

Paul Hollingworth Finance Director



## Financial Review

### FINANCIAL RESULTS

The robust return to profitability in the Cash Systems division and continued success in focusing on cash generation were two of the key drivers to the excellent financial performance of the Group in 2000/2001.

Earnings per share were up 22 per cent, net cash has increased by £34.2m to £36.3m and the recommended final dividend per share is up 7.5 per cent. In addition, shareholders funds have increased by £50.9m to £211.0m.

### EXCEPTIONAL ITEMS

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

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

\*statutory exceptional item under FRS 3

\*\*net of related tax relief of £0.9m

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

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

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

It is pleasing to note that several major outstanding tax issues (both UK and overseas) were resolved during

the year with the net result that there was a release to profits of £12.5m of provisions no longer required.

### CASH FLOW AND BANK BALANCES

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

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

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

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

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

### INTEREST CHARGE AND RATES

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

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

## TAXATION

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

## PENSION REVALUATION

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

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

## BORROWING FACILITIES

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

## TREASURY OPERATIONS

Group Treasury provides a central service to Group companies and conducts its operations in accordance with clearly defined guidelines and policies, which

have been reviewed and approved by the Board. Treasury transactions are only undertaken as a consequence of underlying commercial transactions or exposures.

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

## EXCHANGE

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

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

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

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

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

\*Excluding minority interests.



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