Accounting Policies

For the year ended 27 March 2004

Basis of Preparation

The consolidated accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with the Companies Act 1985 and applicable UK accounting standards.

The consolidated accounts have been prepared as at 27 March 2004 being the last Saturday in March. The comparatives for the 2003 financial year are for the year ended 29 March 2003.

Basis of Consolidation

The results of all of the subsidiaries of the Company have been fully consolidated. The majority of these subsidiaries and the material associated companies prepare their annual financial statements to 27 March except for certain associated companies and one subsidiary whose year end is 31 December. In the case of the subsidiary, whose financial statements are made up to 31 December, results for the year to 29 March 2004 have been fully consolidated. The results of businesses acquired are included from the effective date of acquisition and the results of businesses sold are included up to the date of disposal.

Associated Companies

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

The Group's share of the profits less losses of associated companies is included in the Group Profit and Loss Account. Its interest in their net assets is included as an investment in the Group Balance Sheet at the Group's share of the net assets at acquisition plus the Group's share of retained profits.

Foreign Currencies

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

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

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

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

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

Turnover

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

Revenue is recognised in the profit and loss account when goods or services are supplied to external customers in accordance with the terms of sale.

Goodwill

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

Other Intangible Assets

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

Tangible Fixed Assets and Depreciation

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

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

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

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

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

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

Taxation
The Group accounts for taxation which is deferred or accelerated by reason of timing differences which have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits. Deferred tax on the related earnings of overseas subsidiaries is only provided when there is a binding commitment to distribute past earnings in future periods.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax liabilities and assets are not discounted.

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

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

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

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

Share Option Schemes
The Group's Employee Share Ownership Plan ('ESOP') is a separately administered trust. Liabilities of the ESOP are guaranteed by the Company and the assets of the ESOP mainly comprise shares in the Company.

The impact of the implementation of Urgent Issues Task Force Abstract 38 'Accounting for ESOP Trusts' on these financial statements is set out under 'Changes in presentation of financial information' below.

Changes in presentation of financial information
Urgent Issues Task Force (UITF) Abstract 38 'Accounting for ESOP Trusts' has been adopted for the first time in these financial statements. As required by the UITF, own shares held by the De La Rue employee share ownership trusts have been reclassified from fixed asset investments to a reduction in shareholders' funds. The shares will be held at historical rates until such time as they are disposed of. Any profit or loss on the disposal of own shares is treated as a movement in reserves rather than as a profit and loss item. This change has been accounted for as a prior period adjustment and previously reported figures have been restated accordingly. If the previous policy had been adopted in the current year, the impact would have been to reduce profit after tax by £0.3m. The impact of adopting the new policy on the year ended 29 March 2003 has been to increase profit after tax by £0.6m. The cumulative effect of this prior year adjustment on the balance sheet as at 29 March 2003 is to reduce other investments and profit and loss reserve by £19.1m. The assets, liabilities, income and costs of the trusts continue to be included in the consolidated and the Company's financial statements.