each 100p collected from around 1.0p to just under 0.5p. The impact on overall profitability will, of course, depend on actual lottery ticket sales levels. It is also anticipated that there will be some start-up costs associated with the development of new platforms and the replacement of terminals for the second licence period.

Operating results from other associates, principally De La Rue Giori, (Giori), were down £6.1m to a loss of £2.2m. Although the second half saw Giori record a small profit overall the business incurred a loss for the year.

On 18 May 2001, we were pleased to announce the disposal of our shareholding in Giori to Koenig and Bauer, the German manufacturer of printing presses, for a total consideration of CHF50m (£20m) resulting in an exceptional pre-tax gain of £14m. Koenig and Bauer, which already manufactures banknote machinery for Giori, is also purchasing the other shareholders' interests in the company so that it will be the sole proprietor of the business. Completion of the sale is expected to take place shortly.

The resolution of the arbitration for the payment of approximately 5 per cent of the original claim, was announced on 18 May 2001 and is dependant on the completion of the above sale to Koenig and Bauer. De La Rue announced in November 1999 that arbitration proceedings were being taken against it by the other shareholders in Giori. At the time the claim was quantified at approximately £125m.

We believe that the resolution of the arbitration and the sale of the company (both still conditional) represents a very satisfactory outcome for De La Rue shareholders.

STRATEGIC OVERVIEW AND BUSINESS DEVELOPMENT

While the Group is structured along divisional lines there are many strong links between our various businesses which are not reflected by our reporting structure. It is one of our key objectives to encourage our people to work more closely together and to ensure our customers get the best solution in the most efficient manner. More recently, much work has also been undertaken in identifying the broad focus for the Group's activities in the future which will enable us to grow our core businesses but also maintain a common focus to our operations through leveraging our core competencies in secure transactions. Increasingly, we see the De La Rue of the future developing its business in three core operating areas, each centred around delivering a broad mix of both products and "end-to-end" solutions tailored to our customers' needs. These are:

- Payment – producing secure payment instruments including high security banknotes and travellers cheques, and providing cash processing solutions to a range of customers including financial institutions and retailers.

- Identity – securing the physical and digital identity of individuals by providing a range of high security identity documents such as passports and identity cards and document issuing systems for the world's governments.

- Brand Protection – helping brand owners protect their products from counterfeiting or copying and maintain the integrity of their supply chains where they are at risk from product counterfeit, tampering and diversion.

While the Group will continue to report financially on existing divisional lines, increasingly the way we structure, grow and manage our operations will be around developing our offerings in the payment, identity and brand protection sectors.

GLOBAL SERVICES

Since launch, the Global Services division has concentrated on identifying growth opportunities in three core areas; payment services; brand protection and digital and identity security. Following a recent strategic review we believe that there is a much larger opportunity for De La Rue in the brand and identity business streams than previously recognised. Both Global Services and Security Products see these two markets as key areas for expansion.

In response, we have announced our intention to bring together all of De La Rue's capabilities in Global Services and Security Products under common leadership and management. The combined Global Services and Security Products operation will be managed by Dr Jon Marx, the managing director of De La Rue's non-banknote security products business. As a consequence, Chris Chadwick, managing director of Global Services, is leaving the Group and we would like to express our gratitude to Chris on behalf of the Board for his contribution to De La Rue.

These organisational changes will now consolidate the broad range of the Group's capabilities in brand protection and identity into a single organisation structure which will allow us to serve these markets better. In addition, we will continue to serve, through a finance business stream, the traditional non-banknote markets within Security Products, such as travellers cheques, vouchers and stamps. Each of the three businesses (brand, identity and finance) will deliver the full range of the Group's capabilities to our customers encompassing both products and end-to-end solutions.

OUTLOOK

We believe we are well placed to take advantage of the many opportunities to deliver a broad range of secure transaction solutions to existing and future customers. The success of the reorganisation and the strength of our financial position provide a strong base for concentrating on growth opportunities in the year ahead. Currency has a good banknote order book which should help partly offset the expected softness on the banknote paper side. Within Cash Systems we expect to make further progress in the profitability of the division based on current good order levels and maintaining the momentum on profit margins. In Global Services we look forward to realising synergies from closer working and common control with our Security Products businesses. Overall, De La Rue is well placed to make continued progress next year.

Ian Much
Chief Executive

cash systems

Travelex Currency Services provides currency fulfilment solutions to some of the world's largest financial institutions. It approached De La Rue when it needed an automated cash handling system that would increase capacity, reduce processing times and improve customer service. De La Rue's solution included a range of Teller Cash Dispensing machines and a 5640 wholesale banknote sorter. Results were encouraging and in the retail area of the business alone, De La Rue's automated solution increased the processing of foreign exchange orders from 5,000 orders per day to up to 60,000 per day.

The Bundesbank in Germany needed an innovative and reliable solution to assist with the challenge presented by the implementation of the euro currency. Following an extensive trial, De La Rue has installed 49 Mace9 CD €'s with coin detection systems based around the Mach™ 9, the Mach™ 12 and the CDE coin detection system.

cash systems

	2001 £m	2000 £m	change £m
Sales	**262.4***	257.3	5.1
Operating profits*	**16.8**	4.4	12.4

*Includes acquisitions in 2001 (sales of £23.4m and operating profits of £1.0m).
Before reorganisation costs of £0.8m (2000 : £19.2m).

The profit of £16.8m for the year was a substantial improvement on the £4.4m (before reorganisation costs) recorded in 1999/2000. It was also pleasing to exit the final quarter with operating margins at 10 per cent, as predicted. Second half performance was in line with expectations with operating profits at £13.1m, up £9.3m on the comparable period last year. The main reason for lower sales, excluding acquisitions, as highlighted in our interim statement, was a slowdown in sales of large sorters within the Cash Processing business stream and the resignation from an unprofitable account in the Original Equipment Manufacture (OEM) business. Closing order books are, however, well up on last year.

The emphasis has now moved away from restructuring towards generating sales growth. Our strategy is to design and offer market focused end-to-end solutions to our customers in cash management logistics and transaction automation. We have also announced several small and medium-sized bolt-on acquisitions in line with this strategy.

We have also seen the launch of several new products across all three business streams. It is pleasing to report continued expansion in new product sales (i.e. those products introduced after 1 January 1998) which as a percentage of total product sales were 26 per cent compared with 20 per cent for the previous year.

The launch of the euro in January 2002 represents a significant opportunity for the division, which is well placed to generate solution-based sales for commercial banks, the retail market and in cash logistics. We hope to take further advantage of these opportunities, and estimate that the benefit for the division over the next financial year will be approximately 4 per cent of sales.

BRANCH CASH SOLUTIONS

During 2000/2001 the business performed very well and the order book remains strong in all key regions. Following the acquisition of Ascom Banking Automation, the international cash handling activities of Ascom Autelca AG (Ascom) in April 2000, orders taken of 1,750 units for the Twin Safe™ Teller Cash Recycler (TCR) have exceeded expectations and given us excellent penetration in Europe particularly in Germany, Spain and France. The start-up losses incurred as a result of the acquisition have now given way to substantial sales backed by a strong order book. During 2001/2002 we plan to launch the TCR Twin Safe™ machine into the US banking market. Sales of Teller Cash Dispensers have also been good with geographic expansion in countries where banks are moving towards open plan layouts and greater automation.

We have also recently expanded our geographical sales, service and distribution network in Europe through the acquisition in April 2001 of Ascom's BUCH businesses in Switzerland and a smaller operation in Belgium. The businesses were acquired for a consideration of £9.0m. The Swiss business is focused on sales, installations and maintenance of hardware and software of teller assist units and self-service cash automation products across the territory. The acquisitions will strengthen De La Rue's presence, particularly in the

A New Mexico Credit Union looked to De La Rue to help reduce the time its members had to wait in line to deposit their cash. The Otero Federal Credit Union wanted to find a way to reduce the inconvenience of queuing. De La Rue's solution was a comprehensive package that enabled the members to deposit coins at a speedy self-service redemption centre. Members deposit their coins into a CDS3000 coin-counter and receive a printed statement/receipt which is taken to the teller for deposit.

J Sainsbury plc, one of the UK's leading grocery supermarkets, called on De La Rue to help streamline its cash handling for more than 400 stores. Following a strategic consultancy process, the solution effectively links up in-store note counters and coin counters using Depros™ software.

Swiss cash handling market, and enhance its existing sales, service and distribution network in these regions.

OEM

The OEM business, which makes dispensing mechanisms for ATM machines, maintained its profitability, a major achievement despite it resigning from a key customer account last year which affected volumes. During the year we launched the MiniMech™ range of ultra compact and secure cash dispensing mechanisms, and we have already had significant interest from customers. While we expect volumes to be high, the MiniMech™ range has a lower selling price relative to the rest of the range which will limit the impact on sales revenues. Demand has also increased since the half year on the back of euro cassette sales.

DESKTOP PRODUCTS

Desktop Products has made good progress during the year and in September 2000 we announced the appointment of Ian McCormick as managing director. Ian joined De La Rue from Money Controls Group, a manufacturer of money handling equipment for the vending, gaming, ticketing and telecommunications markets, where he held a number of senior management positions. This year the business has concentrated on enhancing the quality and breadth of the product range, including the launch of a range of euro-ready note and coin counters for businesses involved in the changeover to the euro in January 2002.

In March 2001, we exchanged contracts to acquire ATS Money Systems, Inc. (ATS), a leading US provider of cash handling solutions hardware and software, predominantly to the retail sector. The transaction, which is subject to ATS shareholder approval, is likely to complete by the end of May 2001 for consideration of US$14m. The acquisition of ATS will allow us to develop new sales opportunities in the retail sector where we see significant potential, particularly in the retailing, vending, travel and gaming sectors.

CASH PROCESSING

Sales in our Cash Processing business, whilst up on the first half, have continued to be slow with the market for large sorters being fiercely competitive with long sales conversion lead times. During the year we were delighted to implement a cash handling solution for J Sainsbury plc, one of the UK's leading grocery supermarkets using our Depros™ deposit processing software.

CUSTOMER SERVICE

The division's Customer Service business continues to benefit from its focus as a separate profit centre and sales increased by 8.7 per cent compared to the previous year, with the business now accounting for 28 per cent of divisional sales. It has had an excellent period supporting the business streams and ensuring we provide a consistent level of service, support and installations both to end users and to our distributor partners. The business is now a major area of focus for the division. We have built up a strong international management team and will be seeking acquisitions to complement the organic growth.

security paper

The new 200, 500 and 1,000 Som banknotes issued by the National Bank of the Kyrgyz Republic were specifically developed by De La Rue in conjunction with the bank's own designers to meet the specific criteria set by the bank. The banknotes include a broad range of security features including Starwide® and Facet® security threads, screen printed iridescent features and multi-redundant holograms.

Portals (Bathford), De La Rue's specialist security paper manufacturer has developed Securitext™ paper which is super absorbent to laser and ink-jet printing. As it makes tampering evident, this allows cheques, bonds and certificates to be personalised in a way that helps cost effectively deter fraud.

security paper and print

	2001 £m	2000 £m	change £m
Sales	**212.8**	214.0	(1.2)
Operating profits	**50.4**	45.7*	4.7

*Before reorganisation costs of £4.4m.

BANKNOTES

The business has again benefited from the focus on achieving a better quality mix of business with profits and margins rising despite lower volumes. In addition, cash generation was excellent with operating cash flow in excess of operating profits. The banknote business has also benefited over the last two years from a large overspill order which was completed during the second half of the year.

The technological advances available to the counterfeiter, with greater sophistication of colour copying, scanning and printing technologies mean we continue to invest in developing the latest banknote features such as wide threads, holographic devices and iridescent features to provide high technology solutions for our customers.

New features have again sold well and reflect customers' increasing recognition of the counterfeiting threats in the market. Starwide® and Cleartext®, our machine readable holographic threads, also sold well as did Intaglio Gold, our world leading metallic intaglio ink. The current order book for banknotes is healthy, benefiting in particular from a significant new overspill order received in April 2001.

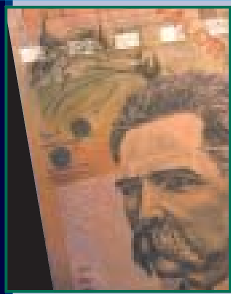
Valora, the joint venture with the Bank of Portugal for the production of euro banknotes, has developed well during the year and is nearing completion of first phase production, ready for the issue of new banknotes in January 2002.

PAPERMAKING

The papermaking business performed satisfactorily, although overall volumes fell by around 7.4 per cent compared with last year, as we continued to pursue a value-not-volume driven strategy. However, as noted at the interims, volumes will be further impacted in the current financial year by the pause in production of the India contract, as the customer runs down existing high levels of paper stocks. The contract

and print

A new range of security authentication integrated labels have been developed by De La Rue that combine watermarked security paper, windowed-thread and security print features to combat the ever growing threat from forgers and counterfeiters. The labels can be tailored to meet individual needs for public, covert and forensic protection and also incorporate Thermotext® security thread which can include a hidden text message when rubbed with the finger.



The Banco de la República in Colombia recently printed and issued a new high value note, the 50,000 Pesos. This note has an unusual vertical orientation and its attractive design is complemented by sophisticated security features which offer high levels of defence against counterfeiting. The banknote paper for example, contains a Starwide® Cleartext® FACET® security thread which combines public recognition characteristics with ultra-violet properties.

currently accounts for about 15 per cent of banknote paper volumes. The full effects of this shortfall will be felt during the current financial year but the strength of the banknote order book should partly offset the impact on the Currency division.

During the year we invested approximately £5m in upgrading a second papermaking machine based in Overton, to allow it to accept wide threads. In addition, during 2000/2001 we were delighted to secure orders for Platinum™, De La Rue's durable paper alternative to polymer banknotes.

Security Products

The non-banknote security printing business performed in line with expectations. Our strategy continues to focus on moving the division from a "products" to a "products and solutions" base and we have invested in upgrading our manufacturing capabilities to improve quality and service while reducing costs.

The UK printing operations (in High Wycombe, Dunstable and Peterborough) overall had a satisfactory year. The performance at Dunstable was particularly strong, buoyed by better than expected demand.

At High Wycombe, which performed below expectations, management concentrated on an overhaul of manufacturing disciplines and inventory procedures in the travellers cheques business and considerable progress has been made in improving quality and service. The effect on revenues was, however, muted due to extensive de-stocking by a customer (now completed) throughout the year. In the coming year we plan to perform a similar overhaul of our passport printing business to optimise use of plant and machinery in the factory. We were delighted to retain a three-year contract with the Royal Mail for stamp production which is moving to a self adhesive substrate later this year.

The US printing business based in Dulles (which mainly manufactures travellers cheques) also reported a satisfactory performance. Production volumes for our Bathford pulp-based security paper business were below capacity as the effects of overstocking by some customers due to the millennium bug in the previous year caused a shortfall. De La Rue Tapes, which produces security threads for banknotes, had an excellent year buoyed by strong banknote orders. The relocation of the business to a more modern facility will be completed in the summer and the business should benefit from greater capacity and the higher levels of security required to meet euro specifications.

As discussed earlier we are merging the management of De La Rue's security products operations with Global Services under the leadership of Jon Marx who is assuming the role of managing director.

global services

De La Rue worked closely with brand owner Calvin Klein's Italian label manufacturer to develop and manufacture an authenticating holographic security device to reduce global counterfeits. The strong visual character of the secure hologram, together with its ability to carry concealed, covert verification and tracking features, perfectly satisfies the brand owner's need for an authenticating mark that can be quickly and easily checked wherever the product is on sale anywhere in the world.

When the Macau Special Administrative Region changed from Portuguese to Chinese jurisdiction in 2000, it required a complete national travel system – including passports and travel permits – to reflect its role as an international administrative region. In three months De La Rue provided initial consultancy and subsequently designed and delivered a fully automated digital package that will produce around 350,000 passports in five years.

global services

	2001 £m	2000 £m	change £m
Sales	**55.3**	50.5	4.8
Operating (loss)/profit	**(0.8)**	5.1	(5.9)

Global Services continued to grow its top line in its first year of trading and, excluding Microsoft, sales in the division were up 14 per cent. In March, we were delighted to secure a further contract with Microsoft to produce labels for its new X-box games console. However, the contract with Microsoft for Windows® labels is scheduled to move to a plastic substrate through another supplier later this year. While the X-box contract has considerable potential, sales will take time to build up and there may well be an adverse impact on sales in the current year.

Considerable progress has been made this year in building divisional capability with investment priorities in recruitment and continuing work in process design. The division made a small loss of £0.8m as a consequence of this revenue investment.

BUSINESS STREAM PERFORMANCE

Brand Protection has won business with brand owners in the apparel, luxury goods, wines and spirits and consumer goods sectors. The strategy of selective business development in target sectors is proving beneficial and our approach has been to develop close relationships through an in-depth knowledge of our customers. This has included the recruitment of business development directors from within each industry sector, as well as the closer aligning of our capabilities in brand protection to their different needs and requirements. This has led to a number of new contracts from leading brand owners across a range of market sectors, the benefits of which should be seen in current year.

During the year we developed SCANet™, a technology based track and trace system which allows brand owners to track and authenticate their products from the point of production through to the point of sale. The solution encapsulates De La Rue's technology and field service expertise in both traditional security printing and hi-tech security

A global FMCG company had lost 50 per cent of its haircare market share in China due to illegal imitations. De La Rue looked at the whole supply chain issues to identify weak links. We audited suppliers and production sites and subsequently processes were put in place to more carefully manage the supply of packaging. In addition both overt and covert technology was incorporated into the packaging to ensure that counterfeiters could not replicate it and to ensure the FMCG company could differentiate between their genuine products and the counterfeit within the market.

Angola carried out its first democratic election in the early 1990s. De La Rue developed and delivered a total solution to meet the Angolan government's requirements for new, highly secure national ID card, passport and immigration control and driving licence systems. As a result, national security has improved, the country's citizens possess world-class documentation (ID cards, passports, visas and driver licences), and the government has formed a long-term partnership with De La Rue enabling it to meet all its future identity needs.

components. It has the ability to link a number of our existing capabilities such as taggant or Public Key Infrastructure technologies into a single customer proposition to control their supply chains.

The Holographics business continues to identify opportunities presented by the euro and the wider banknote market following euro accreditation last year. During the year we have further refined our strategy to concentrate on the banknote, fiscal stamp and brand protection markets and have aligned our sales efforts to match these markets. We have also invested in upgrading our manufacturing capabilities to improve quality and service while reducing costs. In June 2000 we reached a significant milestone when our manufacturing facility in the UK produced its two billionth hologram for banknotes.

Identity Systems has won significant business this year for government national identity and international travel document issuing solutions on a truly global scale. New projects included Bahrain's passport and national identity card schemes, Estonia's passport and a consultancy assignment for Jersey to look at the development of a smart national identity card. We have also further developed a 15-year relationship with Paraguay through the supply of their national identity card as well as introducing a passport scheme in Malawi and drivers' licences in Angola as part of our integrated national identity solution.

The Mexico contract, which we announced last year, is the largest in the history of the business and has been invaluable in giving us experience of delivering large scale complex infrastructure projects.

Transaction Services' revenues were affected by delays in the UK mobile phone operators' launch of e-Top Up prepay service for mobile phones. All four major operators have selected De La Rue's PayZone™ network of terminals and during the year we have invested in expanding our agents' network which currently stands at 9,500. Vodafone and Orange have now launched their prepay services and the remaining mobile phone operators are expected to launch their services later this year. British Gas has also recently launched a prepay service using the PayZone™ network.

We are currently reviewing the best way for InterClear, our digital security business, to support our brand protection and identity initiatives.

Paul Hollingworth Finance Director

Financial Review

FINANCIAL RESULTS

The robust return to profitability in the Cash Systems division and continued success in focusing on cash generation were two of the key drivers to the excellent financial performance of the Group in 2000/2001. Earnings per share were up 22 per cent, net cash has increased by £34.2m to £36.3m and the recommended final dividend per share is up 7.5 per cent. In addition, shareholders funds have increased by £50.9m to £211.0m.

EXCEPTIONAL ITEMS

A columnar approach has again been adopted in presenting exceptional items on the face of the Group profit and loss account to aid users in understanding the underlying performance of the business. For the year ended 31 March 2001 the net exceptional gain is £6.2m (1999/2000 – gain of £30.8m). A summary analysis of the major exceptional items is shown below.

	£m
Costs of integrating Ascom acquisition	**(0.8)**
Disposal of Cash Systems South Africa operation*	**(3.0)**
Costs incurred in Camelot (associate) related to winning second UK lottery licence**	**(2.5)**
Release of excess provision following resolution of several major taxation issues	**12.5**
Total	**6.2**

*statutory exceptional item under FRS 3
**net of related tax relief of £0.9m

The costs incurred in integrating the Ascom acquisition of £0.8m were lower than expected as the decision has been taken to continue to outsource manufacture to the original parent company and not move production as originally planned.

Cash Systems disposed of the assets of its South African business for net proceeds of £0.6m. The loss on disposal of £3.0m was after charging £3.8m of goodwill to the profit and loss account (this goodwill was written off directly to reserves when the business was originally acquired).

As a result of Camelot securing the licence for running the UK lottery for a second period, which is due to commence on 27 January 2002, certain costs were incurred which have been classified as exceptional in Camelot's accounts.

It is pleasing to note that several major outstanding tax issues (both UK and overseas) were resolved during the year with the net result that there was a release to profits of £12.5m of provisions no longer required.

CASH FLOW AND BANK BALANCES

Cash flow continues to be strong with a net cash inflow from operating activities of £68.6m. The net cash position at the end of the year was £36.1m, up £34.0m on last year end. Stock levels ended up the year £7.3m higher mainly because of the impact of acquisitions and a build up of stock in Cash Systems to satisfy the strong order book particularly for euro-related products for delivery early in the new financial year.

Capital expenditure, at £27.9m, was £4.9m more than depreciation (excluding intangibles), primarily as a result of two major projects which were commissioned during the year, the conversion of a papermaking machine at Overton to wide threads and relocation of our Horwich Tapes factory to a new site. For the next financial year (2001/2002) we estimate capital expenditure will be at a similar level to depreciation.

The tax outflow in the year of £5.4m was low when compared with the Group's overall level of profitability and reflects utilisation of prior year assessable losses and good tax planning. It is expected that, following the Group's return to profitability over the past two years, tax payments will increase significantly next year to a level closer to the effective tax rate.

Dividends received from associated companies amounted to £21.2m, of which £20.3m was from Camelot. The winding up of the first lottery licence and the interim licence on 26 January 2002 should result in the further payment of dividends to Camelot shareholders.

The result of our commercial activities during the year is that Group net cash balances have risen by £34.0m to £36.1m leaving the Group in a very strong financial position.

INTEREST CHARGE AND RATES

The Group's net interest income was £3.2m (including interest received by associates of £4.4m). Excluding interest received by associates, the Group's net interest charge was £1.2m, a £1.8m improvement on the same period last year as a result of lower average debt levels. The Group's current financial position is such that the Group's interest charge is relatively unaffected by changes in interest rates. Early in the financial year we

review

entered into a two-year interest rate swap on €30m of debt at just below 5 per cent including borrowing margins. Borrowings under major committed facilities are drawn at rates of no more than 0.2 per cent above LIBOR.

TAXATION

Excluding exceptional items, the underlying tax rate was 23 per cent, which is similar to last year's effective tax rate. The main reason for the low tax rate is utilisation of available tax losses and the location of some De La Rue operations in low tax rate regimes. The strong return to profitability of the Group over the past two years will probably result (depending on the geographic mix of results) in an increase in the effective tax rate over the coming years.

PENSION REVALUATION

The Group's UK pension fund was revalued as at 6 April 2000 as part of the usual tri-annual valuation exercise. In summary, the valuation showed that the pension fund remained in surplus with assets as a percentage of liabilities amounting to 113 per cent (111 per cent at the previous revaluation). As a result of the revaluation and the funding assumptions recommended by the actuaries, the annual amortisation benefit resulting from the surplus has risen from £3.7m to £5.5m as can be seen in the table below.

	2001 £m	2000 £m
Regular pension cost	**7.2**	7.8
Variation from regular cost	**(5.5)**	(3.7)
Net pension cost	**1.7**	4.1

BORROWING FACILITIES

As at 30 April 2001 the Group had committed facilities of £219.1m, of which £78.1m expires within the next 12 months and the balance expires on various dates up to 31 January 2005 and have an average remaining life of just over two years. Drawings under these facilities at 31 March 2001 totalled £47.4m. In addition the Group has uncommitted facilities of £60m.

TREASURY OPERATIONS

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

The Group aims to hedge a significant part of its balance sheet translation exposure where it has overseas operations and enters into forward contracts to hedge transaction exposures arising as a result of commercial activities. The Treasury department controls all of these contacts.

EXCHANGE

Forward exchange contracts are entered into to cover transactional exposures with the emphasis on cash flow, but overseas earnings are not hedged. Principal exchange rates used in translating the Group's results are shown in the table below.

	2001 Average	**2001 Year End**	2000 Average	2000 Year End
US Dollar	**1.48**	**1.42**	1.61	1.60
Euro	**1.64**	**1.61**	1.57	1.67
Swiss Franc	**2.52**	**2.45**	2.51	2.65

During the year we were net sellers of around US$103m and at 1 April 2001 the Group had sold forward US$53m at an average rate of $1.46/£ (2000 US$44m at $1.59/£). The net impact of average exchange rates on translation of foreign earnings has been to depress profits before tax by £0.4m for the year ended 31 March 2001.

The analysis of the Group's assets and related cash/debt by geographic location is tabulated below.

	2001 Group Assets £m	**2001 Cash/(debt) £m**	**2001 Net Assets* £m**	2000 Net Assets* £m
UK	**103.4**	**66.8**	**170.2**	115.1
USA	**38.8**	**(24.4)**	**14.4**	14.1
Eurozone	**9.7**	**(7.5)**	**2.2**	2.9
Rest of World	**23.0**	**1.2**	**24.2**	28.0
Total	**174.9**	**36.1**	**211.0**	160.1

*Excluding minority interests.

Paul Hollingworth Finance Director

Directors and Secretary

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

Ian Much,
Chief Executive † 56,
joined the Group as chief executive on 1 September 1998. He was formerly with T&N plc for 10 years, 18 months of which he spent as chief executive. He is a non-executive director of Manchester United PLC and was previously a non-executive director of Admiral plc until its acquisition by CMG plc.

Paul Hollingworth,
Group Finance Director Ø 40,
joined the De La Rue Board as group finance director on 1 August 1999. He is chairman of the Risk Committee of the Board. Prior to his appointment he was a director of English China Clays plc where he became finance director in March 1999 before its takeover by Imetal. From 1994 to 1997 he was finance director of Ransomes plc and then VP Finance of Textron Turf Care and Speciality Products following Textron's takeover of Ransomes plc. He was previously group financial controller at Unigate PLC.

Louise Fluker,
General Counsel and Company Secretary Ø 47,
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.

Nicholas Brookes,
Non-executive #† 53,
was appointed to the Board in March 1997. He is chairman of the Remuneration Committee of the Board. He is chief executive of Spirent plc (formerly Bowthorpe plc) and a director of Corporacion Financiera Alba SA. He was vice president of Texas Instruments Incorporated and president of the Materials and Controls Group. He is the Company's senior independent non-executive director.

Keith Hodgkinson FCMA,
Non-executive # 57,
was appointed to the Board on 19 April 2000. He is chairman of the Audit Committee of the Board. He is chief executive of Chloride Group plc, a post he has held since March 1992. His previous career was with GEC plc (now Marconi plc) where he held a number of senior appointments.

Michael Jeffries,
Non-executive # 56,
was appointed to the Board on 19 April 2000. He is chairman of WS Atkins plc, prior to which he was chief executive since 1995. He has held various senior management positions since joining that company in 1975 and has wide ranging business experience, running service operations across Europe, the Middle East, Asia Pacific and Africa.

\# Member of the Audit and Remuneration Committees of the Board
† Member of the Nomination Committee of the Board
Ø Member of the Risk Committee of the Board
Ages stated are those on 31 March 2001

Directors' Report

The directors present their annual report together with the audited financial statements of the Group and the Company for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

RESULTS AND DIVIDENDS

The Group's profit before taxation including its share of the profits of associated companies amounts to £70.6m. Shareholders' profit for the year was £65.8m after deducting taxation and minority interests. The directors are recommending a final ordinary dividend for the year of 8.6 pence. Subject to the approval of shareholders at the annual general meeting, the final dividend will be paid on 13 August 2001 to ordinary shareholders on the register on 13 July 2001. An interim dividend of 4.0 pence per ordinary share was paid on 6 April 2001 making a total of 12.6 pence per share (2000 12.0 pence per share) for the year.

FUTURE DEVELOPMENTS

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

POST BALANCE SHEET EVENTS

On 2 April 2001, De La Rue completed the acquisition from Ascom Autelca AG of the business of Ascom Business Unit Cash Handling (Ascom BUCH), the Swiss cash handling sales and service network for a consideration of CHF 20.9m. The business of Ascom BUCH Belgium, the sales and support network covering both Belgium and Luxembourg was also completed on 2 April 2001 for a consideration of Euro 622,000. Contracts were exchanged on 21 March 2001 for the sale of 13.35 acres of land at Overton to a residential property developer. Completion took place on 18 April 2001.

SHARE CAPITAL

Details of shares issued during the year are provided in note 19 to the financial statements on page ••.

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 2000. 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 2000 Annual General Meeting to purchase a maximum of 10 per cent of its own shares. This authority will expire at the forthcoming Annual General Meeting and a resolution will be put to shareholders to renew the authority for a further period of one year.

Further details are contained in the Chairman's letter to shareholders dated 14 June 2001.

SHARE OPTION SCHEMES

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

SUBSTANTIAL SHAREHOLDINGS

As at 22 May 2001 the following persons on the share register had notified the Company of the following interests of three per cent or more in its issued ordinary share capital:

Directors' Report

Person notifying	Number of ordinary shares held	Percentage of shares held
Schroder Investment Management Ltd	00,000,000	00.00
Silchester International Investors	00,000,000	00.00
Fidelity (London)	00,000,000	00.00
Britannic Asset Management	00,000,000	00.00

GOING CONCERN

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

DIRECTORS' RESPONSIBILITIES

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

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

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

CORPORATE GOVERNANCE

A report on corporate governance and compliance with the Combined Code appended to the Listing Rules of the Financial Services Authority is set out on pages 27 to 29.

DIRECTORS

The names of the directors at 31 March 2001 are given on page 22. A table giving details of their interests as at 31 March 2001 is shown on this page. All the directors held office throughout the entire year except Keith Hodgkinson and Michael Jeffries who were appointed to the Board on 19 April 2000. Brian Birkenhead and Lord Wright retired as directors on 19 July 2000. Lord Wright provides consultancy services pursuant to an agreement with the Company from 20 July 2000 until 19 July 2002 on an anticipated basis of not more than 20 days during each year.

In accordance with the Company's Articles of Association, Nicholas Brookes and Ian Much will retire and offer themselves for re-election at the annual general meeting.

The non-executive directors hold letters of appointment which will be displayed at the annual general meeting, together with the executive directors' service contracts. Ian Much and Paul Hollingworth have 12-month rolling contracts.

Michael Pugh who retired on 6 April 1999 had a consultancy agreement which ran from 7 April 1999 to 1 April 2000 which was renewed for a further year, on the basis of four working days per month. The consultancy agreement has been extended for a further period of 12 months, terminable earlier if agreed by the parties.

DIRECTORS' INTERESTS

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

	31 March 2001	1 April 2000 or date of appointment
Brandon Gough	**8,714**	8,714
Ian Much	**38,250**	38,250
Nicholas Brookes	**13,950**	13,950
Keith Hodgkinson (appointed 19 April 2000)	**–**	–
Paul Hollingworth	**8,500**	8,500
Michael Jeffries (appointed 19 April 2000)	**–**	–

There have been no changes in directors' interests in ordinary shares since 31 March 2001. All interests of the directors and their families are beneficial.

The market price of the ordinary shares at 31 March 2001 was 405.5 pence and the price range during the year was 230.25 pence to 449.5 pence.

INTEREST IN SHARES UNDER TRUST

Executive directors are deemed to have an interest as potential discretionary beneficiaries under the De La Rue Employee Share Ownership Trust. As such, they were each treated as at 31 March 2001 as being interested in the 2,100,000 ordinary shares held by the trustee of that Trust. The shares held in Trust will be used to satisfy existing options under the De La Rue Share Price Improvement Plan and the De La Rue Executive Share Option Schemes.

QUALIFYING EMPLOYEE SHARE OWNERSHIP TRUST (QUEST)

A QUEST was established to operate in conjunction with De La Rue in providing shares to employees under its Sharesave Scheme. During the year, the QUEST subscribed for 91,989 De La Rue ordinary shares for a total consideration of £393,944. The shares were all transferred to participants in the

Sharesave Scheme exercising at an option price of 323 pence per share.

DIRECTORS REMUNERATION

Details of the remuneration and share options of each of the directors are set out in the Remuneration Report on pages 30 to 32.

ENVIRONMENTAL STATEMENT

De La Rue requires its businesses to be operated to comply with applicable laws and regulations and in accordance with industry standards and the De La Rue Group Environmental Policy. All employees have a responsibility to ensure these requirements are met.

Following the establishment in 1999 of an environmental steering group, and a subsequent review of four representative sites, De La Rue decided to implement an ISO 14001 accredited Environmental Management System ("EMS") throughout all key areas of its operations. Two additional sites were added to form six pilot sites, which will implement the EMS. The pilot sites are the paper mills in Overton and Bathford, the holographics facility in Basingstoke, the printing factories in High Wycombe and Singapore and the machinery assembly operation in Flen, Sweden. At least two sites are expected to achieve their ISO 14001 accreditation by the end of the 2001 financial year. As the selected sites complete implementation of the EMS, other sites will start the process making use of the lessons learnt from the pilot scheme.

The Group Environment Manager was appointed in 2000 to a newly created role based at the Overton site. This role provides the Company with the internal environmental expertise to co-ordinate the EMS pilot project and enable further implementation of the Group Environmental Policy. An additional environmental professional, based at the holographics facility, provides further support for the EMS pilot project and the Group's environmental management structure.

The Company's main facilities currently monitor and record key environmental performance parameters such as emissions to air, amounts of waste generated and recycled and water consumption. The Company is currently assessing the process of corporate environmental monitoring and reporting across all of its operations, in order to generate accurate and representative records of its progress in this area.

The three-and-a-half-year soil remediation programme in High Wycombe was successfully completed in March 2001. This work, identified as necessary during the acquisition of Harrison & Sons Limited in 1997, was started shortly thereafter.

HEALTH AND SAFETY

The Company's objective is to maintain the health and safety of its employees and that of any other persons who could be affected by the Company's operations. This is ensured by assessing the risks to health and safety in all areas of our business activity. The assessment process involves the identification of the significant hazards, evaluation of the effectiveness of the existing controls and implementation of improvements where necessary. To ensure that health and safety standards are maintained the Company monitors safety performance and consults with its employees on safety matters. In October 2000, the Company held a global Health and Safety Conference to launch the Company's health and safety management system guidelines and review the benchmarking process. Significant recommendations arising out of safety monitoring, consultation and risk assessment programmes are prioritised and actioned to ensure continuous improvement in health and safety performance.

RESEARCH AND DEVELOPMENT

The Company considers that research and development aimed at improving and developing products and investigating opportunities to serve our customers better is essential in order to maximise the growth opportunities in our markets. During the period the Company established a central research and development function aimed at a more co-ordinated approach to research and development carried out across the Group.

EMPLOYEES

The Group aims worldwide to employ people of high quality, to encourage creativity and initiative, to recognise individual and team contributions and to give all employees the chance to develop their potential. The Group promotes employee involvement through a policy of communication and consultation. The Company newsletter, the intranet communications channel and a more traditional house notice have recently been further strengthened through the introduction of quarterly briefings, a two-way communications programme designed to maximise dialogue. In addition, the fourth meeting of the De La Rue European Employee Forum took place in June 2000 for consultation and the exchange of information between senior management and elected employees with the aim of establishing a trans-national dialogue. Innovation Awards, now in their second year, are presented annually to recognise and reward the best and most innovative ideas of employees and those which will benefit the Company.

The Company offers equal opportunities in recruitment, training and promotion and in terms and conditions of employment, without discrimination on grounds of sex, age, colour, ethnic or racial origin, nationality or disability. If an employee becomes disabled when in the Group's employment, full support is given through the provision of special training, special equipment or other resources to

Directors' Report

facilitate continued employment wherever possible. Management must ensure that all employees understand their responsibility for the active implementation of this policy.

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

LITIGATION

De La Rue announced on 18 May 2001 that it had reached agreement with M Roberto Giori, Chairman of De La Rue Giori and Dynavest Holding & Cie SCA, the other shareholder, whereby all claims and counterclaims, by each party against the other have been settled. The agreement is conditional upon completion of the disposal of De La Rue Giori to Koenig & Bauer AG, also announced on 18 May 2001. Completion of the sale, which is conditional on certain conditions precedent being satisfied or waived, is expected in May 2001.

PAYMENTS TO SUPPLIERS

Given the international nature of the Group's operations the Group does not operate a standard code in respect of payments to suppliers. Operating companies must agree terms and conditions of business with their suppliers including payment terms taking account of any applicable legal requirements. The Group's policy is for suppliers to be paid in accordance with these terms. Creditor days for the Group have been calculated at 46 days (2000 37 days).

CHARITABLE AND POLITICAL DONATIONS

Donations for charitable purposes amounting to £132,500 (2000 £110,000) were made during the year. There were no political donations. The De La Rue Charitable Trust is a registered charity which aims to direct funds to causes around the world in countries where the Company operates, with the emphasis on educational projects which promote relevant skills, international understanding and relief from suffering.

During the same period Camelot Group plc, an associated company, paid £3m to the Camelot Foundation of which £1m was accrued for in the accounts of the previous year (£1m paid in 2000) and a further £0.3m to other community and charitable organisations. The Camelot Foundation is a registered charity set up to support organisations which help disabled and disadvantaged people play a fuller part in the workplace and in the community.

AUDITORS

A resolution to reappoint PricewaterhouseCoopers as auditors of the Company will be put to members at the forthcoming annual general meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 12 noon on Thursday 19 July 2001 at Winchester Guildhall, The Broadway, Winchester, Hampshire SO23 9LJ. The notice of the Annual General Meeting, including a letter from the Chairman, accompanies this annual report.

By order of the Board

Louise Fluker
Company Secretary
22 May 2001

The Board's policy is to comply with the prevailing standards of corporate governance. The Board considers that it has complied throughout the financial year with the Code provisions set out in Section 1 of the Combined Code. The Company will review and amend its corporate governance policies to reflect subsequent modifications of the Combined Code.

The Board and all directors recognise that they are accountable to shareholders, responsible for complying with their legal and fiduciary obligations and committed to the highest standards of corporate governance. This statement explains how the relevant Principles and the provisions of the Combined Code are applied by the Company. This does not extend to associated companies, such as De La Rue Giori and Camelot Group, where we do not have management control.

The Company's auditors, PricewaterhouseCoopers, have reviewed whether the statement reflects compliance with the specified provisions of the Combined Code as required by the Financial Services Authority, and note that the Group has complied with the specific provisions.

BOARD OF DIRECTORS

The main functions of the Board are to lead and control the Company ensuring a clear division between the management of the Board and the executive directors' responsibility for managing the Company's business.

The Board comprises the non-executive Chairman, the Chief Executive, the Finance Director and three non-executive directors ensuring a balance exists so that no individual or small group can dominate decision taking. The directors' biographies appear on page 22.

The non-executive directors, all of whom are considered by the Board to be independent, have an appropriate range of business, financial and global experience for the Company's activities. During the year no new director has joined the Board who has not previously been a member of a board of a company which is fully quoted on the London Stock Exchange. While the Company has no formal external training programme, all new directors are provided with a full induction programme into the activities of the business and are provided with a comprehensive information pack on joining the Company. Nicholas Brookes, is the Company's senior independent non-executive director.

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

The Board generally meets 10 times a year; during 2000/2001 there were 11 meetings. The Board requires regular reports from management on key issues for which there is a prescribed timetable. In addition, the Board has reserved certain matters to itself to reinforce its control of the Company. Compliance with statutory and regulatory requirements, the approval of interim and final results, any matter which would have a material effect on the Company's financial position, liabilities, future strategy or reputation must be referred to the Board. Other matters are delegated to Board Committees, details of which are provided below.

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

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

COMMITTEES OF THE BOARD

The Board delegates to the Chief Executive powers for the day-to-day management of the Company and to assist him in fulfilling his responsibilities he has established Executive and Management Committees. The Board has established Audit, Remuneration, Nomination, General Business and Risk Committees with appointed Chairmen and fixed terms of reference which are reviewed annually. Membership of these Committees is given in the directors' biographies on page 22. Further details are given below.

Audit Committee

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

Remuneration Committee

The Committee meets at least four times a year and membership is restricted to independent non-executive directors. The Chief Executive and the Director of Human Resources are requested to attend the meetings of the Committee on an ad hoc basis. The Committee is authorised to engage such external consultants as it considers necessary to assist it to carry out its duties. Details of the remuneration policy can be found in the Remuneration Report on pages 30 to 32.

Nomination Committee

The Committee meets when necessary and makes recommendations to the Board to fill vacancies for executive and non-executive directors. The Committee reviews the composition of the Board and Committees at least once a year. The Board, as a whole, approves the appointment and removal of directors. The Committee has the power to employ

Corporate Governance

the services of such advisers as it deems necessary in order to carry out its responsibilities.

General Business Committee
The Committee meets when necessary to deal with routine matters arising between scheduled Board meetings. There must be a majority of non-executive directors on matters relating to the administration or the implementation of the Company's share schemes.

Risk Committee
The Committee chaired by the Finance Director meets at least four times a year. Other members include the General Counsel and Company Secretary, Group Risk Manager, Group Financial Analysis Manager and Head of Internal Audit, Group Head of Security, Director of Manufacturing, Currency and Director of Finance, Cash Systems. The core responsibilities are to:

- assist the Board by providing a framework for managing risk through the Company; and
- provide an appropriate level of reporting of the status of risk management within the Company to the Board.

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

RELATIONSHIP WITH SHAREHOLDERS

The Company places a high priority on communications with shareholders. A general interim statement and a fully audited annual report and accounts are sent to shareholders.

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.

At the Annual General Meeting the Chairman announces details of proxy voting after each item of business. He also provides a trading update. Shareholders may question the Chairman 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.

INTERNAL CONTROL

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

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

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

The key elements of risk are rated according to exposure and are then benchmarked through a combination of self audit and surveys by external specialists. Benchmarking has been in place for fire, health and safety and security risks and during the period was extended to other non-financial risks, including environment and legal. Insurance premiums are allocated according to the scores. Benchmarking thus enables closer monitoring of non-financial risk as well as an incentive to improve risk management.

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

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

The Board has established an Audit Committee details of which are set out on page 27.

The directors acknowledge their responsibility for the Group's system of internal financial control, including taking reasonable steps to ensure that the systems are being maintained. Internal control systems are designed to meet the particular needs of the Group, and the risks to which it is exposed, with procedures intended to provide effective internal financial control. The controls by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The key features of these procedures are outlined below.

The Group treasury department acts as a service centre to manage the Group's cash and borrowings, including interest rate and currency exposures, operating within clearly defined guidelines approved by the Board. Financial instruments used by the department are also subject to Board approval.

The financial control framework includes the following key features:

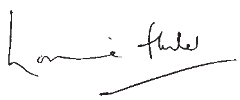
- an annual strategic planning process;
- an annual budget;
- a system of monthly reporting by each operating subsidiary, which involves comparison of actual results with the original budget;
- monthly reporting of performance to the Board.

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

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

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

By order of the Board



Louise Fluker
Company Secretary
22 May 2001

Remuneration Report

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

MEMBERSHIP AND RESPONSIBILITIES

The Remuneration Committee consists exclusively of independent non-executive directors. The members are: Nicholas Brookes (Chairman), Brandon Gough, Keith Hodgkinson and Michael Jeffries. Their biographical details appear on page 22.

The Remuneration Committee is required to determine Company policy for executive remuneration for approval by the Board. In particular the Committee:

- approves all elements of the Company's executive directors' and senior executives' remuneration, including overall policy, benefits, pensions, incentive measures and targets;
- approves all contracts with executive directors and any compensation arrangements arising from the early termination of these contracts;
- approves all grants of shares and options under the Company's share schemes, any changes to existing schemes and the introduction of any new schemes.

REMUNERATION FOR NON-EXECUTIVE DIRECTORS

The Board determines the fees paid to the Chairman and other non-executive directors taking into account market norms, comparisons with companies of equivalent size and the duties required of non-executive directors. Details of fees to the Chairman and other non-executive directors are set out on page 31. The Chairmen of the Audit and Remuneration Committees each receive an additional fee of £5,000 for this responsibility. Non-executive directors are not eligible for pension scheme membership and do not participate in any of the Group's bonus or share option schemes.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES

The Group aims to attract, retain and motivate executive directors and senior executives of the highest quality.

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

The Remuneration Committee regularly obtains detailed information from external and internal sources about current practices in a selected comparator group of companies. It uses external remuneration consultants to ensure that total remuneration packages are fair and competitive and reflect the responsibilities, experience and market value of each director or senior executive.

Executive directors and senior executives are eligible to receive an annual incentive award which is paid as a percentage of basic salary. For executive directors it is based on achieving targets for the year which have been approved by the Committee. For the financial year 2000/2001 the maximum incentive award was 80 per cent of basic salary which could only be achieved if the financial performance met stretching targets which were considerably more challenging in terms of percentage improvement than those which would have generated a maximum incentive award in previous years.

SERVICE CONTRACTS

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

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

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

SALARIES FOR EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES

Details of each individual executive director's remuneration are set out on page 31.

Basic salaries reflects the responsibilities, market value and sustained performance level of executive directors and senior executives. The Remuneration Committee aims to ensure that the basic salary is at the median market level for jobs with similar responsibilities in the selected comparator group. Individuals who sustain a superior level of performance will have a higher market value which is taken into account. Basic salaries are normally reviewed annually by the Committee.

BENEFITS

Executive directors are eligible for a range of taxable benefits which include the provision of a company car, or a cash alternative, and payment of its operating expenses, including fuel, membership of private medical and permanent health insurance schemes, life assurance and reimbursement of the annual subscription to an appropriate professional body. Details of their emoluments during the year can be found on page 31.

DIRECTORS' EMOLUMENTS

	2001 £'000	2000 £'000
Non-executive Chairman		
Brandon Gough	**106**	100
Non-executive directors		
Brian Birkenhead (resigned 19 July 2000)	**9**	22
Nicholas Brookes	**28**	22
Keith Hodgkinson (appointed 19 April 2000)	**25**	–
Michael Jeffries (appointed 19 April 2000)	**22**	–
Julian Sheffield (resigned 21 July 1999)	**–**	7
Lord Wright (resigned 19 July 2000)	**8**	22
	198	173

	Salary 2001 £'000	Salary Increase %	Benefits 2001 £'000	Bonus 2001 £'000	Total 2001 £'000	Total 2000 £'000
Executive directors						
Ian Much (highest paid director)	**360**	**5.88**	**49**	**241**	**650**	847
Paul Hollingworth	**210**	**5.00**	**18**	**141**	**369**	238
Richard Laing (resigned 31 August 1999)	**–**	**–**	**–**	**–**	**–**	147
Kevin Loosemore (resigned 31 October 1999)	**–**	**–**	**–**	**–**	**–**	677
Michael Pugh (resigned 6 April 1999)	**–**	**–**	**–**	**–**	**–**	2
	570		**67**	**382**	**1,019**	1,911
Non-executive directors' fees					**198**	173
Termination payments					**–**	630
Aggregate emoluments					**1,217**	2,714

PENSION

All executive directors and senior executives in the UK may join the senior section of the De La Rue Pension Scheme. The Scheme has an employee contribution rate of 5 per cent of basic capped salary for all salary levels. Members are provided with a pension of up to two-thirds of pensionable salary on retirement. The actual level of pension depends upon the number of years' service with the Group. The normal retirement age is 62 (except for Ian Much whose normal retirement age is 60) although accrued pensions may be drawn in full from age 60. The Scheme also provides a lump sum death in service benefit and pensions for dependants of members on their death. Executive directors and certain senior executives for whom a personal pension arrangement is more appropriate as an alternative to joining the Company scheme can receive a company contribution subject to Inland Revenue rules which may in addition include payment into a Funded Unapproved Retirement Benefit Scheme ("FURBS").

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

Ian Much is eligible for a target pension of 20 per cent of basic salary payable from age 60. This is provided through a combination of a FURBS and membership of the senior section of the De La Rue Pension Scheme. He is required to make a contribution of 5 per cent of basic capped salary to his pension arrangement and is covered for a lump sum on death in service based on four times basic salary, with a widow's pension of 40 per cent of basic salary in the event of death in service. The Company's external actuary assesses the Company's contributions to the scheme.

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

Remuneration Report

Directors' pension entitlements	Age at 31 March 2001	Years of pensionable service	Defined Benefit Scheme (£'000): Accrued benefit at 1 April 2000	Increase during year (excluding inflation)	Accrued benefit at 31 March 2001	Transfer value of increase of accrued benefit during year	Defined Contribution Schemes (£'000): Contributions over year to 31 March 2001	Contributions over year to 31 March 2000
Ian Much	56	3	2	2	4	24	151	140
Paul Hollingworth	40	2	2	3	5	19	50	31
			4	5	9	43	201	171

SHARE SCHEMES

Sharesave scheme

All UK employees of the Company may join its Inland Revenue approved SAYE Scheme. Options are granted over De La Rue plc ordinary shares, at the prevailing market price at the time of grant (with a discretionary discount to the market price), to employees who agree to save between £5-£250 per month over a period of three or five years. A grant was made in December 2000 at a discounted price of 351.90 pence

Executive scheme

The Company runs an Inland Revenue approved Executive Share Option Scheme. It also established an unapproved section to enable the grant of options to an individual where the cumulative value of the employee's subsisting options at the date of a grant exceeds £30,000. Options granted under the Scheme since July 1996 can only be exercised if performance targets are met. The performance condition that has been applied to the 1997 grant and to all subsequent grants of options is that options can only be exercised if the total return of a share over a consecutive three-year period exceeds the total return of the median ranked company in the FTSE Mid-250 Index over the same period. Options granted in 1996 are normally exercisable only if over a rolling three-year period the total return of a share exceeds the average total return of the FTSE All Share Index. A Phantom Share Option Scheme is operated under similar rules to provide an equivalent incentive to some overseas employees.

The Company's policy is to grant share options under the Company's existing share option schemes in phases. Occasionally the Remuneration Committee needs to approve the granting of options in large blocks in order to attract a director or senior executive to join the Company.

Share Price Improvement Plan

The Company established the Share Price Improvement Plan in July 1999. The objective of the Plan is to achieve improvement in the Company's value by aligning shareholders' interests with those of senior key employees. The performance targets are challenging and measure the Company's progress over a number of specified periods. Options are exercisable on a sliding scale related to the Company's share price improvement over the performance period. In respect of the first and second annual grants of options under the Plan, unless the share price achieves a minimum target price of 322.95 pence and 392.22 pence respectively no options become exercisable. In addition, options may only be exercised if the Company's percentage increase in share price has equalled or exceeded the percentage increase in the FTSE 250 index (excluding investment companies) over the same performance period. If the share price performance permits exercise of options, optionholders must retain a proportion of shares for a minimum period.

By order of the Board

Nicholas Brookes
Chairman of the Remuneration Committee
22 May 2001

Directors' Share Options	Date of grant	Number of Options: 1 April 2000	Exercised during year	Granted during year	Lapsed during year	31 March 2001	Exercise price (pence)	Market price at Exercise date (pence)	Date from which exercisable	Expiry date
Ian Much										
Executive	Sep '98	301,600	–	–	–	301,600	218.333	–	Sep '01	Sep '08
Share Options	Nov '99	204,002	–	–	–	204,002	333.330	–	Nov '02	Nov '09
Share Price										
Improvement	Nov '99	315,800	–	–	–	315,800	215.300	–	Nov '02	Nov '03
Plan	Jul '00	–	–	105,600	–	105,600	340.900	–	Jul '03	Jul '04
		821,402	–	105,600	–	927,002				
Paul Hollingworth										
Executive	Nov '99	120,001	–	–	–	120,001	333.330	–	Nov '02	Nov '09
Share Options	Jul '00	–	–	60,200	–	60,200	348.330	–	Jul '03	Jul '10
		120,001	–	60,200	–	180,201				

Independent auditors' report to the members of De La Rue plc

We have audited the financial statements which comprise the Group Profit and Loss Account, the Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of directors and auditors

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

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

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review, the Operational Review, the Financial Review, the Directors' Report, the Remuneration Committee Report, the Corporate Governance Statement, the Principal Subsidiaries, Branches and Associated Companies and the Five year Record.

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

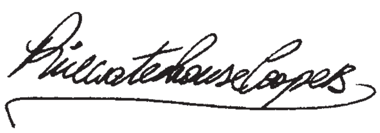
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
22 May 2001

Group Profit and Loss Account

For the year ended 31 March 2001

Notes		2001 £m Before exceptionals	2001 £m Exceptional items	2001 £m Total	2000 £m Before exceptionals	2000 £m Exceptional items	2000 £m Total
	Turnover						
	Continuing operations	501.4		501.4	518.9		518.9
	Acquisitions	23.4		23.4	–		–
		524.8		524.8	518.9		518.9
	Discontinued operations	–		–	98.2		98.2
1		524.8		524.8	617.1		617.1
	Operating profit						
	Continuing operations	65.4		65.4	55.2		55.2
	Reorganisation and arbitration costs		–	–		(25.6)	(25.6)
		65.4	–	65.4	55.2	(25.6)	29.6
	Acquisitions	1.0		1.0	–		–
	Reorganisation costs		(0.8)	(0.8)		–	–
		1.0	(0.8)	0.2	–	–	–
		66.4	(0.8)	65.6	55.2	(25.6)	29.6
	Discontinued operations	–		–	5.1		5.1
1, 2, 3	**Group operating profit**	66.4	(0.8)	65.6	60.3	(25.6)	34.7
1	Share of operating profits of associated companies	8.2	(3.4)	4.8	14.7	–	14.7
	Total operating profit	74.6	(4.2)	70.4	75.0	(25.6)	49.4
4	Loss on the disposal of continuing operations		(3.0)	(3.0)		–	–
4	Profit on the disposal of discontinued operations		–	–		56.1	56.1
4	Profit on sale of investments		–	–		2.0	2.0
4	Scheme of arrangement costs		–	–		(1.1)	(1.1)
	Non-operating items		(3.0)	(3.0)		57.0	57.0
	Profit/(loss) on ordinary activities before interest	74.6	(7.2)	67.4	75.0	31.4	106.4
5	Net interest: Group	(1.2)		(1.2)	(3.0)		(3.0)
	Associates	4.4		4.4	3.0		3.0
		3.2		3.2	–		–
	Profit/(loss) on ordinary activities before taxation	77.8	(7.2)	70.6	75.0	31.4	106.4
6	Tax on profit/(loss) on ordinary activities	(18.0)	13.4	(4.6)	(17.1)	(0.6)	(17.7)
	Profit on ordinary activities after taxation	59.8	6.2	66.0	57.9	30.8	88.7
	Equity minority interests	(0.2)		(0.2)	(1.0)		(1.0)
	Profit for the financial year	59.6	6.2	65.8	56.9	30.8	87.7
8	Dividends (including non-equity dividends)	(24.0)		(24.0)	(24.3)		(24.3)
18	**Transferred to reserves**	35.6	6.2	41.8	32.6	30.8	63.4
7	**Earnings per ordinary share**	31.3p	3.3p	34.6p	25.9p	14.0p	39.9p
	Diluted earnings per ordinary share	30.9p	3.2p	34.1p	25.7p	13.9p	39.6p
7	**Headline earnings per ordinary share**	32.4p	4.9p	37.3p	26.5p	(10.7p)	15.8p
8	**Dividends per ordinary share**	12.6p		12.6p	12.0p		12.0p

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

Balance Sheets

At 31 March 2001

Notes		**2001 Group £m**	2000 Group £m	**2001 Company £m**	2000 Company £m
	Fixed assets				
9	Intangible assets	**4.9**	3.2	**–**	–
10	Tangible assets	**177.0**	167.4	**–**	–
11	Investments: Associates	**43.3**	61.0	**–**	–
11	Other investments	**4.8**	4.2	**152.5**	151.6
11	Own shares	**5.6**	6.2	**5.6**	6.2
		235.6	242.0	**158.1**	157.8
	Current assets				
12	Stocks	**80.1**	72.8	**–**	–
13	Debtors	**114.6**	107.9	**30.0**	–
	Cash at bank and in hand	**89.5**	85.7	**68.0**	94.3
		284.2	266.4	**98.0**	94.3
	Creditors: amounts falling due within one year				
14	Short term borrowings	**(27.7)**	(25.5)	**(88.4)**	(91.9)
14	Other creditors	**(206.8)**	(199.4)	**(24.5)**	(15.7)
		(234.5)	(224.9)	**(112.9)**	(107.6)
	Net current assets/(liabilities)	**49.7**	41.5	**(14.9)**	(13.3)
	Total assets less current liabilities	**285.3**	283.5	**143.2**	144.5
	Creditors: amounts falling due after more than one year				
15	Long term borrowings	**(25.7)**	(58.1)	**(24.7)**	(52.6)
15	Other creditors	**(0.7)**	(2.2)	**(47.6)**	(36.1)
		(26.4)	(60.3)	**(72.3)**	(88.7)
16	**Provisions for liabilities and charges**	**(45.3)**	(60.1)	**–**	–
		213.6	163.1	**70.9**	55.8
	Capital and reserves				
18	Called up share capital	**48.3**	48.0	**48.2**	48.0
18	Share premium	**3.2**	0.4	**3.3**	0.4
18	Revaluation reserve	**1.8**	1.8	**–**	–
18	Other reserve	**(83.8)**	(83.8)	**–**	–
18	Profit and loss account	**241.5**	193.7	**19.4**	7.4
	Shareholders' funds	**211.0**	160.1	**70.9**	55.8
	Equity minority interests	**2.6**	3.0	**–**	–
		213.6	163.1	**70.9**	55.8

Approved by the Board on 22 May 2000

Brandon Gough Chairman

Paul Hollingworth Finance Director

Group Cash Flow Statement

For the year ended 31 March 2001

Notes		2001 £m	2000 £m
20a	**Net cash inflow from operating activities**	**68.6**	68.0
	Dividends received from associated companies	**21.2**	20.6
20b	**Returns on investments and servicing of finance**	**(1.6)**	(5.0)
	Taxation	**(5.4)**	3.7
20c	**Capital expenditure and financial investment**	**(20.8)**	(22.0)
20d	**Acquisitions and disposals**	**(4.2)**	185.9
	Equity dividends paid	**(24.1)**	(27.0)
	Net cash inflow before use of liquid resources and financing	**33.7**	224.2
20e	**Management of liquid resources**	**0.3**	(55.6)
20f	**Financing**	**(31.4)**	(161.4)
	Increase in cash in the period	**2.6**	7.2
20g	**Reconciliation of net cash flow to movement in net debt**		
	Increase in cash in the period	**2.6**	7.2
	Cash (inflow)/outflow from (decrease)/increase in liquid resources	**(0.3)**	55.6
	Cash outflow from decrease in debt	**34.2**	56.9
	Decrease in net debt resulting from cash flows	**36.5**	119.7
	Loans and finance leases disposed with subsidiary	**–**	3.7
	Translation difference	**(2.5)**	5.0
	Movement in net debt in the period	**34.0**	128.4
	Net funds/(debt) at start of period	**2.1**	(126.3)
	Net funds at end of period	**36.1**	2.1
	Analysis of net funds		
	Cash	**25.4**	21.9
	Liquid resources	**64.1**	63.8
	Overdrafts	**(3.3)**	(2.9)
	Other debt due within one year	**(24.4)**	(22.6)
	Other debt due after one year	**(25.7)**	(58.1)
	Net funds at end of period	**36.1**	2.1

Group Statement of Total Recognised Gains and Losses

For the year ended 31 March 2001

	2001 £m	2000 £m
Profit for the financial year: Group	**63.6**	75.2
Associates	**2.2**	12.5
	65.8	87.7
Currency translation differences on foreign currency net investments	**2.2**	(2.8)
Total recognised gains for the year	**68.0**	84.9

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

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 March 2001

	2001 £m	2000 £m
Profit for the financial year	**65.8**	87.7
Dividends	**(24.0)**	(24.3)
	41.8	63.4
Share capital issued	**3.1**	0.4
Currency translation differences on foreign currency net investments	**2.2**	(2.8)
Goodwill: Cash Systems South Africa disposal	**3.8**	–
Card activities disposal	**–**	71.9
Others	**–**	0.8
Scheme of arrangement	**–**	(103.7)
Preference shares repaid	**–**	(0.5)
Net increase in shareholders' funds	**50.9**	29.5
Opening shareholders' funds	**160.1**	130.6
Closing shareholders' funds	**211.0**	160.1

Accounting Policies

For the year ended 31 March 2001

Basis of preparation

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

The consolidated accounts have been prepared as at 31 March 2001. The comparatives for the 2000 financial year are for the year ended 1 April 2000.

Basis of consolidation

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

Associated companies

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

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

Foreign currencies

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

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

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

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

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

Turnover

Group turnover represents sales of manufactured products and services to external customers.

Goodwill amortisation

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

Other intangible assets

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

Tangible fixed assets and depreciation

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

The Group's policy is to write off the cost or valuation of all other plant and equipment evenly over their estimated remaining useful life at rates which vary between eight per cent and 50 per cent per annum. The principal annual rates of depreciation used are 10 per cent on plant and machinery, 10 per cent on fixtures and fittings, and 33 per cent on tooling and computer equipment. No depreciation is provided for assets in the course of construction.

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

Accounting Policies

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

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

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

Taxation
The charge for taxation is based on the profit for the year. Deferred taxation is accounted for in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that such differences are expected to reverse in the foreseeable future.

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

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

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

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

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

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

Notes to the Accounts

For the year ended 31 March 2001

1 SEGMENTAL ANALYSIS

Class of business	2001 Turnover £m	2001 Profit before tax £m	2001 Net assets £m	2000 Turnover (restated) £m	2000 Profit before tax (restated) £m	2000 Net assets (restated) £m
Continuing operations						
Cash Systems	**239.0**	**15.8**	**56.0**	257.3	4.4	47.3
Reorganisation		**–**			(19.2)	
	239.0	**15.8**	**56.0**	257.3	(14.8)	47.3
Acquisitions	**23.4**	**1.0**	**–**	–	–	–
Reorganisation		**(0.8)**			–	
	23.4	**0.2**	**–**	–	–	–
	262.4	**16.0**	**56.0**	257.3	(14.8)	47.3
Security Paper & Print	**212.8**	**50.4**	**108.5**	214.0	45.7	96.3
Reorganisation		**–**			(4.4)	
	212.8	**50.4**	**108.5**	214.0	41.3	96.3
Global Services	**55.3**	**(0.8)**	**14.3**	50.5	5.1	7.0
Arbitration costs		**–**			(2.0)	
Less inter-segment sales	**(5.7)**			(2.9)		
	524.8	**65.6**	**178.8**	518.9	29.6	150.6
Discontinued operations						
Cash Systems	**–**	**–**	**–**	13.5	–	(2.6)
Card activities	**–**	**–**	**–**	84.7	5.1	(7.0)
	–	**–**	**–**	98.2	5.1	(9.6)
	524.8	**65.6**	**178.8**	617.1	34.7	141.0
Associated companies (analysed below)		**4.8**	**43.3**		14.7	61.0
Non-operating items (note 4)		**(3.0)**			57.0	
Net interest including associates		**3.2**			–	
Profit before taxation		**70.6**			106.4	
Unallocated net liabilities			**(44.6)**			(41.0)
Capital employed			**177.5**			161.0
Net funds			**36.1**			2.1
Net assets			**213.6**			163.1
Geographical area by operation						
United Kingdom and Ireland	**335.2**	**44.2**	**91.8**	357.9	16.5	59.5
Rest of Europe	**162.5**	**19.4**	**44.3**	214.8	13.3	37.6
The Americas	**101.8**	**0.3**	**19.9**	116.9	1.1	19.5
Rest of World	**49.8**	**1.7**	**22.8**	59.5	3.8	24.4
Less inter-area sales	**(124.5)**			(132.0)		
	524.8	**65.6**	**178.8**	617.1	34.7	141.0

The profit before tax in 2001 is shown after reorganisation costs of £0.8m (2000 £25.6m) comprising UK and Ireland £Nil (2000 £15.7m), Rest of Europe £0.8m (2000 £8.3m), Americas £Nil (2000 £1.5m), Rest of World £Nil (2000 £0.1m).

Geographical area by destination	2001 Turnover £m	2000 Turnover £m
United Kingdom and Ireland	**66.0**	85.8
Rest of Europe	**170.0**	213.7
The Americas	**135.2**	163.2
Rest of World	**153.6**	154.4
	524.8	617.1

1 SEGMENTAL ANALYSIS (continued)

	2001 Profit before tax £m	2001 Net assets £m	2000 Profit before tax (restated) £m	2000 Net assets (restated) £m
Associated companies are analysed as follows:				
Security paper and print	**(2.2)**	**14.9**	3.9	19.1
UK lottery	**7.0**	**28.4**	10.8	41.9
	4.8	**43.3**	14.7	61.0
Geographical area by operation				
United Kingdom and Ireland	**7.0**	**28.4**	10.8	42.0
Rest of Europe	**(2.7)**	**14.7**	3.9	18.1
The Americas	**–**	**–**	–	0.6
Rest of World	**0.5**	**0.2**	–	0.3
	4.8	**43.3**	14.7	61.0

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

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

2 OPERATING COSTS

	2001 £m	2000 £m
Cost of sales		
Continuing operations	**325.7**	360.5
Reorganisation and arbitration costs	**–**	21.0
	325.7	381.5
Acquisitions	**22.4**	–
Reorganisation costs	**0.8**	–
	23.2	–
Discontinued operations	**–**	76.5
	348.9	458.0
Distribution costs		
Continuing operations	**18.1**	17.7
	18.1	17.7
Discontinued operations	**–**	2.0
	18.1	19.7
Administration and other expenses		
Continuing operations	**92.2**	85.5
Reorganisation and arbitration costs	**–**	4.6
	92.2	90.1
Discontinued operations	**–**	14.6
	92.2	104.7
	459.2	582.4

Notes to the Accounts

For the year ended 31 March 2001

3 OPERATING PROFIT

	2001 £m	2000 £m
Operating profit is stated after charging/(crediting) the following:		
Employee costs (note 24)	**175.5**	206.2
Depreciation of tangible fixed assets		
– purchased	**22.6**	24.4
– leased	**0.4**	0.4
Amortisation of intangibles	**1.3**	0.2
Operating leases		
– hire of plant and machinery	**2.4**	1.2
– other	**4.4**	5.0
Auditors' remuneration		
– audit fees (Company £0.2m)	**0.6**	0.7
– UK non-audit related fees	**0.2**	0.6
– overseas non-audit related fees	**0.3**	0.2
Research and development	**15.9**	21.0
Reorganisation and arbitration costs	**0.8**	25.6
Net loss/(profit) on disposal of fixed assets/assets held for resale	**0.6**	(0.2)

Cash expended in 2001 in respect of reorganisation and arbitration costs amounted to £6.4m. £3.2m was carried forward within provisions and accruals.

4 NON-OPERATING ITEMS

	2001 £m	2000 £m
Loss on the disposal of continuing operations	**(3.0)**	–
Profit on the disposal of discontinued operations	**–**	56.1
Profit on sale of investments	**–**	2.0
Scheme of arrangement costs	**–**	(1.1)
	(3.0)	57.0

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

The profit on disposal of discontinued operations of £56.1m in 2000 arose from the following:

the disposal of the Card activities business which generated a profit of £57.4m after writing off goodwill of £71.9m previously eliminated against reserves;

the disposal of plan object, which designed and manufactured bank branch furniture, generating a loss of £1.3m.

The profit on the sale of investments in 2000 of £2.0m comprised:

a profit of £1.1m on the sale of preference shares in Cromptons, a tea bag paper manufacturing company;

a profit of £0.9m on the sale of shares in Ingenico, a terminals manufacturer.

The costs of the scheme of arrangement in 2000 were primarily advisors' fees.

5 NET INTEREST PAYABLE

	2001 £m	2000 £m
Interest payable on bank loans and overdrafts, and on other loans repayable within five years	**(3.4)**	(7.5)
Interest element of finance lease charges	**(0.1)**	(0.2)
Interest receivable	**2.3**	4.7
	(1.2)	(3.0)

6 TAXATION

	2001 £m	2000 £m
Tax on profit on ordinary activities		
United Kingdom		
Corporation tax at 30% (2000 30%)	**29.0**	10.4
Double taxation relief	**(7.3)**	(2.0)
ACT write back	**(6.4)**	(2.7)
	15.3	5.7
Overseas		
Taxation payable	**3.3**	5.7
Deferred taxation	**(1.3)**	0.9
	2.0	6.6
Total UK and Overseas	**17.3**	12.3
Adjustments in respect of prior years	**(4.0)**	(0.4)
Tax on share of profits of associated companies	**4.7**	5.2
	18.0	17.1
Non-operating items	**(13.4)**	0.6
Total taxation charge	**4.6**	17.7

A Group tax provision of £3.2m was released against the tax on share of profits of associated companies, reducing the tax charge from £7.9m to £4.7m, to offset amounts paid by an associate in respect of a tax dispute.
The exceptional tax credit of £13.4m, comprises £0.9m relating to Camelot bid/win costs, (bringing the total on share of profits of associated companies to £7.0m), and £12.5m reflecting the write back of provisions following settlement of various tax disputes. The other exceptional items did not have a material impact on the tax charge for the year.
The taxation charge on exceptional items in 2000 was £0.6m comprising tax credits relating to reorganisation costs of £2.1m and a charge of £2.7m relating to the profit on the Card activities disposal (the prior year comparatives have been restated to reflect these items).

7 EARNINGS PER SHARE

	2001	2000
Basic	**34.6p**	39.9p
Fully diluted	**34.1p**	39.6p

Earnings per share are based on the profit for the year attributable to ordinary shareholders of £65.8m (2000 £87.7m) as shown in the Group profit and loss account. The weighted average number of ordinary shares used in the calculations is 190,152,358 (2000 220,023,945) for basic earnings per share and 193,177,069 (2000 221,762,065) for diluted earnings per share after adjusting for dilutive share options.

Reconciliation of earnings per share	pence per share	pence per share
As calculated under FRS 14	**34.6**	39.9
Loss on the disposal of continuing operations	**1.6**	–
Profit on the disposal of discontinued operations	**–**	(24.3)
Profit on sale of investments	**(0.1)**	(0.9)
Loss/(profit) on the disposal of fixed assets and assets held for resale	**0.1**	(0.1)
Scheme of arrangement costs	**–**	0.5
Amortisation of goodwill	**1.1**	0.7
Headline earnings per share as defined by the IIMR	**37.3**	15.8
Reorganisation and arbitration costs	**0.4**	10.7
Share of associated company's exceptional items	**1.3**	–
Exceptional release of tax provision	**(6.6)**	–
Headline earnings per share before items shown above	**32.4**	26.5

Notes to the Accounts

For the year ended 31 March 2001

7 EARNINGS PER SHARE (continued)

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

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

8 DIVIDENDS

	2001 £m	2000 £m
Ordinary shares		
Interim	**7.6**	9.0
Final proposed	**16.4**	15.3
	24.0	24.3
Net dividend per ordinary share	**pence**	pence
Interim	**4.0**	4.0
Final proposed	**8.6**	8.0
	12.6	12.0

In 2000, a dividend of £14,750 was paid on preference shares, which were subsequently repaid on 7 February 2000.

9 INTANGIBLE ASSETS

Group	Goodwill £m	Development costs £m	Distribution rights £m	Total £m
Cost or valuation				
At 2 April 2000	**0.9**	**0.1**	**2.2**	**3.2**
Additions	**2.7**	**–**	**0.3**	**3.0**
At 31 March 2001	**3.6**	**0.1**	**2.5**	**6.2**
Amortisation				
At 2 April 2000	**–**	**–**	**–**	**–**
Provision for the year	**0.5**	**–**	**0.8**	**1.3**
At 31 March 2001	**0.5**	**–**	**0.8**	**1.3**
Net book value				
At 1 April 2000	0.9	0.1	2.2	3.2
At 31 March 2001	**3.1**	**0.1**	**1.7**	**4.9**

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

10 TANGIBLE ASSETS

Group	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	In course of con-struction £m	Total £m
Cost or valuation					
At 2 April 2000	73.2	184.2	50.3	4.5	312.2
Exchange adjustments	0.8	2.8	1.0	–	4.6
Acquisitions	–	–	0.9	–	0.9
Additions	–	13.2	5.8	11.4	30.4
Transfers from assets in the course of construction	0.1	4.4	1.0	(5.5)	–
Transfer from stock[a]	–	2.3	–	–	2.3
Disposals	(1.5)	(2.7)	(11.0)	–	(15.2)
At 31 March 2001	72.6	204.2	48.0	10.4	335.2
Representing					
Valuation in 1988/89	3.7	–	–	–	3.7
Cost	68.9	204.2	48.0	10.4	331.5
	72.6	204.2	48.0	10.4	335.2
Accumulated depreciation					
At 2 April 2000	14.7	96.1	34.0	–	144.8
Exchange adjustments	0.3	1.7	0.6	–	2.6
Provision for the year	1.5	13.9	7.6	–	23.0
Transfer from stock[a]	–	0.7	–	–	0.7
Disposals	(0.3)	(2.3)	(10.3)	–	(12.9)
At 31 March 2001	16.2	110.1	31.9	–	158.2
Net book value					
At 1 April 2000	58.5	88.1	16.3	4.5	167.4
At 31 March 2001	56.4	94.1	16.1	10.4	177.0

[a] In the year plant and machinery maintenance spares were re-classified from stock to fixed assets.

Included in the above are leased assets as follows:

Plant and machinery	cost	£4.5m (2000 £4.6m)
	net book value	£0.4m (2000 £0.7m)
Fixtures and fittings	cost	£0.2m (2000 £0.2m)
	net book value	£Nil (2000 £Nil)

Included in the cost or valuation of land and buildings is an amount of £2.4m of capitalised interest (2000 £2.4m).

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

	2001 Group £m	2000 Group £m
Land and buildings comprise		
Net book value		
Freehold	37.3	38.8
Long leasehold	16.4	16.9
Short leasehold	2.7	2.8
	56.4	58.5
Historical cost of land and buildings		
Cost	70.5	71.1
Accumulated depreciation	(15.9)	(14.4)
	54.6	56.7

Notes to the Accounts

For the year ended 31 March 2001

11 INVESTMENTS

	2001 Group £m	2000 Group £m	2001 Company £m	2000 Company £m
Investments comprise				
Investment in associated companies	**43.3**	61.0	**–**	–
Cost of shares in Group companies	**–**	–	**151.6**	151.6
Loans from Group companies	**–**	–	**0.9**	–
Other investments	**4.8**	4.2	**–**	–
Purchase of own shares	**5.6**	6.2	**5.6**	6.2
	53.7	71.4	**158.1**	157.8

Associates are analysed in further detail below.

Other investments principally comprise securities quoted on overseas stock exchanges at cost. This includes 12.5% of the ordinary share capital of Koenig and Bauer AG, an engineering company incorporated in Germany and quoted on the Frankfurt Stock Exchange. £0.4m of dividend income has been included in operating profit (2000 £0.3m). The market value of quoted investments at the balance sheet date was £15.1m.

In the prior year, 2.1m own shares with a nominal value of £0.5m were purchased at an average price of 293p to satisfy potential obligations under various share option schemes for executive directors and senior employees. In the year £0.6m has been written off to the profit and loss account representing the estimated difference between the cost of shares and the anticipated proceeds in accordance with UITF 17. The market value of own shares at 31 March 2001 was £8.5m.

	Cost of Shares £m	Share of Retained Profit £m	Goodwill £m	Loans £m	Total £m
Associates					
At 1 April 2000	**15.0**	**43.8**	**2.2**	**–**	**61.0**
Exchange adjustments	**0.2**	**1.0**	**–**	**–**	**1.2**
Additions	**0.7**	**–**	**–**	**–**	**0.7**
Disposals	**(0.4)**	**(0.2)**	**–**	**–**	**(0.6)**
Share of associated companies' profit after taxation	**–**	**3.7**	**(1.5)**	**–**	**2.2**
Less share of associated companies' dividends	**–**	**(21.2)**	**–**	**–**	**(21.2)**
At 31 March 2001	**15.5**	**27.1**	**0.7**	**–**	**43.3**

During the course of the year, the Group disposed of 6.67% of its 26.67% holding in the ordinary share capital of Camelot International Services Limited, a lottery operator incorporated in the UK. In addition, the Group disposed of its 30% holding in the ordinary share capital of DAQ Electronics, a company incorporated in the USA.

The investment in associated companies is shown net of a provision of £4.4m (2000 £4.0m) against the carrying value of the investment in De La Rue Giori SA.

	Total associates 2001 £m	Camelot Group 2001 £m	Total associates 2000 £m	Camelot Group 2000 £m
Group's share of the net assets of aggregate associates and Camelot Group plc				
Turnover	**1,876.2**	**1,838.3**	1,580.6	1,511.8
Profit before tax	**9.2**	**10.6**	17.7	13.3
Taxation	**(7.0)**	**(3.8)**	(5.2)	(4.7)
Profit after tax	**2.2**	**6.8**	12.5	8.6
Fixed assets	**20.1**	**3.9**	22.7	10.0
Current assets	**166.2**	**118.5**	165.5	117.6
Liabilities due within one year	**(117.2)**	**(93.0)**	(109.6)	(87.0)
Liabilities due after one year or more	**(12.8)**	**(1.2)**	(12.1)	(1.7)
Net Assets	**56.3**	**28.2**	66.5	38.9

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

12 STOCKS

	2001 Group £m	2000 Group £m
Raw materials	**19.4**	20.3
Work in progress	**21.3**	21.8
Finished goods	**39.4**	30.7
	80.1	72.8

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

13 DEBTORS

	2001 Group £m	2000 Group £m	2001 Company £m	2000 Company £m
Amounts due within one year				
Trade debtors	**94.3**	88.7	**–**	–
Amounts owed by Group undertakings	**–**	–	**30.0**	–
Advance corporation tax recoverable	**–**	0.3	**–**	–
Other debtors	**11.1**	10.4	**–**	–
Prepayments and accrued income	**7.8**	6.5	**–**	–
	113.2	105.9	**30.0**	–
Amounts due after more than one year				
Other debtors	**1.1**	1.2	**–**	–
Prepayments and accrued income	**0.3**	0.8	**–**	–
	1.4	2.0	**–**	–
	114.6	107.9	**30.0**	–

14 CREDITORS

	2001 Group £m	2000 Group £m	2001 Company £m	2000 Company £m
Amounts falling due within one year				
Loan notes	**–**	2.6	**–**	–
Bank loans	**24.0**	19.6	**20.7**	15.0
Obligations under finance leases	**0.4**	0.4	**–**	–
	24.4	22.6	**20.7**	15.0
Overdrafts	**3.3**	2.9	**67.7**	76.9
Short term borrowings	**27.7**	25.5	**88.4**	91.9
Payments received on account	**16.5**	15.4	**–**	–
Trade creditors	**40.6**	34.3	**–**	–
Amounts owed to associated companies	**0.4**	0.2	**–**	–
Taxation	**32.4**	39.8	**–**	–
Social security and other taxation	**7.1**	7.2	**–**	–
Other short term creditors	**24.5**	21.3	**0.2**	0.4
Accruals and deferred income	**61.1**	56.9	**–**	–
Proposed dividends	**24.2**	24.3	**24.3**	15.3
Other creditors	**206.8**	199.4	**24.5**	15.7

The loan notes were issued to shareholders of Portals Group plc as part of the acquisition consideration. All loan notes have now been redeemed.

Other short term creditors includes £6.0m received from Consignia Enterprises Limited (formerly Post Office Enterprises Limited) in respect of the purchase of 6.67% of the Group's 26.67% shareholding in Camelot Group plc.

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For the year ended 31 March 2001

15 CREDITORS

	2001 Group £m	2000 Group £m	2001 Company £m	2000 Company £m
Amounts falling due after more than one year				
Bank loans repayable otherwise than by instalments				
Between one and two years	**1.2**	36.8	**1.2**	52.6
Between two and five years	**23.6**	20.0	**23.5**	–
Obligations under finance leases				
Between one and five years	**0.9**	1.3	**–**	–
Long term borrowings	**25.7**	58.1	**24.7**	52.6
Amounts owed to Group companies	**–**	–	**47.6**	36.1
Other long term creditors	**0.7**	1.9	**–**	–
Taxation	**–**	0.2	**–**	–
Accruals and deferred income	**–**	0.1	**–**	–
Other creditors	**0.7**	2.2	**47.6**	36.1

As at 31 March 2001, the total of undrawn committed borrowing facilities maturing in more than two years was £66.5m. By 30 April 2001, a further £26m of new undrawn commitments maturing in over two years had been added.

16 PROVISIONS FOR LIABILITIES AND CHARGES

	Pensions and similar obligations £m	Deferred taxation £m	Other £m	Total £m
Group				
At 2 April 2000	**24.0**	**3.3**	**32.8**	**60.1**
Exchange adjustments	**0.3**	**0.3**	**–**	**0.6**
Provided in year	**3.5**	**0.4**	**2.2**	**6.1**
Utilised in year	**(5.7)**	**–**	**(9.4)**	**(15.1)**
Released in year	**–**	**(1.3)**	**(5.1)**	**(6.4)**
Transferred between categories	**1.1**	**–**	**(1.1)**	**–**
At 31 March 2001	**23.2**	**2.7**	**19.4**	**45.3**

As at 31 March 2001 other provisions principally includes:

Acquisition and disposal provisions of £6.5m (2000 £12.1m) none of which are individually material. During the year £2.1m of these provisions were utilised and £3.4m released to the profit and loss account.

A provision of £2.7m (2000 £3.1m), retained to cover the cost of Delarunarians (those employees and ex-employees who have achieved 37 years service and qualify for free medical cover, plus a monthly allowance). £0.4m of this provision was utilised in the year.

Reorganisation provisions of £2.0m (2000 £8.6m) of which £4.5m has been utilised and £1.3m released in the year. The reorganisation within Security Paper and Print utilised £1.4m brought forward from the prior year and released £0.5m. In the year the reorganisation within Cash Systems utilised £2.2m, released £0.7m and provided a further £0.8m leaving a total provision of £2.0m carried forward. The remaining £0.8m other provisions in respect of the relocation of the Head Office from London to Basingstoke were utilised in the year.

£0.5m of the arbitration cost provision was utilised in the year, leaving a balance of £1.5m.

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

17 DEFERRED TAXATION

	2001 Group £m	2000 Group £m
Provided		
Timing differences between capital allowances and depreciation	**6.2**	2.4
Miscellaneous timing differences	**(3.5)**	0.9
At 31 March 2001	**2.7**	3.3

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

As at 1 April 2000 and 31 March 2001, there were no unprovided deferred tax liabilities.

18 SHARE CAPITAL AND RESERVES

	Share capital £m	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Group						
At 1 April 2000	**48.0**	**0.4**	**1.8**	**(83.8)**	**193.7**	**160.1**
Share capital issued	**0.2**	**2.9**	**–**	**–**	**–**	**3.1**
Currency translation	**–**	**–**	**–**	**–**	**2.2**	**2.2**
Profit for the financial year	**–**	**–**	**–**	**–**	**41.8**	**41.8**
Goodwill	**–**	**–**	**–**	**–**	**3.8**	**3.8**
At 31 March 2001	**48.2**	**3.3**	**1.8**	**(83.8)**	**241.5**	**211.0**
Company						
At 1 April 2000	**48.0**	**0.4**	**–**	**–**	**7.4**	**55.8**
Share capital issued	**0.2**	**2.9**	**–**	**–**	**–**	**3.1**
Profit for the financial year before dividends	**–**	**–**	**–**	**–**	**36.0**	**36.0**
Dividends proposed	**–**	**–**	**–**	**–**	**(24.0)**	**(24.0)**
At 31 March 2001	**48.2**	**3.3**	**–**	**–**	**19.4**	**70.9**

Reserves are wholly attributable to equity shareholders.

As permitted by Section 230 of the Companies Act 1985, De La Rue plc has not presented its own profit and loss account. The amount of the Group profit for the financial year dealt with in the accounts of the Company was a profit of £36.0m.

As at 31 March 2001, £740.4m (2000 £744.2m) of goodwill has been eliminated against reserves in respect of acquisitions made prior to 31 March 1998.

19 SHARE CAPITAL

	2001 £m	2000 £m
Authorised		
265,625,900 ordinary shares of 25p each	**66.4**	66.4
Allotted, called up and fully paid		
192,793,803 (2000 191,806,461) ordinary shares of 25p each	**48.2**	48.0

	2001 '000	2000 '000
Allotments during the year		
Ordinary shares in issue at 2 April 2000 (1 April 1999)	**191,806**	–
Issued in relation to Scheme of Arrangement	**–**	191,647
Issued under savings related share option scheme	**167**	36
Issued under executive share option scheme	**738**	123
Issued as consideration for acquisition	**82**	–
Ordinary shares in issue at 31 March (1 April 2000)	**192,793**	191,806

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For the year ended 31 March 2001

19 SHARE CAPITAL (continued)

	2001 '000	2000 '000
Contingent rights to the allotment of shares		
Savings related share option scheme		
Options over ordinary shares outstanding at 2 April 2000 (1 April 1999)	**4,003**	–
Issued in relation to Scheme of Arrangement	**–**	3,231
New Options granted during year	**566**	999
Options exercised during the year	**(167)**	(65)
Options lapsed during the year	**(641)**	(162)
Savings related share options outstanding at 31 March (1 April 2000)	**3,761**	4,003

At 31 March 2001 there was a total of 1,527 participants holding options under the savings related share option scheme which are exercisable at various dates up to 31 August 2006 at prices ranging between 150p and 571p.

	2001 '000	2000 '000
Executive Share Option Scheme		
Options over ordinary shares outstanding at 2 April 2000 (1 April 1999)	**6,780**	–
Issued in relation to Scheme of Arrangement	**–**	6,207
New Options granted during year	**237**	755
Options exercised during year	**(738)**	(123)
Options lapsed during year	**(1,465)**	(59)
Executive share options outstanding at 31 March (1 April 2000)	**4,814**	6,780

At 31 March 2001 there was a total of 213 participants holding options under the executive share option scheme which are exercisable at various dates up to 4 July 2010 at prices ranging between 187.84p and 1005.00p.

	2001 '000	2000 '000
Share Price Improvement Plan		
Options over ordinary shares outstanding at 1 April	**2,551**	2,751
New Options granted during year	**732**	–
Options lapsed during year	**(305)**	(200)
Share Price Improvement Plan options outstanding at 31 March (1 April 2000)	**2,978**	2,551

At 31 March 2001 there were 27 senior key employees holding options under the Share Price Improvement Plan which are exercisable at various dates up to 4 July 2004 at prices ranging between 215.3p and 340.9p.

Market Share Purchase of Own Shares

(a) De La Rue Employee Share Ownership Trust

The De La Rue Employee Share Ownership Trust was established to administer shares granted under the various De La Rue Executive Share Option Schemes (ESOS) and De La Rue Share Price Improvement Plan (SPIP) to executive directors and senior employees. Allied Trust Company Limited (formerly The Royal Bank of Scotland Trust Company (Guernsey)) is Trustee. The Trustee currently holds 2.1 million shares until due for release to participants of the Schemes and the Plan. The Trustee has agreed to waive dividends on these shares. The difference between the cost of the shares and the exercise price of the options is being charged to the profit and loss account over the performance period. At 31 March 2001 no shares have been transferred to option holders under the SPIP or ESOS. The circumstances under which the shares are released in relation to the SPIP are set out in the Remuneration Report of the Board.

19 SHARE CAPITAL (continued)

(b) De La Rue Qualifying Employee Share Ownership Trust (the "QUEST")
The QUEST was established on 30 March 2000 to administer shares granted under the De La Rue Sharesave Scheme ("the Scheme") to employees and directors of the Company and its subsidiaries. During the year, the QUEST subscribed for 91,989 shares for a total consideration of £393,944. The Company contributed £96,820 to the QUEST and £297,124 was received from Sharesave participants. The shares were all transferred by the QUEST to participants in the Scheme in satisfaction of their options. The price paid by option holders was 323p (3 year options)

20 NOTES TO GROUP CASH FLOW STATEMENT

		2001 £m	2000 £m
a	**Reconciliation of operating profit to net cash inflow from operating activities**		
	Operating profit	**65.6**	34.7
	Depreciation and amortisation	**24.3**	25.0
	(Increase)/decrease in stocks	**(2.4)**	7.9
	(Increase)/decrease in debtors	**(4.9)**	13.8
	Decrease in creditors	**(7.4)**	(11.3)
	Decrease in reorganisation provisions	**(7.6)**	(1.9)
	Other items	**1.0**	(0.2)
	Net cash inflow from operating activities	**68.6**	68.0
b	**Returns on investments and servicing of finance**		
	Interest received	**3.0**	4.0
	Interest paid	**(4.2)**	(7.5)
	Interest element of finance lease payments	**(0.1)**	(0.2)
	Dividends paid to minority shareholders	**(0.3)**	(1.3)
	Net cash outflow from returns on investments and servicing of finance	**(1.6)**	(5.0)
c	**Capital expenditure and financial investment**		
	Purchase of tangible fixed assets	**(27.9)**	(25.3)
	Purchase of intangible fixed assets	**(0.3)**	(2.9)
	Sale of tangible fixed assets	**1.8**	3.2
	Purchase of investments	**(0.9)**	(1.4)
	Sale of investments	**6.5**	10.6
	Purchase of own shares	**–**	(6.2)
	Net cash outflow for capital expenditure and financial investment	**(20.8)**	(22.0)
d	**Acquisitions and disposals**		
	Purchase of subsidiary undertakings	**(4.8)**	–
	Net cash acquired with subsidiary undertakings (note 22)	**0.4**	–
	Sale of subsidiary undertakings (note 22)	**0.2**	183.9
	Net overdrafts sold with subsidiary undertakings (note 22)	**–**	0.8
	Sale of assets held for disposal	**–**	1.2
	Net cash (outflow)/inflow from acquisitions and disposals	**(4.2)**	185.9
e	**Management of liquid resources**		
	Net increase in short term deposits	**0.3**	(55.6)

Notes to the Accounts

For the year ended 31 March 2001

20 NOTES TO GROUP CASH FLOW STATEMENT (continued)

	2001 £m	2000 £m
f Financing		
Debt due within one year:		
Decrease in short term borrowings	**–**	(0.2)
Loans raised	**3.6**	–
Loans repaid	**(20.5)**	(47.5)
Debt due beyond one year:		
Loans raised	**1.5**	53.1
Loans repaid	**(18.3)**	(60.7)
Capital element of finance lease rental repayments	**(0.5)**	(1.6)
Scheme of arrangement	**–**	(103.3)
Preference shares repaid	**–**	(0.5)
Scheme of arrangement costs	**–**	(1.1)
Share capital issued	**2.8**	0.4
Net cash outflow from financing	**(31.4)**	(161.4)

g **Analysis of net debt**	At 1 April 2000 £m	Cash flow £m	Other movements £m	Exchange movement £m	At 31 March 2001 £m
Cash at bank and in hand	85.7	2.6		1.2	**89.5**
Less liquid resources	(63.8)	0.3		(0.6)	**(64.1)**
Overdrafts	(2.9)	(0.3)		(0.1)	**(3.3)**
Cash – Group cash flow statement	19.0	2.6		0.5	**22.1**
Liquid resources	63.8	(0.3)		0.6	**64.1**
Debt due within one year, excluding bank overdrafts	(22.6)	16.9	(18.0)	(0.7)	**(24.4)**
Debt due after one year	(58.1)	17.3	18.0	(2.9)	**(25.7)**
	(80.7)	34.2	–	(3.6)	**(50.1)**
Net funds	**2.1**	**36.5**		**(2.5)**	**36.1**

21 GROUP OPERATING LEASES

	2001 Land and buildings £m	2000 Land and buildings £m	2001 Other £m	2000 Other £m
Annual commitments expiring				
Within one year	**1.3**	0.6	**1.7**	0.5
Between one and two years	**1.0**	1.0	**1.9**	0.8
Between two and five years	**2.3**	0.7	**3.6**	1.5
Over five years	**1.5**	2.2	**–**	–
Payments to be made during next year	**6.1**	4.5	**7.2**	2.8

22 ACQUISITIONS & DISPOSALS

Acquisitions

On 14 April 2000 the Group acquired the international cash handling activities of Ascom Autelca AG for a consideration including expenses of £3.9m.

The business has been integrated into the continuing operations of the Group and contributed £23.4m in sales and an operating profit (before reorganisation costs) of £1.0m for the period since acquisition. Prior to acquisition, the business recorded an operating loss of £1.9m for the year to 31 December 1999.

During the year the Group also acquired the assets of Timothy C. Harris & Associates, Ltd (23 June 2000) and B.P. Macken Ltd (2 August 2000), which have been integrated into the continuing operations of the Group.

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

	Ascom			Other acquisitions	Total
	Book value prior to acquisition £m	Fair value adjustments £m	Fair value to the Group £m	Fair value to the Group £m	Fair value to the Group £m
Tangible fixed assets	1.0	(0.1)	0.9	–	0.9
Stock	4.4	(0.4)	4.0	–	4.0
Other current assets & liabilities	(3.3)	(0.3)	(3.6)	(0.1)	(3.7)
Cash	0.4	–	0.4	–	0.4
Net assets acquired	2.5	(0.8)	1.7	(0.1)	1.6
Consideration					
Cash, including expenses			3.8	0.4	4.2
Deferred consideration			0.1	–	0.1
Total consideration			3.9	0.4	4.3
Fair value of net assets acquired (as above)			(1.7)	0.1	(1.6)
Goodwill			2.2	0.5	2.7

All businesses purchased have been accounted for using the acquisition method.

Ascom

Fair value adjustments reflect the writing down of assets acquired to their net realisable value to the Group. Goodwill arising has been capitalised and will be amortised over 20 years.

Other acquisitions

There were no fair value adjustments in respect of the other acquisitions.

Goodwill arising has been capitalised and will be amortised over three years, being the average remaining lives of acquired contracts.

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

The acquisition of Interclear Services Limited, which was accounted in the prior year, was satisfied by cash consideration of £0.6m and the issue of shares in De La Rue plc of £0.3m.

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For the year ended 31 March 2001

22 ACQUISITIONS & DISPOSALS (continued)

Disposals

During the year the Group disposed of its Nordic and South African Cash Systems distribution companies.

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

	Nordic £m	South Africa £m	Total £m
Fixed assets	0.1	–	0.1
Stock	0.2	0.6	0.8
Other assets & liabilities	(0.1)	(0.8)	(0.9)
Net assets disposed	0.2	(0.2)	–
Loss on disposal	–	(3.0)	(3.0)
Total	0.2	(3.2)	(3.0)
Comprising			
Net cash, including expenses	(0.2)	0.4	0.2
Amounts payable by purchaser	0.4	0.2	0.6
Goodwill	–	(3.8)	(3.8)
Total	0.2	(3.2)	(3.0)

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

23 PENSIONS AND OTHER POST-RETIREMENT BENEFITS

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

A provision of £23.2m (2000 £24.0m) is included in provisions for liabilities and charges, to cover the excess of the accumulated pension costs (£20.4m) and other post-retirement benefits (£2.8m) over the amounts funded.

The total pension cost for the Group was £3.2m (2000 £7.4m), of which £2.7m relates to plans in the United Kingdom and the United States which cover 76 per cent of employees within schemes. Included within the total pension cost is £0.7m for defined contribution arrangements in the USA. The reduction in pension costs compared with 2000 is in line with the results of the 2000 actuarial valuation.

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

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

23 PENSIONS AND OTHER POST-RETIREMENT BENEFITS (continued)

Last valuation date	6 April 2000
Main assumptions	
Investment return p.a.	8%
Dividend growth p.a.	4.75%
Salary increases p.a.	5.5%
Pension increases p.a.	3.75%
Market valuation of investments at last valuation date	£493.0m
Level of funding, being the actuarial value of assets expressed as a percentage of the accrued service liabilities	113%
Regular pension cost	£7.2m
Variation from regular cost	£(5.5)m
Net pension cost for 2001	£1.7m

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

Other post-retirement benefits of £0.3m were utilised in the year (2000 £Nil utilised). These benefits relate mainly to healthcare and life assurance for beneficiaries in the United States. The benefits are covered by an unfunded defined benefit scheme and a provision is carried in the balance sheet for the accumulated liabilities. These were assessed in accordance with independent actuarial advice as at 31 March 1997 using the projected unit credit method. The assumed discount rate was 7.25 per cent p.a. and annual healthcare costs were assumed to increase by 7.0 per cent p.a.

24 EMPLOYEES

	2001	2000
Average number of employees		
United Kingdom and Ireland	**3,113**	3,505
Rest of Europe	**1,601**	1,752
The Americas	**784**	1,366
Rest of world	**700**	747
	6,198	7,370

	2001 £m	2000 £m
Employee costs (including directors' emoluments)		
Wages and salaries	**157.9**	181.4
Social security costs	**14.4**	17.4
Pension costs	**3.2**	7.4
	175.5	206.2

Full details of directors' emoluments, pension entitlements, options and interests in shares are set out in the Remuneration Report on pages 30-32.

25 CAPITAL COMMITMENTS

	2001 Group £m	2000 Group £m
The following commitments existed at the balance sheet date:		
Contracted but not provided for in the accounts	**3.2**	12.0
Authorised but not contracted	**2.4**	4.0
	5.6	16.0

Notes to the Accounts

For the year ended 31 March 2001

26 CONTINGENT LIABILITIES

There are contingent liabilities, arising in the ordinary course of business, in respect of litigation and guarantees in various countries, for which the directors believe adequate provisions have been made in the accounts. Pursuant to the provisions of Section 17 (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 7 Companies (Amendment) Act 1986 of the Republic of Ireland. De La Rue Holdings plc has guaranteed its share of certain borrowings of its associated company CISL Limited. As at 31 March 2001, the amount guaranteed was £0.9m.

27 RELATED PARTY TRANSACTIONS

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

The Group's trading activities with these companies include £2.0m for the purchase of printing equipment and other assets, £4.9m for the purchase of ink and other consumables; £4.1m for the sale of banknote sorting equipment; £1.0m for the sale of printing machine spares & consumables; and £1.6m for the sale of security paper.

28 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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

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

Currency analysis of net assets
While continuing to focus on the management of cash flow, the Group will, where practicable, seek to limit translation exposures to major currencies by hedging between 75 per cent and 100 per cent of underlying net assets. As a result of the implementation of this policy there continue to be no significant currency net asset exposures.

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

The Group's financial liabilities comprise short term borrowings of £27.7m (note 14); long term borrowings of £25.7m (note 15); other long creditors of £0.7m (note 15) and provisions for other liabilities and charges of £19.4m (note 16).

Financial Liabilities				**2001**				2000
Currency	**Total £m**	**Floating £m**	**Fixed £m**	**Interest free £m**	Total £m	Floating £m	Fixed £m	Interest free £m
Sterling	**26.3**	**6.6**	**–**	**19.7**	57.2	25.7	–	31.5
US$	**14.8**	**14.8**	**–**	**–**	18.9	18.3	–	0.6
Eurozone	**20.1**	**1.4**	**18.6**	**0.1**	36.5	35.8	–	0.7
Other	**12.3**	**12.0**	**–**	**0.3**	5.7	3.8	–	1.9
Total	**73.5**	**34.8**	**18.6**	**20.1**	118.3	83.6	–	34.7

28 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

Floating rate financial liabilities bear interest rates based on relevant national LIBOR equivalents. Drawings under major committed facilities are at no more than 0.2 per cent above LIBOR. The fixed rate euro liability is a borrowing linked to a two year interest rate swap maturing in April 2002. Inclusive of current margin, the interest cost of this is just below 5 per cent.

The Group intends to maintain significant undrawn available committed facilities. Borrowings under these facilities at 31 March 2001 and the current facility maturity pattern were as follows:

	Total Facilities £m	Drawings £m	Undrawn £m
Within 1 year	78.1	22.7	55.4
1-2 years	25.0	1.2	23.8
2-5 years	116.0	23.5	92.5
Total	**219.1**	**47.4**	**171.7**

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

	2001 £m	2000 £m
Within 1 year	39.4	40.9
1-2 years	7.0	46.6
2-5 years	26.4	29.7
More than 5 years	0.7	1.1
Total	**73.5**	118.3

Interest rate risk profile of financial assets

The Group's financial assets comprise cash and deposits together with other investments as per note 11. Other investments at 31 March 2001 primarily comprise a holding of 12.5 per cent in the ordinary share capital of Koenig & Bauer AG which has a cost of £3.9m and market value of £15.1m

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

Cash & Deposits	2001 £m	2000 £m
Sterling	52.3	47.8
US$	11.6	10.5
Eurozone	12.4	10.9
Other	13.2	16.5
Total	**89.5**	85.7

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.

Fair value of financial assets and liabilities

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

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

During the year the Group has entered into a two year interest rate swap to fix the rate on €30m of debt at just below 5 per cent including borrowing margin.

Hedging future transactions

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

Principal subsidiaries, branches and associated companies

As at 31 March 2001

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, Holographics and Transaction Services	100
De La Rue Overseas Limited	Holding company	100
De La Rue InterClear Limited	Digital Security	100
De La Rue Investments Limited	Holding company	100
Portals Group plc	Holding company	100
Portals Property Limited	Property holding company	100
Royal Mint Services Limited	Marketing	50*
Camelot Group plc	Lottery operator	20*
Channel Islands		
The Burnhill Insurance Company Limited	Insurance	100
Belgium		
De La Rue Cash Systems NV	Distribution and marketing	100
Ireland		
De La Rue Smurfit Limited	Security printing	50
De La Rue Cash Systems Limited	Distribution and marketing	100
Italy		
De La Rue Cash Systems s.r.l.	Distribution and marketing	100
France		
De La Rue France Holdings SAS	Holding company	100
De La Rue Cash Systems SA	Distribution and marketing	100
Germany		
IMW Immobilien AG	Property company	95.67
De La Rue Cash Systems GmbH	Distribution and marketing	100
De La Rue Systems GmbH	Holding company and distribution and marketing of cash handling products for export	100
Malta		
De La Rue Currency and Security Print Limited	Security printing	100
The Netherlands		
De La Rue BV	Holding company and distribution and marketing of cash handling products	100
Portugal		
De La Rue Cash Systems	Distribution and marketing (branch)	100
Valora-Servicos de Apoio a Emissao Monitaria SA	Currency printing	25*
Spain		
De La Rue Systems S.A.	Distribution and marketing	100
Sweden		
De La Rue Cash Systems AB	Manufacturer of cash handling equipment	100
De La Rue Svetsprodukter AB	Manufacturer of cash handling equipment	100

Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
Switzerland		
Thomas De La Rue A.G.	Holding company	100
De La Rue Giori S.A.	Security printing machinery	50*
Fidink S.A.	Security ink marketing	33.33*
De La Rue Cash Systems A.G.	Distribution and marketing	100
De La Rue International Limited, Swiss Branch	Design and development centre principally for cash handling products and solutions	100
NORTH AMERICA		
United States of America		
De La Rue Inc	Holding company	100
De La Rue Security Print Inc	Security printing	100
De La Rue Cash Systems Inc	Identity systems, design, assembly, distribution and marketing	100
SOUTH AMERICA		
Brazil		
De La Rue Cash Systems Ltda	Distribution and marketing	100
Mexico		
De La Rue Mexico SA de CV	Identity Systems	100
AFRICA		
Kenya		
De La Rue Currency and Security Print Limited	Security printing	100
Nigeria		
The Nigerian Security Printing and Minting Company Limited	Security printing	25*
South Africa		
De La Rue Systems (Proprietary) Limited	Distribution and marketing	100
FAR EAST		
Australia		
De La Rue Cash Systems Pty Limited	Distribution and marketing	100
Hong Kong		
De La Rue Systems Asia Pacific Limited	Distribution and marketing	100
Malaysia		
De La Rue (Malaysia) Sdn Bhd	Identification systems	100
Singapore		
De La Rue Currency and Security Print Pte Ltd	Security printing	100
Sri Lanka		
De La Rue Lanka Currency and Security Print (Private) Limited	Security printing	60

+Shares held by De La Rue plc
* Associated company

Five Year Record

For the year ended 1 April 2001

Profit and loss account		1997 £m	1998 £m	1999 £m	2000 £m	**2001 £m**
Turnover						
Continuing operations		546.2	537.6	526.2	518.9	**501.4**
Acquisitions		–	–	–	–	**23.4**
Discontinued operations	(note b)	222.0	252.6	211.7	98.2	**–**
Total		768.2	790.2	737.9	617.1	**524.8**
Operating profit						
Continuing operations		91.8	64.0	37.3	55.2	**65.4**
Reorganisation and arbitration costs		(14.8)	(13.3)	(48.5)	(25.6)	**(0.8)**
Acquisitions		–	–	–	–	**1.0**
Discontinued operations	(note b)	(1.3)	(3.6)	(0.9)	5.1	**–**
Total		75.7	47.1	(12.1)	34.7	**65.6**
Share of profits of associated companies		33.1	37.3	26.7	14.7	**4.8**
Loss on the sale of continuing operations		(2.0)	–	(2.1)	–	**(3.0)**
Profit/(loss) on the disposal of discontinued operations		2.5	(6.4)	(16.2)	56.1	**–**
Profit on sale of investments		–	–	–	2.0	**–**
Scheme of arrangement costs		–	–	–	(1.1)	**–**
Profit on part disposal of shareholding in Camelot		–	–	2.3	–	**–**
Profit/(loss) on ordinary activities before interest		109.3	78.0	(1.4)	106.4	**67.4**
Net Interest: Group		(3.4)	(7.3)	(8.8)	(3.0)	**(1.2)**
Associates		–	2.9	2.8	3.0	**4.4**
Profit/(loss) on ordinary activities before taxation		105.9	73.6	(7.4)	106.4	**70.6**
Taxation on profit on ordinary activities		(26.2)	(18.2)	(5.7)	(17.7)	**(4.6)**
Profit/(loss) on ordinary activities after taxation		79.7	55.4	(13.1)	88.7	**66.0**
Equity minority interests		(1.2)	(1.1)	(0.9)	(1.0)	**(0.2)**
Profit/(loss) for the financial year		78.5	54.3	(14.0)	87.7	**65.8**
Dividends		(54.0)	(27.0)	(27.0)	(24.3)	**(24.0)**
Transferred to/(from) reserves		24.5	27.3	(41.0)	63.4	**41.8**
Earnings per ordinary share		35.0p	24.1p	(6.2p)	39.9p	**34.6p**
Diluted earnings per share (per FRS 14)		(a)	24.0p	(6.2p)	39.6p	**34.1p**
Headline earnings per ordinary share		34.8p	26.5p	0.1p	15.8p	**37.3p**
Adjusted earnings per ordinary share		39.7p	30.7p	18.8p	26.5p	**32.4p**
Dividends per ordinary share		24.0p	12.0p	12.0p	12.0p	12.6p
Balance Sheet		£m	£m	£m	£m	**£m**
Fixed assets		298.7	309.6	303.6	242.0	**235.6**
Net current assets		23.7	55.2	23.5	(18.7)	**(12.1)**
Cash/(borrowings)		(58.9)	(121.3)	(126.3)	2.1	**36.1**
Other liabilities		(84.6)	(76.0)	(67.2)	(62.3)	**(46.0)**
Equity minority interests		(4.6)	(4.1)	(3.0)	(3.0)	**(2.6)**
Shareholders' funds		174.3	163.4	130.6	160.1	**211.0**

Notes

(a) The comparatives for 1998 and 1999 have been adjusted to reflect the requirements of FRS 12. Years prior to 1998 have not been restated.

(b) Discontinued operations refer to all businesses discontinued between 1997 and 2001. Thus continuing operations refer to those businesses continuing as at 31 March 2001.

Shareholders' information

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Hampshire, RG22 4BS
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Fax: +44 (0) 1256 605336
Registered Number: 3834125
Company Secretary: Miss C L Fluker

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

***Registrars**
Computershare Services PLC changed its name to Computershare Investor Services PLC with effect from 4 June 2001. Your shareholding in De La Rue plc is unaffected by the change of name.

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

Electronic Communications
As a result of changes in the law, we are now able to offer shareholders the opportunity to receive all communications electronically via our website, rather than in paper form through the post. If you choose this option you will receive an email notification each time we publish such documents on our website and you will be able to download and read them at your own convenience.

To receive all future communications by electronic means, you should register on-line at *www-uk.computershare.com/investor* For this you will need an internet enabled PC. You will also need to have your shareholder reference number (SRN) available when you first log in. This may be found on your share certificate. Shareholders who elect for this may vary their instruction or request a paper copy of any shareholder document at any time in the future.

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

Consolidation of share certificates
If your total registered shareholding is represented by several individual share certificates, you may wish to have these replaced by one consolidated certificate. There is no charge for this service. You should send your share certificates to the Company's registrar together with a letter of instruction.

Annual General Meeting
The Annual General Meeting will be held at 12 noon on Thursday 19 July 2001 at Winchester Guildhall, The Broadway, Winchester, Hampshire, SO23 9LJ. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in a separate notice to shareholders.

Dividend payments

Final	13 August 2001	Record Date	13 July 2001
		Ex-Dividend Date	11 July 2001
Interim	April 2002		

Results announcements

Final Results	May
Interim Results	November

Analysis of shareholders at 31 March 2001

By range of holdings	Shareholders Number	Shareholders %	Shares Number	Shares %
1 – 1,000	7,117	65.3	2,996,588	1.5
1,001 – 2,000	1,770	16.2	2,542,638	1.3
2,001 – 4,000	958	8.8	2,670,558	1.4
4,001 – 20,000	683	6.3	5,348,846	2.8
20,001 – 200,000	265	2.4	16,907,156	8.8
200,001 and above	113	1.0	162,328,017	84.2
Total	10,906	100	192,793,803	100

Share dealing facility
The Company's Stockbroker, Cazenove, provides a simple, low cost dealing facility in De La Rue plc shares. Further information and forms can be obtained from Cazenove, 12 Tokenhouse Yard, London EC2R 7AN. Telephone: 020 7606 1768. A copy of the low-cost dealing form is also available at *www.delarue.com*

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

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

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

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