Management Statement

58025

By building on its firm foundations, De La Rue made strong progress during the year in integrating operations, maintaining market prominence and developing new avenues for expansion.

Trading performance

Profit before tax for the year ended 31 March 1996 was £147.9m, 0.9% up on the previous year. Headline earnings per share fell from 54.8p to 42.5p, the first reduction since 1989.

Given the exceptional growth of recent years, this pause had been expected. We have devoted considerable management attention in the last year to continuing development of a longer term strategy to take advantage of our strength in our growth markets.

A particular feature of the year was our successful integration of the Portals security papermaking operations acquired in 1995. This is a vital step in differentiating and developing our banknote businesses. It shows every sign of fullfilling our expectations.

Although operating profits generated from our Security Paper and Print operations increased by 34.6% to £75.5m, the contribution from our banknote business fell back. This was mainly as a result of lower deliveries, following weaker demand in the first half of the year, as well as increased price competition in the market for banknotes. These effects masked the benefits of encouragingly strong performances from both the Portals security papermaking operations and our UK cheque printing business, together with successful progress towards completion of contracts for setting up two new state owned printing works.

We have changed the name of our Payment Systems Division to Cash Systems Division. This reflects the emphasis on cash systems in our product range, such as cash handling equipment and software, as well as physical and electronic security products for notes, coins and other valuables. During the year the division's sales were enhanced by three acquisitions: first, Brandt, a leading manufacturer of cash handling equipment in the USA; second, Associated Cash Handling, a distribution business in South Africa; third, the cash handling distribution and service business of Ensec in Brazil.

The division made healthy progress in providing developing markets with automated cash handling services, a field in which De La Rue is a world leader. This was offset by the weakness in the German and US markets for physical security products. Plans to minimise the impact of that weakness are in hand and we have taken an exceptional charge of £20.9m in the 1996 accounts to provide for the implementation of these plans.

A small decline in the profits of Transaction Systems Division reflected the absence of the benefit of two very large and exceptional electoral projects of the previous year. It also reflects the fact that we have invested heavily in both capital and revenue spend to develop the division's core activities in magnetic stripe and smartcards, terminals, card based services and system solutions in the rapidly expanding electronic payment and identification markets worldwide.

The acquisition in the USA of McCorquodale Security Cards and Applied Systems Institute, in August and September 1995 respectively, together with the opening of two new card personalisation facilities and the formation of a subsidiary of De La Rue Fortronic, have combined to strengthen greatly our market position in the USA. In Europe, De La Rue Card Technology expanded its facilities at Tewkesbury to service a growing UK order book and opened a new service bureau at Sittard in southern Holland.

The division also incurred significant costs in bidding for the UK Post Office Counter/Benefits Agency contract as part of the Pathway consortium. We were delighted at the announcement on 15 May 1996 that the Pathway consortium had been awarded the contract.

Our share of profits from associated companies increased from £28.0m to £29.3m which included the first full year's contribution of £17.4m from Camelot, the operator of the UK National Lottery.

Disposals

The programme of disposals of the non core businesses and assets acquired with Portals in 1995 is virtually complete. All eight of the businesses have been sold and the main property assets, including the Laverstoke Estate, have either been sold or are contracted to be sold. The cumulative cash consideration from these disposals amounts to £141.7m so far and only a few minor properties now remain for disposal. We continue to hold a small residual investment in JR Crompton, the specialist non security papermaker.

We have also sold our Hong Kong banknote printing plant to the Hong Kong Government for £21.6m, generating an exceptional profit of £20.2m. Banknotes formally exported from Hong Kong will be printed in our banknote plants elsewhere.

Dividend

The Board is recommending a final dividend for the year of 16.50p, an increase on last year of 3.1%. Together with the interim dividend, this results in an increase for the year of 3.3% to 23.75p. This dividend is covered 2.1 times.

Board changes

After five years as Finance Director, Les Cullen resigned at the end of February to take up a new post in Australia which offers scope in general management. We wish him well. We welcome Richard Laing as our new Finance Director. He has been with De La Rue for over 10 years.

Robert Gardner has resigned from the Board after five years devoted service. In his place as the new Managing Director of Cash Systems Division we welcome Haydn Abbott who joins us from Sony.

John Robb, a non executive director, is not seeking re-election at the AGM in July in the light of his other commitments. We are sorry to lose him.

People

De La Rue's success stems from the skills, efforts and enthusiasm of our employees. We thank them for their contribution. We also welcome those joining the Group during the year, including those who have joined through the acquisitions of Brandt, McCorquodale Security Cards and Applied Systems Institute in the USA, Associated Cash Handling in South Africa and Ensec in Brazil.

It is our aim to employ people of high quality worldwide, encourage creativity and initiative, recognise individual and team contributions and give all employees the chance to develop their full potential.

We continue to build a high quality management team that reflects the international nature of our markets. Through internal advertising of jobs, over 150 managers have secured promotion or transfer within the Group during the past two years. We have also appointed a similar number of managers from outside, recruiting from a variety of countries and industries to provide us with the right skills to meet our future business needs. We give priority in our recruitment to language skills and technology based qualifications.

We launched a major new training initiative for senior executives in 1996 to ensure that we have the quality of leadership to take the Group forward into the next century. We aim to extend this Leadership Development Programme during the next year to cover the top 60 senior executives worldwide. This programme complements our existing middle and junior management courses through which over 200 participants have already passed.

The Euro

Irrespective of either immediate progress towards the 1999-2002 target for the adoption of a single European currency or the United Kingdom's decision on whether to participate, preparation for the production of Euro banknotes and coins is proceeding. The preparations are being handled by the Frankfurt based European Monetary Institute (EMI), a precursor of the planned European Central Bank. The EMI has already initiated a competition for the design of the Euro banknotes. Whilst De La Rue is entering this competition, it is not yet known how the allocation of the production of the Euros will be made. We hope, and expect, that this will involve not only the nationally owned state printing works of European Union member states but also commercial printers such as De La Rue which already supply issuers of banknotes within the European Union.

The Euro is likely to offer plentiful opportunities for our Cash Systems Division as European banks, retailers and others equip themselves for the increased cash handling it will generate. Our European distribution network will be of significant benefit. Planning has already begun and will accelerate as the implementation programme for the new currency proceeds.

Strategy

The Board has a clear strategy for the future development of the Group building on our three related activities, namely, security paper and print, cash systems and transaction systems.

All three divisions supply the needs of the financial services industry including banks, building societies and post offices. There are advantages stemming from the relationship between technologies employed in the different businesses, such as the detector technology incorporated in both banknote handling equipment and the machine readable security features of banknotes. There is a strategic balance between the growing cash based systems of today, and the faster growing cashless, card based systems of the future.

Security Paper and Print, in particular the production of banknotes, serves relatively mature markets but is nevertheless likely to remain an important source of profits and a strong cash generator for the foreseeable future.

Cash Systems has two objectives: to reduce staffing in banks and to optimise the flows of cash employed by offering equipment and software systems designed to automate the handling of banknotes and coins in banks. These are fields in which the current lively growth is likely to continue.

Transaction Systems is dedicated to becoming a leading supplier of smartcards, transaction terminals, card related services and complete customer solutions in the rapidly expanding global markets for electronic payment and identity systems. We believe that smartcards, incorporating microprocessor chips, will largely replace magnetic stripe cards and facilitate a rapid expansion of secure card based payments and more effective means of personal identification. The Group intends to add to its existing manufacturing and systems integration capabilities for smartcards.

We believe that our range of activities provides a balance, both between the need to focus on core products and to provide scope for growth in expanding and new markets, and also between cash generation and worthwhile investment. It enables De La Rue to serve its customers with secure solutions in fields where it is well known. We are confident that this strategy will provide a sound basis for future growth.

Outlook

After a period of exceptional growth in our banknote business, we do not expect further significant advances in sales volumes in the immediate future. Our current order book for banknotes stands at seven months of production but at relatively lower prices. The order book for security paper is strong.

Under its new management, Cash Systems Division is expected to resume growth in profits, although the difficult trading conditions experienced in 1996 will continue into the first half of the current year. By the second half, growth is expected from the remedial measures now being introduced and from the wider distribution of its existing range of cash handling equipment. In the medium term, growth will also come from new products which are being developed.

Transaction Systems Division will continue to invest in its product manufacturing, service and systems integration facilities in anticipation of significant growth in the electronic payment and identification system markets in the medium and long term.

The trading performances of our associated companies, in particular De La Rue Giori and Camelot, in aggregate are expected to continue at broadly similar levels to recent years.

In the short term, the low level of banknote prices and the difficult trading conditions in Cash Systems Division are continuing into the current year. Consequently, profits before tax in the first half will be lower than last year's first half. The year as a whole will be influenced by the degree of our success in the highly competitive conditions in banknotes. We are confident we are well placed given the outstanding product that we can now offer from the combination of De La Rue and Portals. We are strongly positioned for the future.

Limerick
Chairman

Jeremy Marshall
Chief Executive

Directors and Officers

The Rt Hon The Earl of Limerick KBE DL MA CA
Non Executive Chairman + †
Pat Limerick, 66, was appointed to the Board in 1983 and became Chairman in February 1993. Formerly Deputy Chairman of Kleinwort Benson Limited, Chairman of the British Overseas Trade Board, Chairman of British Invisibles, and President of the Institute of Export. He is at present Chairman of Pirelli UK plc, AMP Asset Management plc, London Guildhall University and the Committee of University Chairmen. He is also President of Canning House.

J White MA FCA
Managing Director
Transaction Systems Division
John White, 47, joined the Group in 1976 from Glaxo Holdings plc. In 1983 he became Group Financial Controller and was appointed to the Board in 1986 when he became Finance Director. He became divisional Managing Director in February 1991.

M J Pugh
Managing Director
Security Paper and Print Division
Michael Pugh, 59, joined the Group in 1968 and, following a career with Thomas De La Rue including service overseas, he became divisional Managing Director in 1987. He was appointed to the Board in October 1990.

J J S Marshall MA
Chief Executive †
Jeremy Marshall, 58, joined the Group in November 1989 as Chief Executive. He was previously Chief Executive of BAA plc and before that was with Hanson plc for 16 years. He is a non executive director of BTR plc, John Mowlem & Company PLC and Camelot Group plc.

H T Abbott MA CEng MIEE
Managing Director
Cash Systems Division
Haydn Abbott, 47, worked overseas in the oil industry with Schlumberger plc for 10 years. He then moved to Racal plc to run their worldwide precision navigation services business. In 1987 he joined Sony and managed the UK operation in consumer and professional electronics before becoming Vice President of Sony Europe. He was appointed to the Board in February 1996.

R G Laing MA FCA
Group Finance Director
Richard Laing, 42, joined the Group in 1984 from Booker plc's agribusiness operations. He was Finance Director of the Group's Brazilian security printing business from 1986 to 1989 prior to his appointment as Group Financial Controller. He was appointed to the Board in February 1996.

* Member of the Audit Committee of the Board
\+ Member of the Remuneration Committee of the Board
† Member of the Nomination Committee of the Board

C B Gough MA FCA
*Non Executive Director * †*
Brandon Gough, 58, was appointed to the Board in February 1994. He was Chairman of Coopers & Lybrand from 1983 until April 1994. He is Chairman of Yorkshire Water plc, a non executive director of National Power PLC and George Wimpey PLC. In the public sector, he is Chairman of the Higher Education Funding Council for England and of the Review Body on Doctors' and Dentists' Remuneration.

S B Birkenhead BSc FCMA
*Non Executive Director **
Brian Birkenhead, 54, was appointed to the Board in February 1994. He is Group Finance director of National Power plc and has in the past held senior financial positions with British American Tobacco, Johnson Matthey plc and The Royal Dutch Shell Group. He is also Chairman of the 100 Group of Finance Directors and a member of the Financial Reporting Council.

J J L G Sheffield MA
*Non Executive Director * +*
Julian Sheffield, 57, was appointed to the Board in February 1995 following the acquisition of Portals Group plc, where he had been Chairman since 1979. He is Deputy Chairman of Guardian Royal Exchange plc, a non executive director of Inspec Group plc, and holds other non executive directorships.

Lord Wright of Richmond GCMG MA
Non Executive Director +
Patrick Wright, 64, was appointed to the Board in September 1991. Formerly Permanent Under Secretary of State at the Foreign and Commonwealth Office and Head of the Diplomatic Service, he is currently a director of The British Petroleum Company plc, BAA plc and an advisory director of Unilever. He is also Chairman of the Royal Institute of International Affairs.

J W Robb
*Non Executive Director * +*
John Robb, 60, was appointed to the Board in April 1993. From 1985 he was Group Managing Director of Beecham Group plc until he joined the Board of Wellcome plc in 1989. He was Chief Executive of Wellcome plc from 1990 to 1993 and Chairman and Chief Executive from 1993 to 1995. He is Chairman of British Energy plc and non executive director of Unigate plc. He is also non executive director of Allied-Domecq plc and Deputy Chairman of the Horserace Betting Levy Board.

S A Field MA Barrister
Company Secretary
Sally Field, 48, joined the Group in 1973 from Rolls-Royce (1971) Ltd. In 1978 she became Senior Legal Adviser and was appointed Company Secretary in 1988.

Financial Review

The trading results of the businesses are explained in the management statement and in the divisions' operational reviews. This financial review gives further information on matters relating to accounting, treasury and taxation.

The Group's financial position remains sound with an improved gearing ratio and comfortable level of dividend and interest cover.

During the year, we largely completed the sale of Portals' businesses held for disposal realising cash proceeds of £141.7m. We spent a total of £69.9m on acquisitions less other disposals. The cash generated in the year has reduced net debt to £58.7m from £118.4m last year. Writing off goodwill of £68.9m associated with acquisitions and disposals reduces shareholders' funds to £183.9m. This results in a gearing ratio of 31.9%.

The Board reviews the Group's progress through consideration of monthly financial reports and annual presentations on treasury and tax matters. The Board also approves the Group's financial and strategic plans, all acquisitions and disposals of businesses, major capital expenditure and any major treasury transactions.

Our accounting and treasury policies are prudent and we have continued our practice of early implementation of new guidelines and standards on accounting and reporting.

Accounting and financial reporting

During the year, Financial Reporting Standard (FRS) 8 on related party disclosures was published. Although this would only be mandatory from our next accounting period, we have applied it in our 1996 accounts. The definitions of related parties focus on control and influence; disclosure focuses on summarising details of material transactions. For us, these largely relate to transactions with our associated companies. Details of such transactions are set out in note 28 on page 58.

Also during the year, the Urgent Issues Task Force introduced three further abstracts. The first of these was UITF 13 on accounting for employee share ownership plan trusts; the second was UITF 14 concerning the disclosure of changes in accounting policy; finally, UITF 15 on the disclosure of substantial acquisitions updates FRS 6 to reflect changes in definitions in the Stock Exchange Listing Rules. None of these had any impact on our 1996 accounts. An amended version of FRS 1 relating to cash flow statements is expected later this year. Meanwhile we continue to complete our cash flow statement by including other loans and finance leases so that we report our total net debt.

As in 1995, the results of the businesses held for disposal are not consolidated. Instead, interest income is increased as if the businesses had been sold. In 1996, this credit to interest was £4.0m based upon the actual cash proceeds of those businesses sold.

The Directors' Report discloses for the first time our policy on payments to suppliers and similarly separate reports on Corporate Governance and Remuneration can be found on pages 32 and 33.

The total consideration for acquisitions during the year was £60.2m. Fair value of the assets acquired was £12.6m after accounting policy and revaluation adjustments of £1.8m giving rise to goodwill of £47.6m. Sales of businesses held for disposal realised £141.7m. After allowing for payments to these businesses, costs, the interest credit of £4.0m and the value of assets remaining, this gave rise to further goodwill of £21.3m. The sale of our Hong Kong printing plant for £21.6m gave rise to an exceptional profit of £20.2m. Further details of acquisitions and disposals are set out in notes 13 and 23 on pages 50 and 56 respectively.

Treasury Department

Our Treasury Department acts as a service centre operating within clearly defined guidelines that are approved by the directors and against which there is regular reporting to the Board. The financial instruments used to manage our interest rate and currency risk are subject to Board approval and under no circumstances will their use create additional financial exposures over and above those arising from our normal trading activity.

Cash flows, cash and debt

The Group cash flow statement, which is set out in full on page 40, is summarised in Table 1.

Over the year, there has been a net inflow of £59.7m reducing our opening borrowings of £118.4m to £58.7m by year end. A major feature of the cash flow is the net receipt of £71.8m arising from disposals less acquisitions. Capital expenditure increased by £20.1m, a large element of which related to the new PM3 paper machine at Portals, while working capital increased by £17.6m, partly arising from increased stock levels.

Table 1 – Cash flow

	1996 £m	1995 £m
Net (debt)/cash at start of year	**(118.4)**	267.7
Operating profit plus depreciation	**125.8**	118.2
Interest (expense)/income	**(5.9)**	13.6
Increase in working capital	**(17.6)**	(30.7)
Capital expenditure	**(43.6)**	(23.5)
Disposals less acquisitions	**71.8**	(412.0)
Tax paid	**(28.0)**	(23.6)
Dividends paid	**(50.3)**	(40.0)
Dividends from associates	**10.2**	18.1
Other items	**(2.7)**	(6.2)
Net debt per accounts	**(58.7)**	(118.4)

Since the start of the financial year on 1 April 1996 our net debt has fallen by around £9m, largely as a result of collecting the balance of the proceeds of sale of the Hong Kong printing plant, other tax payments (including ACT) and working capital movements.

As a rule, our cash flow generation is more weighted towards the second half of the year. Other things being equal, we would expect cash generation to lead to a lower level of gearing by our next year end.

In measuring our financial leverage and stability as we indicated last year, we pay more regard to interest cover than to gearing because the latter is affected by the goodwill write offs associated with acquisitions. Interest cover for 1996, after allowing for the interest credit of £4.0m on the cash proceeds of the Portals' businesses held for disposal, was 56 times. If this interest credit is excluded, cover was still at the very comfortable level of 22 times.

An analysis of cash and borrowings by country and by currency is shown in Table 2. The two major changes by currency are the elimination of net £ borrowings and the increase in US$ debt, largely arising from disposals and acquisitions respectively.

The Group continues to believe that there would be no significant delay in remitting major cash balances to the UK, but in some circumstances such remittances might advance the date on which tax payments would have to be made.

Table 2 – Cash and borrowings

	Country 1996 £m	Country 1995 £m	Currency 1996 Cash £m	Currency 1996 Borrowings £m	Currency 1996 Net £m	Currency 1995 Net £m
UK/£	**(136)**	(177)	**47**	**(28)**	**19**	(128)
Germany/DM	**(6)**	(15)	**1**	**(23)**	**(22)**	(9)
USA/US$	**(32)**	(27)	**14**	**(61)**	**(47)**	4
Switzerland/SFr	**99**	82	**4**	**(22)**	**(18)**	(4)
Other	**16**	19	**18**	**(9)**	**9**	19
Total	**(59)**	(118)	**84**	**(143)**	**(59)**	(118)

For major deposits, our policy remains that we expect the bank concerned to maintain a long term credit rating of AA-, or better.

Effect of interest rates

The Group's borrowings and cash are principally held in Sterling (£), Deutchmarks (DM), US Dollars (US$) and Swiss Francs (SFr). At the moment, all significant borrowings are at floating rates of interest.

Our £ deposits are held in a short term maturity pattern of up to five months earning rates around 6%. The major element of our £ debt comprises the loan notes issued in part consideration for Portals on which the rate is 5.7% for the latest six month interest period.

Most borrowings in DM are at rates of interest around 3.4% with some fixed rates mainly at 6.3%. Borrowings and cash in SFr are at rates around 1.9%.

For our US$54m private placement, we continued to pay floating interest rates during the year at an average of 6.5%. The rate until July 1996 is 6.0% and, based upon current rates, the cost for the following six months is likely to be around 6.3%.

During the year, with the expectation of lower levels of debt and a benign interest rate environment, we took no actions to fix interest rates.

Effect of exchange rates

In Table 3, we show for our principal currencies the average rates at which we have translated overseas profits and year end rates for translation of the balance sheet.

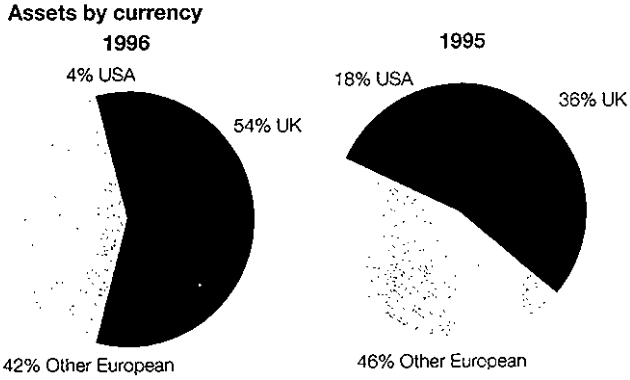
Table 3 – Principal exchange rates

	1996 Average	1996 Year End	1995 Average	1995 Year End
US$	**1.57**	**1.53**	1.56	1.63
DM	**2.23**	**2.25**	2.42	2.23
SFr	**1.82**	**1.82**	2.04	1.83

In earlier years we have arranged certain currency borrowings in order to mitigate the effect of exchange rates on the value of the Group's net assets. More recently, we have also borrowed in foreign currencies to fund overseas acquisitions. We have reviewed our translation hedging policy and in future will concentrate our currency management on cash flow rather than translation effects on the balance sheet. Whilst it is not our intention specifically to unwind our foreign currency borrowings, we would expect them to be repaid over time from underlying cash flows.

The analysis of our net assets by currency in percentage terms compared with 1995 is set out in the pie charts below. Major changes in the year are the reduction in the US share and increase in the UK. The reduction in the US assets largely arises from the goodwill elements of acquisitions which were financed with US$ borrowings less the profit on sale of the Hong Kong printing plant.

Assets by currency



The Group does not seek to protect the £ value of profits generated in overseas subsidiaries from changes which may arise as a result of movements in exchange rates.

Protection is generally sought against transaction risk by ensuring that once a business unit confirms a sale or purchase which is not in its domestic currency, equal and opposite commitments are made in the foreign exchange markets to protect against the movements in exchange rates. Exceptions are made to this policy where it is considered impracticable or uneconomic to operate it. At the year end, the Group had sold forward US$85m at an average rate of $1.53/£1.

The overall effect of these policies is threefold. First, although there will be movements on reserves as a result of changes in exchange rates, as shown in the Statement of Total Recognised Gains and Losses, these are unlikely to be material when compared with the market capitalisation of the Group. Secondly, the forward sale and purchase of foreign currency tends to smooth the effect of movements in exchange rates over time, which provides our operating companies with a stable environment in which to do business. Thirdly, the fact that De La Rue generates profits in US$, DM, SFr and to a lesser extent other currencies, as well as £, means that the Group profits tend to increase when these currencies strengthen against £ and decline when they weaken. In 1996 the relatively modest performance of De La Rue Giori and Garny meant that this translation effect was less than might otherwise have been expected.

Year on year movements in average exchange rates gave a benefit in translation of overseas earnings including those of associates of £2.7m. This benefit was eliminated by worse transaction rates particularly for US$ sales and raw material purchases in SFr.

Taking an overview, before the effects of transaction hedging, the currency of our earnings was approximately 60% in US$, 20% in £, 15% in DM and 5% in other currencies. These percentages are calculated after excluding both the Cash Systems Division reorganisation costs and the profit on the sale of the Hong Kong printing plant. As indicated last year, these percentages may fluctuate. Year on year, the share of earnings in US$ and DM has increased, £'s share has remained steady while that of other currencies has declined.

For the current year, based on present information and after taking account of hedging actions already in place, the full year effect on earnings of a 10% movement in the US$/£ exchange rate from 1.53 would be £2m. For each of the SFr, DM and Swedish Krona, a 10% movement from the levels of 1.90, 2.30 and 10.25 respectively would have an earnings effect of £1m. These exposures are lower than at the same time last year, generally reflecting a higher level of forward cover in place.

Borrowing facilities

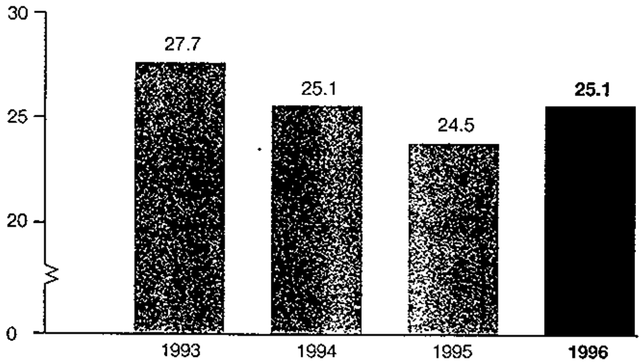
All borrowings drawn to finance the acquisition of Portals have now been repaid. We retain undrawn the medium term facility of £75m. The Group remains confident that should the need arise to arrange further committed funding, its existing relationship banks would be supportive.

The medium term facility and the private placement contain certain financial covenants which it is believed will not restrict the operations of the Group.

Taxation

In last year's review, we stated that we were of the view that a tax rate of 25% would be sustainable over at least the next two years. In the event our charge in 1996 was slightly lower than this at 22.9% as a result of low tax rates associated with the reorganisation costs within Cash Systems Division and the profit on the disposal of the Hong Kong printing plant. The rate excluding these items was 25.1%. We continue to expect that in the absence of unforeseen events a rate of around 25% is sustainable for the current and following year. This year's tax rate remains below a normal UK rate of 33% for three reasons. First, the Group's UK profits were again sufficiently buoyant to enable us to write back ACT (this year £1.0m) leaving a net of £18.1m off balance sheet and, as anticipated last year, the contribution to ACT capacity by Portals was beneficial. Secondly, a significant element of the Group's overseas profits continues to be made in low tax regimes. Thirdly, we continue to benefit from the offset of tax losses in our US operations although these are now in part expired.

Tax rate percentage (excluding exceptional items)



In the medium term, changes in any of these factors could increase the tax rate, particularly when our US tax losses and unrecovered ACT are exhausted.

Take up of the scrip alternative this year was similar by value to last year's with 5.3% of the final dividend and 3.8% of the interim dividend being paid in this form. This gave rise to an ACT saving of £0.6m.

Shares

During the year just over 1.1m shares were issued following the exercise of options under the Group's savings related and executive share option schemes and shareholders' elections for the scrip dividend alternative. The weighted average number of shares used to calculate earnings per share for the year was 223.3m.

Pensions and post retirement benefits

Details of our pension schemes are set out in note 24 to the accounts. The UK pension schemes operated by the Group are in surplus and will be subject to actuarial valuation during the next year. The surpluses have the effect that we are currently paying over to our pension funds £2.6m less per annum than would be the case if there were no surpluses. In addition, our operating profit is £1.2m more than would be the case if no surpluses existed.

The Group also provides some employees with post-retirement benefits other than pensions and the liability for these is fully reflected in the balance sheet.

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 1996.

Principal activities and business review

The principal activity of the Group is the supply of expertise and equipment to provide secure solutions for the design, production, distribution, protection, verification, accounting, retrieval and destruction of cash through the activities of the Security Paper and Print Division and the Cash Systems Division. The Transaction Systems Division concentrates on providing solutions in the fields of electronic payments and identity systems. The review of divisional operations can be found on pages 14 to 25.

Post balance sheet events

There were no significant post balance sheet events.

Future developments

Intended future developments in the Group's business are discussed in the management statement by the Chairman and Chief Executive on pages 3 to 5.

Results and dividends

The Group's profit before taxation including its share of the profits of associated companies amounted to £147.9m. Shareholders' profit for the year was £112.7m after deducting taxation and minority interests.

The directors have recommended a final dividend of 16.50 pence per ordinary share, to be paid on 14 August 1996 to ordinary shareholders on the register on 18 June 1996. This will result in a transfer to reserves of £59.5m.

An interim dividend of 7.25 pence per ordinary share was paid on 19 January 1996 making a total of 23.75 pence per share (1995 23.00 pence per share).

Share capital

Details of shares issued during the year are set out in note 18 of the financial statements on page 53.

The Companies Act 1985 requires that any shares issued wholly for cash must be offered to existing shareholders in proportion to their existing holding, unless authorised to the contrary by a resolution of the shareholders. Resolutions giving such authority were passed at the annual general meeting in 1995. New shares were issued for cash under the share option schemes during the year under review, as described in note 18 on page 53.

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. Further details are contained in the Chairman's letter to shareholders dated 28 June 1996.

Share option schemes

The Company operates executive, savings related and phantom share option schemes, details of which can be found on pages 33 and 34.

Scrip dividend

The directors again propose to offer shareholders the opportunity to receive their final dividend in the form of fully paid ordinary shares instead of cash. Details of the scrip dividend alternative are given in the circular enclosed with this report.

Substantial shareholdings

As at 3 June 1996 the Company had been notified of the following interests of 3 per cent or more in its issued ordinary share capital:

	Number of ordinary shares held	Percentage of shares held
Prudential Corporation plc	9,315,913	4.15%
Britannic Assurance plc	7,084,100	3.16%

Company organisation

The Board under its non executive Chairman meets regularly and comprises a majority of non executive directors. The two principal committees of the Board are the Remuneration Committee, chaired by Lord Limerick, which presents its first annual report on pages 33 to 36, and the Audit Committee, chaired by Mr C B Gough. The Audit Committee has terms of reference which include reviewing the annual and interim financial statements before they are approved by the Board and monitoring the internal and external auditing processes. Both committees comprise four non executive directors. The Company also has a Nomination Committee.

Directors

The names of the directors at the date of this report are given on pages 6 and 7. All directors held office throughout the year except Mr H T Abbott, who joined the Company on 15 January 1996 as Managing Director of Cash Systems Division and was appointed to the Board on 1 February 1996 and Mr R G Laing who was appointed to the Board on 28 February 1996 as Finance Director. Mr L G Cullen and Mr R J M Gardner resigned from the Board on 28 February 1996 and 9 April 1996 respectively. Sir Peter Cazalet resigned from the Board on 26 July 1995.

In accordance with the Companies Act 1985, Mr H T Abbott and Mr R G Laing offer themselves for election at the annual general meeting. Lord Limerick, Mr J White, and Mr C B Gough retire by rotation under Article 85 of the Company's Articles of Association at the annual general meeting; all three being eligible, they offer themselves for re-election.

Mr J W Robb, a non executive director, is also retiring by rotation but is not offering himself for re-election at the annual general meeting.

Mr J White, Mr H T Abbott, and Mr R G Laing have two year rolling service contracts with the Company. Lord Limerick and Mr C B Gough hold letters of appointment which will be displayed at the annual general meeting with those of other non executive directors.

Directors' interests

The interests of directors in office at 31 March 1996 in the ordinary shares of the Company and its subsidiary undertakings are shown on pages 35 and 36. The register of directors' interests is available for inspection at the Company's registered office.

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.

Payments to suppliers

The Company agrees terms and conditions for its business transactions with suppliers. Payment is made on these terms, provided the supplier meets its obligations.

Charitable and political donations

Donations for charitable purposes amounting to £339,000 (1995 £303,000) were made during the year. There were no political donations.

Auditors

The auditors, Price Waterhouse, have expressed their willingness to continue in office. A resolution proposing their reappointment and authorising the directors to set their remuneration will be proposed at the annual general meeting.

Annual general meeting

The annual general meeting will be held at 12 noon on Wednesday 24 July 1996 at The Savoy, Strand, London WC2R 0EU. The notice of the annual general meeting including a letter from the Chairman and a scrip dividend circular accompanies this annual report.

By order of the Board

Sally Field

Miss S A Field
Secretary
3 June 1996

Corporate Governance

In the opinion of the directors the Company has complied throughout the accounting period with all the provisions of the Cadbury Committee's Code of Best Practice. Our auditors, Price Waterhouse, have reviewed compliance with the specific matters in the Code which the London Stock Exchange requires that the auditors should review and their report to the directors is reproduced on page 37.

Internal financial control

The directors are responsible for establishing and maintaining the Group's system of internal financial control. Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed. The controls by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The directors have established key procedures to provide effective internal financial control. There are clear lines of responsibility for the establishment and maintenance of the procedures organised through the three divisional managing directors with the general managers of each operation reporting to them. Procedures manuals, distributed to all operating subsidiaries, set out the procedures that must be followed at all locations.

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.

Major business risks are identified through a system of continual monitoring of activities which is summarised below. Specific internal control risks are reviewed via a quantitative analysis of each profit centre formally once a year by the Audit Committee.

The financial control framework includes the following key features:

- an annual strategic planning process
- an annual budget which is revised in detail at least once a year
- a system of monthly reporting by each operating subsidiary which involves comparison of the actual results to the original budget
- monthly reporting of performance to the Board
- other reports to the Board during the year such as a risk management report covering security, health and safety, environmental issues and fire risks.

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 material capital and 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.

The directors monitor the systems using reports received from management during the year. A system of internal control reviews, which is set and reviewed by the Audit Committee, together with reports from the external auditors on internal control matters noted as part of their audit work, assist in the monitoring process.

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

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 suitable 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 irregularities.

The directors consider that in preparing the financial statements on pages 38 to 61, 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.

Remuneration Committee Report

The Remuneration Committee is chaired by Lord Limerick and comprises only non executive directors who have no financial interests other than as shareholders in the matters to be decided and no day to day involvement in running the business. Their names are given on page 7. The Committee determines all elements of the remuneration of the Group's executive directors and the overall remuneration policy for senior executives. It approves all contracts with executive directors and any compensation arrangements resulting from early termination of service contracts. It also approves all grants of options over De La Rue shares. Lord Limerick, the chairman, will be available to answer questions about directors' remuneration at the Company's annual general meeting.

The Remuneration Committee considers that the Company complied with Section A of the best practice provisions annexed to the Listing Rules throughout the year. In framing its remuneration policy the Committee has given full consideration to the matters set out in Section B of those provisions.

Details of each director's remuneration are set out on page 35. Information on directors' holdings of De La Rue plc shares is set out on page 35.

Remuneration policy for executive directors and senior executives

De La Rue aims to attract and retain high quality directors and senior executives by providing remuneration that corresponds with that provided by other well managed international businesses of similar size in comparable industries. In order to achieve this, De La Rue regularly compares itself with current practice in a selected comparator group of companies. The main criteria used in the selection of appropriate comparator companies are turnover, market capitalisation and extent of international operations. The Remuneration Committee is advised by a leading firm of compensation and benefit consultants.

The remuneration of executive directors and senior executives is reviewed each year in April and comprises the following elements:

Basic salary

The basic salary reflects the responsibilities, market value and sustained performance level of each person. De La Rue aims to pay a basic salary to individuals who sustain continuous good performance at the median market level for jobs with similar responsibilities in a selected comparator group. Individuals who sustain a superior performance level will have a higher market value which is taken into account.

Annual bonus

Directors and senior executives are eligible to receive an annual bonus which is paid as a percentage of basic salary. It is based solely upon achievement of financial results for the year in comparison with targets set at the beginning of the year by the Remuneration Committee. The maximum bonus is 50% of basic salary and can only be achieved if the financial results significantly exceed the target.

The bonuses for the Chief Executive and Finance Director are based upon earnings per share performance. The bonuses for managing directors of the divisions are based upon the operating profits of the relevant division, adjusted for the movement in average capital employed.

Executive share option scheme

The Company operates an executive share option scheme whereby share options can be granted in phases up to a maximum grant value of four times basic salary. A phantom share option scheme is operated under similar rules to provide an equivalent incentive to some overseas employees. Directors and senior executives are eligible to participate in these schemes.

The Remuneration Committee has comprehensively reviewed the Group's longer term incentive arrangements following market developments and recent Inland Revenue changes to the tax treatment of executive share option schemes. It has been decided to improve the effectiveness of the scheme and to introduce a performance measure. To trigger exercises of future grants of options under the scheme, total shareholder return will have to exceed the FT Actuaries All-share total shareholder return index over a three year period. Total return includes share price movements and dividend income.

The Remuneration Committee has noted the increase in popularity of alternative longer term incentive arrangements, including restricted share plans, but has concluded that it is not appropriate to introduce such schemes now.

Other benefits

Executive directors and senior executives are eligible for other benefits in line with market practice, comprising the provision of a fully expensed company car, membership of private healthcare and permanent health insurance schemes and reimbursement of an annual subscription to appropriate professional bodies.

Pension

All executive directors and senior executives in the UK may join De La Rue's senior executive pension schemes, which are Inland Revenue approved. The schemes have an employee contribution rate of 5% 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 although accrued pensions may be drawn in full from age 60. The schemes also provide a lump sum death in service benefit and pensions for dependants of members on their death. Executive directors and senior employees for whom a personal pension arrangement is appropriate receive a company contribution or salary supplement.

Senior executives based overseas receive pension benefits appropriate to their territory. UK executives overseas are eligible for membership of the UK schemes.

Details of each executive director's pension arrangements are provided below.

Mr J J S Marshall is entitled to a total pension from all sources of two-thirds of basic salary earned during the last 12 months of employment at normal retirement age of 62. Part of this benefit arises from previous employment. Mr Marshall is also covered for a lump sum on death in service based on four times basic annual salary with an attaching widow's pension of 40% of basic salary in the event of death in service and 60% of pension in the event of death in retirement. Contributions paid by De La Rue to meet these benefits are assessed by the actuary who advises the Company and Mr Marshall is required to make a contribution of 5% of basic capped salary. These contributions are paid to a personal pension arrangement to provide a proportion of the benefits. The remainder is accounted for by a provision in the financial statements.

Mr J White and Mr M J Pugh are members of the Company's senior pension scheme.

Mr H T Abbott and Mr R G Laing are entitled to a salary supplement of 20% of basic salary. Mr L G Cullen and Mr R J M Gardner received respectively 34% and 20% of basic salary. A proportion of the supplement equating to the maximum Inland Revenue approved contribution is paid to each person's individual personal pension scheme and the balance is paid as additional salary.

Sharesave scheme

All UK employees of the Group may join an Inland Revenue approved savings related share option scheme. Options are granted over De La Rue's ordinary shares, at a 20% discount of the prevailing market price at the time of grant, to employees who agree to save between £10 and £250 per month over a period of five to seven years. Following legislative changes the scheme is being amended to allow employees to save a minimum of £5 per month for a minimum period of three years. De La Rue is adopting these changes to make share ownership more accessible to employees.

Remuneration for non executive directors

The remuneration of the non executive directors is determined by the Board as a whole. No director participates in the setting of his own remuneration. Fees are determined by the Board with regard to market norms. Non executive directors have letters of appointment but do not have contracts of service.

Mr J J L G Sheffield receives a pension from the Portals Group pension scheme arising from former employment with Portals Group plc. His tenancy of Laverstoke House expires on 31 August 1996. The benefits set out in the table of directors' emoluments exclude the tenancy. Otherwise, non executive directors are not eligible for any emoluments beyond their basic remuneration.

Service contracts

Each executive director has a two year rolling contract of service. The Remuneration Committee considers that notice periods of two years are reasonable and proper in the interests of both the Company and its directors having regard to prevailing market conditions and current practice among large public companies.

Directors' interests in shares

	De La Rue plc ordinary shares of 25p each 31 March 96	1 April 95 or date of appointment
The Earl of Limerick	4,798	4,798
J White	13,403	11,092
J J S Marshall	43,175	43,164
M J Pugh	14,400	10,000
Lord Wright	717	698
J W Robb	3,241	3,152
R J M Gardner	25,000	25,000
C B Gough	4,350	4,350
S B Birkenhead	1,882	1,030
J J L G Sheffield	28,476	32,049
H T Abbott	–	–
R G Laing	1,000	1,000

Directors' emoluments

	Salary £'000	Pension contri-butions £'000	Benefits £'000	Fees £'000	Total 1996 £'000	Total 1995 £'000
Non executive						
The Earl of Limerick	–	–	–	87.0	87.0	82.5
Sir Peter Cazalet	–	–	–	5.9	5.9	17.5
Lord Wright	–	–	–	18.5	18.5	17.5
J W Robb	–	–	–	18.5	18.5	17.5
C B Gough	–	–	–	18.5	18.5	17.5
S B Birkenhead	–	–	–	18.5	18.5	17.5
J J L G Sheffield	–	–	–	30.0	30.0	3.1
Executive						
J White	135.0	67.5	8.7	–	211.2	272.7
J J S Marshall	275.0	276.5	18.2	–	569.7	481.8
M J Pugh	150.0	75.0	9.7	–	234.7	244.7
L G Cullen	169.6	57.7	14.8	–	242.1	327.7
R J M Gardner	120.0	24.0	7.8	–	151.8	139.7
H T Abbott	35.8	7.2	2.1	–	45.1	–
R G Laing	12.3	2.4	1.3	–	16.0	–
	897.7	510.3	62.6	196.9	1,667.5	1,639.7

Lord Limerick received his fees as non executive Chairman of the Group

Notes:

a) A pension of £23,526 was paid to a former director (1995 £23,830).

b) Mr J J L G Sheffield received a payment of £21,000 on 6 April 1996 representing the final payment on the termination of his contract with Portals Group plc following its acquisition by De La Rue plc.

c) Mr R J M Gardner received a termination payment of £286,579 including £80,000 in lieu of pension contributions.

d) Mr J J L G Sheffield's tenancy of Laverstoke House expires on 31 August 1996. The benefits set out in the above table exclude the tenancy.

The middle market price of the ordinary shares on 31 March 1996 was 715p and the price range during the year was 632p to 963p. At no time during the year did any director have any interest in the preference shares of De La Rue plc. All interests of the directors and their families are beneficial, apart from Lord Limerick's holding which includes a non beneficial interest in 1,332 ordinary shares. Mr J J L G Sheffield had an interest in £593,609 (1995 £593,609) floating rate unsecured loan notes 1996/2000 of the Company at 31 March 1996. At no time during the year has any director or any member of a director's family had any notifiable interest in any contract, arrangement or securities with the Company or its associates or subsidiaries, other than under service contracts. There have been no changes in the directors' holdings of, or interests in, ordinary shares or preference shares between 31 March 1996 and 3 June 1996.

Directors' interests

Share schemes

	Date of grant	Number of options: At start of year or at date of appointment	Number of options: Exercised during year	Number of options: Granted during year	Number of options: At end of year	Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date
J White									
Executive share options	Nov '91	10,000	–	–	10,000	449.00	–	Nov '94	Nov '01
	July '93	13,000	–	–	13,000	664.00	–	July '96	July '03
	June '94	5,800	–	–	5,800	878.00	–	June '97	June '04
	July '95	–	–	8,400	8,400	934.00	–	July '98	July '05
Sharesave	Dec '90	3,690	(3,690)	–	–	203.23	713.00	Feb '96	July '96
	Dec '91	2,089	–	–	2,089	359.00	–	Feb '97	July '97
	Dec '93	541	–	–	541	637.00	–	Mar '99	Aug '97
	Dec '95	–	–	1,208	1,208	571.00	–	Mar '01	Aug '01
		35,120	(3,690)	9,608	41,038				
J J S Marshall									
Executive share options	July '90	181,800	–	–	181,800	275.00	–	July '93	July '00
	Nov '91	20,000	–	–	20,000	449.00	–	Nov '94	Nov '01
	July '93	21,000	–	–	21,000	664.00	–	July '96	July '03
	June '94	19,400	–	–	19,400	878.00	–	June '97	June '04
	July '95	–	–	21,500	21,500	934.00	–	July '98	July '05
Sharesave	Dec '90	6,642	–	–	6,642	203.23	–	Feb '98	July '98
	Dec '92	1,438	–	–	1,438	504.00	–	Feb '98	July '98
		250,280	–	21,500	271,780				
M J Pugh									
Executive share options	Nov '91	20,000	–	–	20,000	449.00	–	Nov'94	Nov '01
	July '93	12,000	–	–	12,000	664.00	–	July '96	July '03
	June '94	8,000	–	–	8,000	878.00	–	June '97	June '04
	July '95	–	–	8,600	8,600	934.00	–	July '98	July '05
Sharesave	Dec '90	5,535	(5,535)	–	–	203.23	701.00	Feb '96	July '96
	Dec '91	2,089	–	–	2,089	359.00	–	Feb '97	July '97
	Dec '95	–	–	1,812	1,812	571.00	–	Mar '01	Aug'01
		47,624	(5,535)	10,412	52,501				
R J M Gardner									
Executive share options	July '93	11,000	–	–	11,000	664.00	–	July '96	July '03
	June '94	5,900	–	–	5,900	878.00	–	June '97	June '04
	July '95	–	–	4,400	4,400	934.00	–	July '98	July '05
Sharesave	Dec '90	5,535	(5,535)	–	–	203.23	729.00	Feb '96	July '96
	Dec '91	2,089	–	–	2,089	359.00	–	Feb '97	July '97
		24,524	(5,535)	4,400	23,389				
R G Laing									
Executive share options	July '93	9,000	–	–	9,000	664.00	–	July '96	July '03
	June '94	9,100	–	–	9,100	878.00	–	June '97	June '04
	July '95	–	–	2,900	2,900	934.00	–	July '98	July '05
Sharesave	Dec '91	3,133	–	–	3,133	359.00	–	Feb '97	July '97
	Dec '93	1,083	–	–	1,083	637.00	–	Mar '99	Aug '97
		22,316	–	2,900	25,216				

On behalf of the Board

Limerick

Chairman, Remuneration Committee

Report by the auditors to the directors of De La Rue plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed your statement on page 32 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to any non-compliance with those paragraphs of the Code if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to the Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion your statement on internal financial controls on page 32 and on going concern on page 31, have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Company, and examination of relevant documents, your statement on page 32 appropriately reflects the Group's compliance with the other paragraphs of the code specified for our review.

Price Waterhouse

Chartered Accountants
London
3 June 1996

Report by the auditors to the members of De La Rue plc

We have audited the financial statements on pages 38 to 58 and 60 and 61 and the information on pages 35 and 36 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 42 and 43.

Respective responsibilities of directors and auditors

As described on page 32 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 of the Group as at 31 March 1996 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.

Price Waterhouse

Chartered Accountants and Registered Auditors
London
3 June 1996

Group Profit and Loss Account

For the year ended 31 March 1996

Notes		1996 £m	1995 £m
	Turnover		
	Continuing operations	**723.3**	747.1
	Acquisitions	**40.5**	–
1		**763.8**	747.1
	Operating profit		
	Continuing operations: before acquisitions and reorganisation costs	**117.7**	108.4
	reorganisation costs	**(18.3)**	(4.9)
	acquisitions	**4.3**	–
1,2,3		**103.7**	103.5
4	Profit on sale of Hong Kong printing plant	**20.2**	–
4	Provision for losses on the disposal of properties	**(2.6)**	–
1	Share of profits of associated companies	**29.3**	28.0
	Profit on ordinary activities before interest	**150.6**	131.5
5	Net interest (payable)/receivable	**(2.7)**	15.1
	Profit on ordinary activities before taxation	**147.9**	146.6
6	Tax on profit on ordinary activities	**(33.9)**	(36.4)
	Profit on ordinary activities after taxation	**114.0**	110.2
	Equity minority interests	**(1.3)**	(1.4)
	Profit for the financial year	**112.7**	108.8
8	Dividends (including non equity dividends)	**(53.2)**	(49.2)
19	**Transferred to reserves**	**59.5**	59.6
7	**Earnings per ordinary share**	**50.5p**	55.1p
7	**Headline earnings per ordinary share**	**42.5p**	54.8p
8	**Dividends per ordinary share**	**23.75p**	23.00p

A reconciliation between earnings per share, as calculated according to Financial Reporting Standard No. 3 "Reporting Financial Performance" (FRS 3) issued by the Accounting Standards Board, and headline earnings, 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 1996

Notes		1996 Group £m	1995 Group £m	1996 Company £m	1995 Company £m
	Fixed assets				
9	Tangible assets	**210.8**	179.7	**23.6**	16.9
10	Investments	**94.3**	79.3	**862.9**	830.8
		305.1	259.0	**886.5**	847.7
	Current assets				
11	Stocks	**113.4**	87.4	**–**	–
12	Debtors	**205.3**	179.2	**11.2**	14.4
13	Assets held for disposal	**9.8**	160.0	**–**	–
	Cash at bank and in hand	**84.6**	106.4	**22.1**	13.3
		413.1	533.0	**33.3**	27.7
	Current liabilities				
14	Creditors: amounts falling due within one year	**(398.8)**	(493.2)	**(265.5)**	(277.7)
	Net current assets/(liabilities)	**14.3**	39.8	**(232.2)**	(250.0)
	Total assets less current liabilities	**319.4**	298.8	**654.3**	597.7
15	**Creditors: amounts falling due after more than one year**	**(55.2)**	(52.1)	**(315.9)**	(272.2)
16	**Provisions for liabilities and charges**	**(75.4)**	(53.7)	**(24.2)**	(16.0)
		188.8	193.0	**314.2**	309.5
	Capital and reserves				
18	Called up share capital	**56.5**	56.2	**56.5**	56.2
19	Share premium account	**7.6**	3.2	**7.6**	3.2
19	Revaluation reserve	**3.6**	3.5	**0.1**	0.1
19	Other reserves	**(218.9)**	(151.1)	**232.5**	232.5
19	Profit and loss account	**335.1**	276.8	**17.5**	17.5
20	**Shareholders' funds (including non equity interests)**	**183.9**	188.6	**314.2**	309.5
	Equity minority interests	**4.9**	4.4	**–**	–
		188.8	193.0	**314.2**	309.5

Approved by the Board on 3 June 1996

Limerick *Chairman*

R G Laing *Finance Director*

Group Cash Flow Statement

For the year ended 31 March 1996

Notes		1996 £m	1995 £m
21a	**Net cash inflow from operating activities**	**103.5**	84.3
	Returns on investments and servicing of finance		
	Interest received	**8.6**	19.5
	Interest paid	**(14.4)**	(5.8)
	Interest element of finance lease payments	**(0.1)**	(0.1)
	Dividends received from associated companies	**10.2**	18.1
	Dividends paid to shareholders	**(49.5)**	(38.6)
	Dividends paid to minority shareholders	**(0.8)**	(1.4)
	Net cash outflow from returns on investments and servicing of finance	**(46.0)**	(8.3)
	Taxation		
	UK corporation tax	**(19.0)**	(16.8)
	Overseas tax	**(9.0)**	(6.8)
	Tax paid	**(28.0)**	(23.6)
	Investing activities		
	Receipts from sale of tangible fixed assets	**0.7**	0.8
	Receipts from sale of investments	**1.2**	0.5
	Payments to acquire tangible fixed assets	**(43.6)**	(23.5)
	Payments to acquire associated company and investments	**(0.3)**	(13.0)
	Purchase of Portals Group plc	**(2.6)**	(384.2)
23	Purchase of subsidiary undertakings	**(59.4)**	(1.2)
13	Receipts from disposals of assets held for disposal	**141.7**	–
13	(Payments to)/receipts from assets held for disposal	**(15.4)**	2.6
21d	Cash inflow from sale of subsidiary undertakings	**2.2**	0.7
	Cash inflow from sale of investment in associated companies	**3.7**	1.6
	Net cash inflow/(outflow) from investing activities	**28.2**	(415.7)
	Net cash inflow/(outflow) before financing	**57.7**	(363.3)
	Financing		
	Issue of ordinary share capital	**2.2**	2.7
	Expenses of issue of shares	**–**	(5.7)
	Redemption of loans	**(129.2)**	(1.3)
	Loans raised	**0.9**	126.0
	Capital element of finance lease payments	**(0.4)**	(0.5)
	Net cash (outflow)/inflow from financing	**(126.5)**	121.2
	Decrease in cash and cash equivalents	**(68.8)**	(242.1)
	Net cash and cash equivalents at start of year	**65.8**	311.7
	Effect of exchange rate changes	**2.5**	(3.8)
21b	Net cash and cash equivalents at end of year	**(0.5)**	65.8
	Other loans	**(56.6)**	(182.7)
	Obligations under finance leases	**(1.6)**	(1.5)
	Total net debt	**(58.7)**	(118.4)

Group Statement of Total Recognised Gains and Losses

For the year ended 31 March 1996

	1996 £m	1995 £m
Profit for the year	**112.7**	108.8
Currency translation differences on foreign currency net investments	**–**	7.3
Total recognised gains and losses for the year	**112.7**	116.1

Accounting Policies

Basis of consolidation

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 results of all of the subsidiaries of the Company have been fully consolidated. All of these subsidiaries and the associated companies prepare their annual financial statements to 31 March except for one associated company whose year end is 31 December.

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 offset against reserves in the year of acquisition. The results of businesses acquired are included in the profit and loss account from the date of acquisition. On disposal of a business, the profit or loss on disposal is determined after including the attributable amount of purchased goodwill.

A number of subsidiaries which were acquired as part of the acquisition of Portals Group plc in the year ended 31 March 1995 were excluded from consolidation because they were held exclusively with a view to subsequent resale. These subsidiaries were recorded as assets held for disposal within current assets. In the year, the Group has disposed of virtually all of its investments in these businesses. The Group still holds some properties for resale, which are disclosed within assets held for disposal at the directors' valuation of anticipated sale proceeds.

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 on 31 March except that noted above. The profits and losses of overseas subsidiaries and associated companies are translated into sterling at average rates for the year, except in hyperinflationary countries, where year end rates are used.

Differences arising from the restatement of the opening balance sheets of overseas subsidiaries at closing rates are dealt with through 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. 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.

Depreciation

Fixed assets are stated at cost or at valuation, less depreciation. No depreciation is provided on freehold land but freehold and long leasehold buildings are depreciated at a rate of 2% 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 6⅔% and 50%. No depreciation is provided for assets in the course of construction.

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 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

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 and cash equivalents

Cash comprises cash in hand and deposits repayable within three months. Cash equivalents comprise short term, highly liquid investments readily convertible into cash within three months, less loans repayable within three months from the date the loan is advanced.

Notes to the Accounts

1 Segmental analysis

	1996 Turnover £m	1996 Profit before tax £m	1996 Net assets £m	1995 Turnover £m	1995 Profit before tax £m	1995 Net assets £m
Class of business						
Security Paper and Print						
Continuing operations	268.4	75.5	144.8	323.5	61.0	107.1
Reorganisation costs	–	–	–	–	(4.9)	–
	268.4	75.5	144.8	323.5	56.1	107.1
Cash Systems						
Continuing operations	364.7	34.8	63.7	336.4	38.5	80.1
Reorganisation costs	–	(18.3)	–	–	–	–
Acquisitions	32.2	3.2	11.8	–	–	–
	396.9	19.7	75.5	336.4	38.5	80.1
Transaction Systems						
Continuing operations	94.2	7.4	17.0	92.4	8.9	7.5
Acquisitions	8.3	1.1	6.3	–	–	–
	102.5	8.5	23.3	92.4	8.9	7.5
Less inter segment sales	(4.0)			(5.2)		
	763.8	103.7	243.6	747.1	103.5	194.7
Sale of Hong Kong printing plant		20.2	19.1		–	–
Provision for losses on disposal of properties		(2.6)			–	
Associated companies (analysed below)		29.3	80.3		28.0	72.0
Interest		(2.7)			15.1	
Profit before taxation		147.9			146.6	
Unallocated net liabilities			(105.3)			(115.3)
Capital employed			237.7			151.4
Assets held for disposal			9.8			160.0
Net debt			(58.7)			(118.4)
Net assets			188.8			193.0
Geographical area by operation						
United Kingdom and Ireland	413.9	48.1	106.3	410.0	34.0	71.2
Rest of Europe	300.3	26.7	74.7	271.1	37.9	76.1
The Americas	147.2	7.5	23.5	106.8	9.2	13.7
Rest of world	79.9	21.4	39.1	68.7	22.4	33.7
Less inter area sales	(177.5)			(109.5)		
	763.8	103.7	243.6	747.1	103.5	194.7
Sale of Hong Kong printing plant		20.2	19.1		–	–
Provision for losses on disposal of properties		(2.6)	–		–	–
Associated companies (analysed below)		29.3	80.3		28.0	72.0
Interest		(2.7)			15.1	
Profit before taxation		147.9			146.6	
Unallocated net liabilities			(105.3)			(115.3)
Capital employed			237.7			151.4
Assets held for disposal			9.8			160.0
Net debt			(58.7)			(118.4)
Net assets			188.8			193.0
Geographical area by destination						
United Kingdom and Ireland	101.7			88.1		
Rest of Europe	279.5			313.5		
The Americas	179.5			135.7		
Rest of world	203.1			209.8		
	763.8			747.1		

1 Segmental analysis (continued)

Associated companies are analysed as follows:	1996 Profit before tax £m	1996 Net assets £m	1995 Profit before tax £m	1995 Net assets £m
Security paper and print	**11.9**	**58.0**	25.6	59.0
UK lottery	**17.4**	**22.3**	2.4	13.0
	29.3	**80.3**	28.0	72.0
United Kingdom and Ireland	**17.4**	**22.1**	2.4	13.0
Rest of Europe	**11.9**	**54.1**	25.0	50.9
The Americas	**-**	**1.8**	0.4	5.1
Rest of world	**-**	**2.3**	0.2	3.0
	29.3	**80.3**	28.0	72.0

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.

The acquisitions during the year are set out in note 23.

2 Operating costs

	1996 £m	1995 £m
Cost of sales		
Continuing operations	**497.0**	531.0
Acquisitions	**29.4**	–
	526.4	531.0
Distribution costs		
Continuing operations	**20.4**	19.7
Acquisitions	**3.1**	–
	23.5	19.7
Administration and other expenses		
Continuing operations	**88.2**	88.0
Reorganisation costs	**18.3**	4.9
Acquisitions	**3.7**	–
	110.2	92.9
	660.1	643.6

3 Operating profit

Operating profit is stated after charging/(crediting) the following:	1996 £m	1995 £m
Employee costs (note 25)	**234.9**	196.4
Depreciation of tangible fixed assets		
purchased	**21.7**	14.2
leased	**0.4**	0.5
Operating leases		
hire of plant and machinery	**3.1**	3.5
other	**6.2**	5.8
Auditors' remuneration		
audit fees	**0.6**	0.5
UK non audit related fees	**–**	0.1
overseas non audit related fees	**0.3**	0.2
Research and development	**22.3**	17.2
Profit on disposal of fixed assets	**(0.5)**	(0.6)

Notes to the Accounts

4 Exceptional items	1996 £m	1995 £m
Profit on sale of Hong Kong printing plant	**20.2**	–
Provision for losses on the disposal of properties	**(2.6)**	–
	17.6	–

The £20.2m profit on the sale of the Hong Kong printing plant represents the sale of Hong Kong Note Printing Limited, a subsidiary undertaking which owned the Hong Kong banknote manufacturing plant. Total consideration for the sale was cash of £21.6m, of which £2.2m was received in the year to 31 March 1996, and £19.4m was received on 1 April 1996.

The £2.6m provision for losses on the disposal of properties has been made to cover expected losses on the disposal of certain of the Group's properties which are surplus to requirements as a result of the reorganisation of Cash Systems Division.

The effect of the above items on the group taxation charge is a charge of £0.3m.

5 Net interest (payable)/receivable	1996 £m	1995 £m
Interest payable on bank loans and overdrafts, and on other loans repayable within five years	**(14.0)**	(5.7)
Interest payable on other loans repayable after five years	–	(0.1)
Interest element of finance lease charges	**(0.1)**	(0.1)
	(14.1)	(5.9)
Interest receivable	**7.4**	19.0
Unwinding of discounted value of expected proceeds of assets held for disposal	**4.0**	2.0
	(2.7)	15.1

6 Taxation	1996 £m	1995 £m
Tax on profit on ordinary activities before exceptional items shown in note 4		
United Kingdom		
Corporation tax at 33%	**29.1**	27.5
Deferred taxation	**3.9**	5.8
Double taxation relief	**(7.9)**	(5.5)
Advance corporation tax	**(1.0)**	(5.1)
	24.1	22.7
Overseas		
Taxation payable	**4.7**	12.5
Deferred taxation	**0.4**	0.5
	5.1	13.0
Adjustments in respect of prior years	**(2.8)**	(0.9)
Tax on share of profits of associated companies	**7.2**	1.6
	4.4	0.7
Tax on profit on exceptional items shown in note 4		
Overseas		
Taxation payable	**0.6**	–
Deferred taxation	**(0.3)**	–
	0.3	–
Total taxation charge	**33.9**	36.4

7 Earnings per share

	1996	1995
	50.5p	55.1p

Earnings per share are based on the profit for the year attributable to ordinary shareholders of £112.7m (1995 £108.8m) as shown in the Group profit and loss account. The weighted average number of ordinary shares used in the calculations is 223,322,844 (1995 197,307,959). The fully diluted earnings per share are not materially different from basic earnings per share in both 1995 and 1996.

Reconciliation of earnings per share	pence per share	pence per share
As calculated under FRS 3	**50.5**	55.1
Profit on sale of Hong Kong printing plant	**(8.8)**	–
Profit on the disposal of fixed assets	**(0.2)**	(0.3)
Provision for losses on the disposal of properties	**1.0**	–
Headline earnings per ordinary share as defined by the IIMR	**42.5**	54.8
Reorganisation costs	**6.6**	1.9
Headline earnings per share before reorganisation costs	**49.1**	56.7

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 3 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. Accordingly, it is their intention to continue to publish the IIMR's headline figure in future interim statements and annual accounts.

8 Dividends

	1996 £m	1995 £m
Ordinary shares		
Interim paid	**16.2**	13.5
Final proposed	**37.0**	35.7
	53.2	49.2
Net dividend per ordinary share, as declared		
Interim	**7.25p**	7.00p
Final	**16.50p**	16.00p
	23.75p	23.00p

A dividend of £12,000 (1995 £12,000) was paid on the preference shares.

Notes to the Accounts

9 **Tangible assets**

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	In course of construction £m	Total £m
Group					
Cost or valuation					
At 1 April 1995	94.0	167.1	39.6	12.1	312.8
Exchange adjustments	1.8	3.7	1.0	0.1	6.6
Acquired	6.1	2.8	1.9	–	10.8
Additions and transfers	3.2	30.5	10.5	(5.9)	38.3
Disposals	(3.0)	(6.6)	(2.8)	–	(12.4)
At 31 March 1996	102.1	197.5	50.2	6.3	356.1
Representing					
Valuation in 1988/89	3.8	–	–	–	3.8
Valuation in 1992/93	4.2	–	–	–	4.2
Cost	94.1	197.5	50.2	6.3	348.1
	102.1	197.5	50.2	6.3	356.1
Accumulated depreciation					
At 1 April 1995	17.0	90.9	25.2	–	133.1
Exchange adjustments	0.6	–	0.8	–	1.4
Provision for the year	2.7	13.7	5.7	–	22.1
Disposals	(2.7)	(6.3)	(2.3)	–	(11.3)
At 31 March 1996	17.6	98.3	29.4	–	145.3
Net book value					
At 31 March 1995	77.0	76.2	14.4	12.1	179.7
At 31 March 1996	84.5	99.2	20.8	6.3	210.8

Included in the above are leased assets as follows:

Plant and machinery	cost	£7.2m (1995 £6.9m)
	net book value	£0.9m (1995 £1.1m)
Fixtures and fittings	cost	£0.4m (1995 £0.5m)
	net book value	£0.2m (1995 (£0.2m)

Included in the cost or valuation of land and buildings is an amount of £2.4m of capitalised interest (1995 £2.4m).

	Land and buildings £m	Fixtures and fittings £m	Total £m
Company			
Cost or valuation			
At 1 April 1995	18.6	0.5	19.1
Additions and transfers	7.2	0.1	7.3
At 31 March 1996	25.8	0.6	26.4
Accumulated depreciation			
At 1 April 1995	1.9	0.3	2.2
Provision for the year	0.5	0.1	0.6
At 31 March 1996	2.4	0.4	2.8
Net book value			
At 31 March 1995	16.7	0.2	16.9
At 31 March 1996	23.4	0.2	23.6

Included in the cost or valuation of land and buildings is an amount of £2.4m of capitalised interest (1995 £2.4m) and an amount of £0.1m (1995 £0.1m) representing land and buildings held at valuation.

9 Tangible assets (continued)

	1996 Group £m	1995 Group £m	1996 Company £m	1995 Company £m
Land and buildings comprise				
Net book value				
Freehold	**57.2**	49.4	**4.1**	0.2
Long leasehold	**18.9**	19.2	**18.8**	15.8
Short leasehold	**8.4**	8.4	**0.5**	0.7
	84.5	77.0	**23.4**	16.7
Historic cost of land and buildings				
Cost	**98.6**	90.4	**25.7**	18.5
Accumulated depreciation	**(17.4)**	(16.8)	**(2.4)**	(1.8)
	81.2	73.6	**23.3**	16.7

10 Investments

	1996 Group £m	1995 Group £m	1996 Company £m	1995 Company £m
At 1 April	**79.0**	53.1	**301.0**	292.1
Exchange adjustments	**(0.5)**	6.1	**–**	–
Additions	**7.8**	13.1	**0.5**	11.2
Share of retained profits of associated companies	**12.0**	8.3	**–**	–
Disposals	**(4.3)**	(1.6)	**(0.2)**	(2.3)
At 31 March	**94.0**	79.0	**301.3**	301.0
Loans to Group companies	**–**	–	**561.6**	529.8
Loans to associated companies	**0.3**	0.3	**–**	–
	94.3	79.3	**862.9**	830.8
Investments comprise				
Cost of shares in Group companies	**–**	–	**289.9**	289.7
Cost of shares in associated companies	**16.1**	19.3	**11.3**	11.3
Share of retained profits of associated companies	**63.9**	52.4	**–**	–
Other investments	**14.0**	7.3	**0.1**	–
	94.0	79.0	**301.3**	301.0
Other investments comprise				
Unquoted investments at directors' valuation	**8.3**	1.0	**0.1**	–
Securities quoted on overseas stock exchanges at cost less provision of £1.7m (Market value at 31 March 1996 £9.6m)	**5.7**	6.3	**–**	–
	14.0	7.3	**0.1**	–

The Company holds, through a subsidiary, 12.5% of the ordinary share capital of Koenig & Bauer AG, an engineering company incorporated in Germany. £0.2m of dividend income has been included in operating profit (1995 £0.2m).

11 Stocks

	1996 Group £m	1995 Group £m
Raw materials	**32.9**	26.5
Work in progress	**39.4**	26.0
Finished goods	**41.1**	34.9
	113.4	87.4

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

Notes to the Accounts

12 Debtors

	1996 Group £m	1995 Group £m	1996 Company £m	1995 Company £m
Amounts due within one year				
Trade debtors	138.0	112.1	–	–
Amounts owed by Group companies	–	–	2.0	2.7
Amounts owed by associated companies	1.1	3.6	–	–
Advance corporation tax recoverable	8.5	9.4	8.5	9.4
Other debtors	48.9	26.3	0.7	2.2
Prepayments and accrued income	7.3	7.8	–	–
	203.8	159.2	11.2	14.3
Amounts due after more than one year				
Other debtors	1.4	19.9	–	0.1
Prepayments and accrued income	0.1	0.1	–	–
	1.5	20.0	–	0.1
	205.3	179.2	11.2	14.4

13 Assets held for disposal

	£m
Group	
At 1 April 1995	160.0
Unwinding of discounted value of expected proceeds of assets held for disposal	4.0
Cash inflow from disposals	(141.7)
Cash payments to businesses held for resale	15.4
Retained interests in businesses sold	(6.6)
Further goodwill arising on the acquisition of Portals Group plc	(21.3)
At 31 March 1996	9.8

Assets held for disposal at 1 April 1995 included the Group's investment in businesses and properties, all of which were owned by Portals Group plc or its subsidiaries when the Group acquired Portals Group plc, and were held exclusively with a view to resale. In the year, the Group has disposed of its investment in these businesses and certain properties. Assets held for disposal at 31 March 1996 include properties, which following consultation with professional advisers, are held at the directors' valuation of anticipated sales proceeds.

The following businesses were sold during the year:
Bradley Lomas Electrolok
Ermeto Hydexco
J R Crompton
Houseman
Portals Engineering
Seprol
Servelec
Technolog
The Group has retained interests in the non-voting preference share capital of Crompton Specialist Papermakers Limited and Pelcombe Group Limited, the purchasers of J R Crompton and Portals Engineering respectively.

14 Creditors

	1996 Group £m	1995 Group £m	1996 Company £m	1995 Company £m
Amounts falling due within one year				
Loan notes 1996/2000	**16.2**	18.5	**16.2**	18.5
Bank loans and overdrafts	**85.1**	166.6	**185.6**	192.6
Payments received on account	**23.1**	19.5	**–**	–
Trade creditors	**49.4**	41.2	**–**	–
Amounts owed to Group companies	**–**	–	**–**	0.3
Amounts owed to associated companies	**17.1**	25.3	**–**	–
Other creditors	**36.8**	45.3	**2.3**	6.4
Taxation	**47.1**	47.4	**23.3**	18.8
Social security and other taxation	**10.4**	9.9	**0.5**	0.4
Accruals and deferred income	**76.1**	83.5	**0.6**	5.0
Obligations under finance leases	**0.5**	0.3	**–**	–
Proposed dividends	**37.0**	35.7	**37.0**	35.7
	398.8	493.2	**265.5**	277.7

The loan notes were issued to shareholders of Portals Group plc as part of the acquisition consideration. They are capable of being redeemed at the noteholders' option in September or March of each year, until the year 2000.

At 31 March 1995 £3.0m was included within creditors to cover future Portals reorganisation costs; during the year £1.8m has been utilised for this purpose.

15 Creditors

	1996 Group £m	1995 Group £m	1996 Company £m	1995 Company £m
Amounts falling due after more than one year				
Bank loans repayable otherwise than by instalments				
Between one and two years	**1.2**	0.9	**–**	–
Between two and five years	**2.5**	2.2	**–**	–
After five years	**1.4**	2.0	**–**	–
Other loans repayable otherwise than by instalments				
Between two and five years	**35.3**	33.1	**–**	–
Amounts owed to Group companies	**–**	–	**310.9**	267.3
Other creditors	**11.5**	12.5	**4.9**	4.9
Taxation	**0.3**	–	**–**	–
Accruals and deferred income	**1.9**	0.2	**0.1**	–
Obligations under finance leases				
Between one and five years	**1.1**	1.2	**–**	–
	55.2	52.1	**315.9**	272.2
Bank loans secured on assets of Group companies	**4.8**	4.7	**–**	–

Bank loans due after five years are repayable in full on maturity between 2000 and 2004 at interest rates of 6.25% to 7.50%.

The other loans mainly represent the private placement in the USA of $54m at a fixed interest rate of 7.35%. This interest rate has been swapped into a floating rate obligation which is agreed every six months. At 31 March 1996 the floating rate was 6% and will continue at the same rate until 18 July 1996. This loan is repayable in January 2000.

Notes to the Accounts

16 Provisions for liabilities and charges

	Pensions and similar obligations £m	Deferred taxation £m	Other £m	Total £m
Group				
At 1 April 1995	15.1	18.1	20.5	53.7
Exchange adjustments	0.2	0.3	–	0.5
Acquisitions	0.7	(0.1)	0.4	1.0
Provided in year	6.7	4.6	20.7	32.0
Utilised/released in year	(4.9)	–	(2.7)	(7.6)
Advance corporation tax	–	(4.2)	–	(4.2)
At 31 March 1996	17.8	18.7	38.9	75.4
Company				
At 1 April 1995	0.6	7.7	7.7	16.0
Provided in year	0.7	6.3	–	7.0
Transferred from subsidiaries	–	6.3	–	6.3
Utilised/released in year	(0.3)	–	(0.6)	(0.9)
Advance corporation tax	–	(4.2)	–	(4.2)
At 31 March 1996	1.0	16.1	7.1	24.2

The charge for the year of £20.7m within other provisions relates principally to the provision for the reorganisation within Cash Systems Division.

17 Deferred taxation

	1996 Group £m	1995 Group £m	1996 Company £m	1995 Company £m
Provided				
Timing differences between capital allowances and depreciation	20.6	14.1	17.6	1.6
Miscellaneous timing differences	2.3	4.0	2.7	6.1
Advance corporation tax	(4.2)	–	(4.2)	–
At 31 March	18.7	18.1	16.1	7.7
Potential				
Timing differences between capital allowances and depreciation	20.6	14.1	17.6	1.6
Miscellaneous timing differences	(0.4)	4.0	0.1	6.1
Revaluation	0.5	0.5	–	–
Advance corporation tax	(4.2)	–	(4.2)	–
At 31 March	16.5	18.6	13.5	7.7

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.

18 Share capital

	1996 £m	1995 £m
Authorised		
274,000,000 (1995 274,000,000) ordinary shares of 25p each	**68.5**	68.5
500,000 2.45% cumulative preference stock of £1 each (non equity)	**0.5**	0.5
	69.0	69.0
Allotted, called up and fully paid		
224,094,923 (1995 222,988,591) ordinary shares of 25p each	**56.0**	55.7
500,000 2.45% cumulative preference stock of £1 each (non equity)	**0.5**	0.5
	56.5	56.2

	1996 '000	1995 '000
Allotments during the year		
Ordinary shares in issue at 1 April	**222,989**	192,716
Issued as scrip dividend	**296**	222
Issued as consideration for acquisitions	**–**	29,362
Issued under savings related share option scheme	**502**	125
Issued under executive share option scheme	**308**	564
Ordinary shares in issue at 31 March	**224,095**	222,989
Contingent rights to the allotment of shares		
Savings related share option scheme		
Options over ordinary shares outstanding at 1 April	**2,475**	2,306
New options granted during the year	**865**	355
Options exercised during the year	**(502)**	(125)
Options lapsed during the year	**(209)**	(61)
Savings related share options outstanding at 31 March	**2,629**	2,475

At 31 March 1996 there was a total of 1,778 employees holding options under the savings related share option scheme which are exercisable at various dates up to April 2004 at prices ranging between 203.23p and 774p.

	1996 '000	1995 '000
Executive share option scheme		
Options over ordinary shares outstanding at 1 April	**1,935**	2,018
New options granted during the year	**636**	486
Options exercised during the year	**(308)**	(564)
Options lapsed during the year	**(9)**	(5)
Executive share options outstanding at 31 March	**2,254**	1,935

At 31 March 1996 there was a total of 336 senior executives holding options under the executive share option scheme which are exercisable at various dates up to November 2005 at prices ranging between 255p and 1,005p.

Preference shares

The preference shareholders are entitled to a fixed cumulative preferential dividend paid at half yearly intervals at the rate of 2.45% per annum. The preference shareholders do not have the right to vote at any general meeting unless the preferential dividend remains unpaid for six months after any due date or unless a resolution is proposed directly affecting the rights of the preference shares or for winding up the Company. In the case of a winding up, the assets remaining after payment of the debts and liabilities of the Company and the costs of the liquidation shall be applied first in repaying to the preference shareholders the amounts paid up on their shares together with any arrears of their preferential dividend.

Notes to the Accounts

19 Reserves

	Share premium account £m	Revaluation reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Group					
At 1 April 1995	3.2	3.5	(151.1)	276.8	132.4
Currency translation	–	0.1	1.1	(1.2)	–
Profit for the year	–	–	–	59.5	59.5
Premium on shares issued	4.4	–	–	–	4.4
Goodwill written off	–	–	(68.9)	–	(68.9)
At 31 March 1996	7.6	3.6	(218.9)	335.1	127.4
Company					
At 1 April 1995	3.2	0.1	232.5	17.5	253.3
Profit for the year before dividends	–	–	–	53.2	53.2
Dividends paid and proposed	–	–	–	(53.2)	(53.2)
Premium on shares issued	4.4	–	–	–	4.4
At 31 March 1996	7.6	0.1	232.5	17.5	257.7

Currency translation includes £0.1m loss arising on foreign currency borrowings used to finance overseas subsidiaries.

The cumulative amount of goodwill resulting from acquisitions to date which has been eliminated against other reserves is £754.2m.

The goodwill written off in the year included the £47.6m relating to the acquisitions of Brandt Inc, McCorquodale Security Cards Inc, Automated Cash Handling (Propriety) Ltd, Applied Systems Institute Inc and Ensec SA. In addition, a further £21.3m goodwill was written off in respect of the acquisition of Portals Group plc which took place in February 1995. Further details of these amounts can be found in notes 13 and 23 of this report.

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 £53.2m (1995 £49.6m).

20 Reconciliation of movements in shareholders' funds

	1996 £m	1995 £m
Profit for the year	112.7	108.8
Dividends	(53.2)	(49.2)
	59.5	59.6
Share capital issued	4.7	12.0
Expenses of issue of shares	–	(5.7)
Premium arising on the shares issued as consideration	–	288.1
Other net recognised gains and losses relating to the year	–	7.3
Goodwill on acquisitions: Portals	(21.3)	(493.4)
Other	(47.6)	(1.2)
Net reduction in shareholders' funds	(4.7)	(133.3)
Opening shareholders' funds	188.6	321.9
Closing shareholders' funds	183.9	188.6

There is £0.5m (1995 £0.5m) of non equity share capital included within shareholders' funds.

21 Notes to group cash flow statement

	1996 £m	1995 £m
a Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**103.7**	103.5
Depreciation	**22.1**	14.7
Increase in stocks	**(14.4)**	(0.4)
Decrease/(increase) in debtors	**4.3**	(50.1)
(Decrease)/increase in creditors	**(23.6)**	19.8
Provision for Cash Systems Division reorganisation costs	**16.1**	–
Other items	**(4.7)**	(3.2)
Net cash inflow from operating activities	**103.5**	84.3

	Change in year £m	1996 £m	1995 £m
b Analysis of cash and cash equivalents			
Cash at bank and in hand	**(21.8)**	**84.6**	106.4
Bank overdrafts and short term loans	**(44.5)**	**(85.1)**	(40.6)
	(66.3)	**(0.5)**	65.8

	1996 Share Capital (including premium) £m	1995 Share Capital (including premium) £m	1996 Loans and finance lease obligations £m	1995 Loans and finance lease obligations £m
c Analysis of changes in financing during the year				
At 1 April	**59.4**	53.1	**184.2**	44.0
Exchange movement	–	–	**2.2**	(2.5)
Shares issued under scrip dividend	**2.5**	2.0	–	–
Fair value of shares issued for non-cash consideration	–	295.4	–	–
Transfer to other reserves (merger relief, Section 131 Companies Act 1985)	–	(288.1)	–	–
Loan notes issued for non-cash consideration	–	–	–	18.5
Finance lease obligations of subsidiary undertakings acquired during the year	–	–	**0.5**	–
Net cash inflows/(outflows) from financing	**2.2**	(3.0)	**(128.7)**	124.2
At 31 March	**64.1**	59.4	**58.2**	184.2

	1996 £m	1995 £m
d Net cash inflow from sale of subsidiary undertakings		
Cash consideration within total consideration for subsidiary undertaking disposed of during the year	**2.2**	–
Cash received from subsidiary undertaking disposed of in previous years	–	0.7
	2.2	0.7

22 Group operating leases

	1996 Land and buildings £m	1995 Land and buildings £m	1996 Other £m	1995 Other £m
Annual anticipated commitments expiring				
Within one year	**0.9**	0.7	**1.3**	0.9
Between one and two years	**0.6**	0.7	**2.3**	1.6
Between two and five years	**1.5**	2.4	**1.6**	1.8
Over five years	**3.0**	1.9	–	–
Payments to be made during next year	**6.0**	5.7	**5.2**	4.3

Notes to the Accounts

23 Acquisitions

During the year, the Group acquired the entire issued share capital of Brandt Inc (10 August 1995), McCorquodale Security Cards Inc (16 August 1995) and Automated Cash Handling (Propriety) Ltd (18 August 1995). In addition the Group acquired assets from Applied Systems Institute Inc (22 September 1995) and Ensec SA (10 December 1995). These have been accounted for as acquisitions and have been integrated into the continuing operations of the Group. They contributed £40.5m of sales and £4.3m of operating profit during the year. The fair values attributed to the businesses on the dates of acquisition, in aggregates, were as follows:

	Book value prior to acquisition £m	Revaluation £m	Accounting policy alignment £m	Fair value to the Group £m
Tangible fixed assets	11.0	(0.2)a	–	10.8
Intangible fixed assets	1.0		(1.0)b	–
Stocks	9.7	–	(0.6)c	9.1
Debtors	8.6	–	–	8.6
Cash at bank and in hand	0.6	–	–	0.6
Bank loans and overdrafts	(5.0)	–	–	(5.0)
Creditors due within one year	(10.2)	–	0.3d	(9.9)
Creditors due after more than one year	(0.5)	–	–	(0.5)
Taxation	(0.1)	–	–	(0.1)
Deferred taxation	0.1	–	–	0.1
Provisions for liabilities and charges	(0.8)	(0.3)e	–	(1.1)
Net assets acquired	14.4	(0.5)	(1.3)	12.6
Consideration				
Cash				55.0
Deferred consideration				5.2
Total consideration				60.2
Fair value of net assets acquired (as above)				12.6
Goodwill				47.6

The deferred consideration consists of an earn-out to a maximum of SAR 9m (South African Rand) based on sales for the three years ending 30th June 1998 in Automated Cash Handling (Propriety) Ltd, an earn-out to a maximum of US$0.7m based on cumulative annual operating profits for the 30 month period ending 31st March 1998 in Applied Systems Institute Inc and an earn-out to a maximum of US$5m based on operating profits for the 13 month period ending 31st March 1996 in McCorquodale Security Cards Inc.

The acquisition of the cash handling distribution and service business of Ensec SA occurred following the redemption by Ensec SA of De La Rue's 44.7% shareholding in Ensec SA as shown in note 10.

Notes:

a The revaluation of tangible fixed assets consists of the revaluation upwards of land and buildings (£0.8m) based on open market value and the revaluation downwards of plant and machinery (£1.0m) based on depreciated replacement cost.

b Intangible assets have been writen off in accordance with Group accounting policies.

c The value of spares and demonstration stocks has been reduced as a result of applying Group accounting policies.

d The value of creditors has been reduced as a result of applying Group accounting policies on provision for holiday pay.

e The Brandt pension scheme was revalued on acquisition by an actuary.

The net outflow of cash and cash equivalents arising from the increase in investments in subsidiaries is as follows:

	£m
Cash consideration, as above	55.0
Cash acquired, as above	(0.6)
Bank loans and overdrafts acquired, as above	5.0
Net outflow of cash and cash equivalents	59.4

24 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, although in Germany the Group's pension funds are not wholly externally funded.

The total pension cost for the Group was £7.6m (1995 £5.6m), of which £6.9m relates to plans in the United Kingdom and the United States of America which cover 79% of employees within schemes. The total pension cost for the defined contribution arrangements in the USA during the year was £1.0m. Information on the major defined benefit schemes in the United Kingdom operated by the Group, including Portals (acquired in February 1995), is as follows:

Last valuation dates	De La Rue April 1994	Portals January 1995
Main assumptions		
Investment return p.a.	**9.0%**	**9.0%**
Dividend growth p.a.	**4.5%**	**4.5%**
Salary increases p.a.	**6.5%**	**6.5%**
Pension increases p.a.	**5.0%**	**5.0%**
Market valuation of investments at last valuation date	**£143.7m**	**£112.0m**
Level of funding, being the actuarial value of assets expressed as a percentage of the accrued service liabilities	**106%**	**101%**
Total pension cost for 1996	**£4.0m**	**£1.4m**

The contributions to the UK plans are assessed in accordance with advice from Godwins, independent consulting actuaries, using the defined accrued benefits method applied in a manner consistent with past practice of each of the schemes. This method aims for a stable 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 expected remaining service lives of current employees using the level percentage of salary method. The scheme operated by Portals was valued for acquisition purposes in January 1995.

A provision of £17.8m (1995 £15.1m) is included in provisions for liabilities and charges, to cover the excess of the accumulated pension costs (£15.4m) and other post-retirement benefits (£2.4m) over the amounts funded.

Other post-retirement benefits of £0.2m (1995 £0.3m) were charged in the year. These charges relate mainly to healthcare for approximately 220 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 1995 using the projected unit credit method. The assumed discount rate was 7.25% p.a. and annual healthcare costs were assumed to increase by 11.5% p.a. in 1995, reducing to 7.0% p.a. by 1998.

25 Employees

	1996	1995
Average number of employees		
United Kingdom	**3,885**	3,080
Overseas	**5,526**	4,932
	9,411	8,012

	1996 £m	1995 £m
Employee costs (including directors' emoluments)		
Wages and salaries	**203.1**	169.6
Social security costs	**24.2**	21.2
Pension costs	**7.6**	5.6
	234.9	196.4

Notes to the Accounts

26 Capital commitments

	1996 Group £m	1995 Group £m
The following commitments existed at the balance sheet date:		
Contracted but not provided for in the accounts	**19.2**	14.7
Authorised but not contracted	**6.5**	10.8
	25.7	25.5

27 Contingent liabilities

There are contingent liabilities, arising in the ordinary course of business, in respect of litigation and guarantees in various countries, for which the directors believe adequate provisions have been made in the accounts. The Company has guaranteed borrowings of £38.5m (1995 £33.4m) by Group companies. This mainly relates to the US private placement. Pursuant to the provisions of Section 17, Companies (Amendment) Act 1986 of the Republic of Ireland, the Company has guaranteed the liabilities of certain of its Irish subsidiaries and as a result such subsidiaries have been exempted from the provisions of Section 7 Companies (Amendment) Act 1986 of the Republic of Ireland.

28 Related party transactions

During the year the Group traded with the following associated companies: Camelot (22.5%), De La Rue Giori (50%), Fidink (33.3%), Arbok Zoa (50%), Portals Sihl (50%) and Ensec SA (44.7%).

The Group's trading activities with these companies includes £8.9m for the purchase of printing equipment and other assets, £14.8m for the purchase of ink and other consumables, £17.0m for the supply of UK national lottery tickets and £6.6m for the sale of banknote sorting equipment.

During the year the existing contract with Camelot for the supply of consumables and instant tickets was varied for a sum of £2.8m which has been recognised as profit in the year. This income, which is not included in the numbers shown above, is shown within the operating profit of continuing operations of Transaction Systems Division in note 1.

Set out in note 13 (assets held for disposal) are details of disposals of businesses which were owned by Portals Group plc or its subsidiaries when the group acquired Portals Group plc. These transactions included two management buy-outs in which management have, or may at some stage have, an equity interest in excess of 30%. Portals Engineering was sold for consideration totalling £10.3m. Technolog was sold for consideration totalling £5.0m. At the time of the disposals an independent adviser confirmed that the terms were fair and reasonable.

Five Year Record

Profit and loss account	1992 £m	1993 £m	1994 £m	1995 £m	**1996 £m**
Turnover					
Continuing operations	390.0	547.1	586.6	747.1	**763.8**
Discontinued operations (note a)	25.4	12.4	6.1	–	–
Total	415.4	559.5	592.7	747.1	**763.8**
Operating profit					
Continuing operations	63.1	76.8	96.1	108.4	**122.0**
Reorganisation costs	–	–	–	(4.9)	**(18.3)**
Discontinued operations (note a)	1.9	2.6	0.2	–	–
Total	65.0	79.4	96.3	103.5	**103.7**
Profit on the sale and termination of discontinued operations	1.7	1.8	14.1	–	–
Profit on sale of Hong Kong printing plant	–	–	–	–	**20.2**
Provision for losses on the disposal of properties in continuing operations	–	–	(8.0)	–	**(2.6)**
Share of profits of associated companies	7.3	11.9	15.6	28.0	**29.3**
Profit on ordinary activities before interest	74.0	93.1	118.0	131.5	**150.6**
Net interest receivable/(payable)	3.9	11.6	11.8	15.1	**(2.7)**
Profit on ordinary activities before taxation	77.9	104.7	129.8	146.6	**147.9**
Taxation on profit on ordinary activities	(23.1)	(28.6)	(32.4)	(36.4)	**(33.9)**
Profit on ordinary activities after taxation	54.8	76.1	97.4	110.2	**114.0**
Equity minority interests	(2.8)	(1.8)	(1.5)	(1.4)	**(1.3)**
Profit for the period	52.0	74.3	95.9	108.8	**112.7**
Dividends	(27.0)	(32.6)	(38.6)	(49.2)	**(53.2)**
Transferred to reserves	25.0	41.7	57.3	59.6	**59.5**

Earnings per ordinary share (note b)	31.2p	38.8p	49.9p	55.1p	**50.5p**
Headline earnings per ordinary share (note b)	30.7p	37.8p	47.5p	54.8p	**42.5p**
Dividends per ordinary share					
as declared	15.00p	17.00p	20.00p	23.00p	**23.75p**
adjusted (note b)	14.76p	17.00p	20.00p	23.00p	**23.75p**

Balance sheet	£m	£m	£m	£m	**£m**
Fixed assets	153.7	176.9	169.2	259.0	**305.1**
Net current assets	163.0	196.5	258.6	39.8	**14.3**
Other liabilities	(83.5)	(95.8)	(101.2)	(105.8)	**(130.6)**
Equity minority interests	(5.0)	(6.0)	(4.7)	(4.4)	**(4.9)**
Shareholders' funds	228.2	271.6	321.9	188.6	**183.9**

Notes

a Discontinued operations refer to all businesses discontinued between 1992 and 1996.

b Earnings per share and dividends per share for 1992 have been adjusted for the bonus element inherent in the November 1991 rights issue.

Principal Subsidiaries, Branches and Associated Companies

At 31 March 1996

The companies listed on these two pages, except those businesses which are held for resale, include those which principally affect the profits and assets of the Group. A full list of subsidiary undertakings is filed with the Company's Annual Return.

Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
EUROPE		
United Kingdom		
Thomas De La Rue International	Holding company	100#
Thomas De La Rue	Security printing	100#
MB-Clarke	Security printing	100
Royal Mint Services	Marketing	50*
De La Rue Holographics	Security holograms	100#
De La Rue Card Technology	Payment card processing	100
De La Rue Systems	Cash and payment systems	100#
De La Rue Identity Systems	Identification systems	100
De La Rue Fortronic	Electronic payment terminals	100#
Portals Group	Holding company	100
Portals	Banknote paper	100
Portals (Bathford)	Security paper	100
Camelot Group	Lottery operator	22½*
Channel Islands		
The Burnhill Insurance Company	Insurance	100
Ireland		
De La Rue Smurfit	Security printing	50
France		
De La Rue Systems	Distribution and marketing	100
Germany		
Garny	Banking automation and physical security equipment	95⅔
De La Rue Systems	Holding company	100
De La Rue Fortronic	Electronic payment terminals	100
Malta		
Thomas De La Rue (Malta)	Security printing	100
Netherlands		
ILS Systems	Lottery tickets	100
De La Rue Systems	Holding company and distribution and marketing	100
Portugal		
De La Rue Systems	Distribution and marketing (branch)	100
Spain		
De La Rue Systems	Distribution and marketing	100
De La Rue Lerchundi	Security printing	100
Sweden		
De La Rue Inter Innovation	Holding company	100
Switzerland		
Thomas De La Rue	Press equipment and ink marketing	100
De La Rue Giori	Security printing machinery	50*
Fidink	Security inks	33⅓*

Country of incorporation and operation	Activities	De La Rue interest in ordinary shares %
NORTH AMERICA		
United States of America		
De La Rue	Holding company	100
Thomas De La Rue	Security printing	100
LeFebure Corporation	Banking automation and physical security systems	100
DAQ Electronics	Remote security and control systems	33⅓*
De La Rue Identity Systems	Identification systems	100
De La Rue Faraday	Card processing services	100
De La Rue Fortronic	Electronic payment terminals	100
McCorquodale Security Cards	Payment cards	100
Brandt	Note and coin handling products	100
Applied Systems Institute	Smart card applications	100
SOUTH AMERICA		
Brazil		
De La Rue Sistemas	Distribution and marketing	90
AFRICA		
Kenya		
Thomas De La Rue Kenya	Security printing	100
Nigeria		
The Nigerian Security Printing and Minting Company	Security printing	25*
FAR EAST		
Australia		
De La Rue Systems	Distribution and marketing	100#
Hong Kong		
Thomas De La Rue (Hong Kong)	Security printing	100
De La Rue Systems	Distribution and marketing	100
Malaysia		
De La Rue Services (Malaysia)	Identification systems	100
Singapore		
Thomas De La Rue (Singapore)	Security printing	100
De La Rue Systems	Distribution and marketing	100#
Sri Lanka		
Thomas De La Rue Lanka	Security printing	60
Businesses held for resale		
Portals Property Limited	Property holding company	100

Shares held by De La Rue plc
* Associated Company

Shareholders' Information

Registered Office
6 Agar Street, London WC2N 4DE
Telephone: 0171 836 8383
Fax: 0171 240 4224
Registered number: 58025
Company Secretary: Miss S A Field

Registrar
Exchange Registrars Ltd
18 Park Place, Cardiff CF1 3PD
Telephone: 01222 371210
Fax: 01222 222873

Shareholder enquiries
Enquiries regarding shareholdings or dividends should, in the first instance, be addressed to Exchange Registrars Ltd.

Consolidation of share certificates
If your total registered ordinary 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 12.00 noon on Wednesday, 24 July 1996 at The Savoy, Strand, London WC2. Each ordinary shareholder is entitled to attend and vote at that meeting, the arrangements for which are described in a separate notice to shareholders dated 28 June 1996.

Dividend payments

On ordinary shares	Final	14 August 1996
	Interim	17 January 1997
On preference stock		30 September 1996
		31 March 1997

Results announcements

Final Results	June
Interim Results	November

Analysis of ordinary shareholders at 31 March 1996	Shareholders Number	%	Shares Number	%
By range of holdings				
1 – 1,000	11,918	61.45	5,862,502	2.62
1,001 – 2,000	3,482	17.95	5,036,557	2.25
2,001 – 4,000	2,029	10.46	5,706,990	2.54
4,001 – 20,000	1,297	6.69	10,480,420	4.68
20,001 – 200,000	505	2.60	34,419,433	15.36
200,001 – and above	164	0.85	162,589,021	72.55
	19,395	100.00	224,094,923	100.00

BACS
The Company has introduced Bank Automated Clearance Service (BACS) for payment of mandated dividends. If you would like to receive your dividends directly to your bank account please complete the enclosed dividend mandate form and return it to the Company's Registrars in the envelope provided. If your dividends are already mandated to your bank or building society account you need take no further action. To enable you to receive the final dividend payment by BACS the form should reach the Company's Registrars by 23 July 1996.

The De La Rue Corporate Personal Equity Plan ("PEP")
The Company has established a Single Company PEP and a General PEP which offer UK resident taxpayers an opportunity to invest in De La Rue plc ordinary shares with no tax on dividends or capital gains tax. Details may be obtained from the Plan Manager, Henderson Financial Management Limited, 3 Finsbury Avenue, London EC2M 2PA. Telephone 0171 410 4512.

Share Dealing Facility
The Company's stockbroker, Cazenove & Co, provides a simple, low cost dealing facility in De La Rue plc ordinary shares. Further information and forms can be obtained from Cazenove & Co, 12 Tokenhouse Yard, London EC2R 7AN. Telephone 0171 606 1768.

Capital Gains Tax
Shareholders who held De La Rue plc ordinary shares on 31 March 1982 requiring the market value of the Company's shares on that date for the purposes of capital gains tax can obtain the information from the Company Secretary.