

Brandon Gough Chairman



## Chairman's Statement

### GROUP RESULTS

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

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

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

### CORPORATE DEVELOPMENTS

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

### DIVIDEND

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

### OUTLOOK

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

A handwritten signature in black ink that reads "Brandon Gough".

Brandon Gough Chairman

# results

## Chief Executive's Review

### PROGRESS MADE

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

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

### GROUP RESULTS

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

### ACQUISITIONS

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

### ASSOCIATES

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

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

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

On 18 May 2001, we were pleased to announce the disposal of our shareholding in Giori to Koenig and Bauer, the German manufacturer of printing



Ian Much Chief Executive

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

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

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

## STRATEGIC OVERVIEW AND BUSINESS DEVELOPMENT

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

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

- **Identity** – securing the physical and digital identity of individuals by providing a range of high security identity documents such as passports and identity cards and document issuing systems for the world's governments.
- **Brand Protection** – helping brand owners protect their products from counterfeiting or copying and maintain the integrity of their supply chains where they are at risk from product counterfeit, tampering and diversion.

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

## GLOBAL SERVICES

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

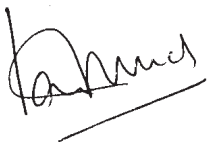
In response, we have announced our intention to bring together all of De La Rue's capabilities in Global Services and Security Products under common leadership and management. The combined Global Services and Security Products operation will be managed by Dr Jon Marx, the managing director of De La Rue's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

These organisational changes will now consolidate the broad range of the Group's capabilities in brand protection and identity into a single organisation structure which will allow us to serve these markets better. In addition, we will continue to serve, through a finance business stream,

the traditional non-banknote markets within Security Products, such as travellers cheques, vouchers and stamps. Each of the three businesses (brand, identity and finance) will deliver the full range of the Group's capabilities to our customers encompassing both products and end-to-end solutions.

#### OUTLOOK

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



**Ian Much**  
Chief Executive