

# Directors' Report

The Directors present their annual report together with the audited financial statements of the Group and the Company for the year ended 29 March 2008.

## Return to Shareholders

In May 2007, the Board announced a proposed return of capital to shareholders amounting to approximately £75m by means of a special dividend of 46.5p per ordinary share accompanied by a share consolidation. The special dividend formed part of the Board's strategy to return surplus cash to shareholders through a combination of progressive dividends and, at the appropriate time, capital returns.

Shareholders approved the consolidation of the Company's share capital at the Annual General Meeting of the Company on 26 July 2007. Accordingly, shareholders on the Company's Register of Members on the close of business on 27 July 2007 exchanged 15 ordinary shares of 27<sup>7</sup>/<sub>9</sub>p each for 14 new ordinary shares of 29<sup>16</sup>/<sub>21</sub>p each. As a consequence of the share consolidation the Company's authorised share capital was reduced to 223,125,756 ordinary shares of 29<sup>16</sup>/<sub>21</sub>p each and the issued share capital was reduced to 150,131,296 from 160,854,960.

## Principal Activities and Business Review

De La Rue, a British company, is the world's largest commercial security printer and papermaker, involved in the production of over 150 national currencies and a wide range of security documents such as passports, authentication labels and fiscal stamps. It is a leading provider of cash handling equipment and software solutions to banks and retailers worldwide. De La Rue is pioneering new technologies in government identity solutions for national identification, driver's licence and passport issuing schemes. A review of the business is set out in the Business Review section on pages 13 to 15 and forms part of the Directors' Report. It sets out a business review of the Group's position at the end of the financial year including the development and performance of the business, key performance indicators and a description of principal risks and uncertainties facing the Group. Also included in the Business Review is an indication of likely or intended future developments in the Group's businesses.

## Results and Dividends

Profit before taxation and exceptionals was £124.1m (2006/2007 : £102.4m). The profit attributable to shareholders for the year was £88.1m (2006/2007 : £70.2m). The Directors are recommending a final ordinary dividend for the year of 14.87p per share. Subject to the approval of shareholders at the Annual General Meeting, the final dividend will be paid on 1 August 2008 to ordinary shareholders on the register on 11 July 2008. An interim dividend of 6.53p per ordinary share was paid on 16 January 2008 making a total of 21.4p per share (2007 : 19.1p per share) for the year.

## Post Balance Sheet Event

### New Credit Facility

Since the year end the Group has arranged a £250m three year term and revolving facilities agreement with three of its key relationship banks to support the proposed changes to the Group's dividend policy and balance sheet structure.

## Share Capital

Details of shares issued during the year are provided in note 21a to the financial statements on page 80.

The Companies Act 1985 requires that any shares issued wholly for cash must be offered to existing shareholders in proportion to their existing holdings unless authorised to the contrary by a resolution of the shareholders. Resolutions giving such authority were passed in 2007. Authorities to renew for one year the power of directors to allot shares pursuant to Sections 89 and 95 of the Companies Act 1985 will be sought from the shareholders at the Annual General Meeting. The Company was granted authority by its shareholders at the 2007 Annual General Meeting to purchase a maximum of 14.99 per cent of its own shares either for cancellation or held in treasury (or a combination of both).

Pursuant to that authority the Company acquired for cancellation 610,000 ordinary shares of 29<sup>16</sup>/<sub>21</sub>p each representing 0.4 per cent of the issued share capital as at 21 May 2008. The aggregate consideration paid was £4,188,690 and the purpose of the share buy back was to return surplus cash to shareholders. A total of 7.2 million shares have been acquired since commencement of the programme in December 2005, at a cost of £41.2m. A resolution will be put to shareholders to renew the authority for a further period of one year.

Further details are contained in the Chairman's letter to shareholders dated 16 June 2008.

## Takeovers Directive

Pursuant to Section 992 of the Companies Act 2006, which implements the EU Takeovers Directive the Company is required to disclose additional information including:

### Rights and Restrictions on Shares

Certain restrictions, which are customary of a listed company, apply to the rights and transfers of shares in the Company. The rights and obligations attaching to the Company's shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association (the 'Articles'), copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary.

Dealings in the Company's ordinary shares by its Directors, persons discharging managerial responsibilities, certain employees of the Company and, in each case, their connected persons, are subject to the Company's Share Dealing Code which adopts the Model Code of the Listing Rules published by the Financial Services Authority ('FSA').

### Transfers of Shares

There are no restrictions on the transfer of shares or on the exercise of voting rights attached to them, except (i) where the Company has exercised its rights to suspend their voting rights or to prohibit their transfer following the omission by their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006 or (ii) where their holder is precluded from exercising rights by the FSA's Listing Rules, the City Code on Takeovers and Mergers or any other regulations.

### Exercise of Rights of Shares in Employee Share Schemes

The trustee of the De La Rue Employee Share Ownership Trust does not seek to exercise voting rights on shares held in the employee trust. No voting rights are exercised in relation to shares unallocated to potential individual beneficiaries.

### Powers of Directors

Details on appointment, replacement and powers of Directors are reported in the Corporate Governance section of the Annual Report.

### Significant Agreements – Change of Control

A number of agreements take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as bank loan agreements and employee share plans. None of these are deemed to be significant as a whole except for the following:

The £100m credit facility dated 30 March 2007 between the Company and two of its key relationship banks contains a provision such that in the event of a change of control, any lender may, if it so requires, notify the agent that it wishes to cancel this commitment whereupon the commitment of that lender will be cancelled and all their outstanding loans, together with accrued interest, will become immediately due and payable.

A change of control will be deemed to have occurred if any person or persons acting in concert (as defined in the City Code on Takeovers and Mergers) at any time is/are or becomes interested in more than 50% of the issued ordinary share capital of the Company.

On 21 May 2008 the Group entered into a new three year £250m term and revolving facilities agreement (see New Credit Facility on page 36) to replace the £100m credit facility dated 30 March 2007.

The replacement facility contains the same change of control provisions as the earlier £100m agreement outlined above.

### Share Schemes and Share Option Schemes

The Company operates a number of share schemes or share option schemes for employees, senior executives and managers.

Full details of share schemes are set out in the Remuneration Report on pages 45 to 52.

### Substantial Shareholdings

Under the UKLA's Disclosure and Transparency Rules shareholders must notify the Company of any interest in its shares of over 3 per cent and of each 1 per cent increment above to which total voting rights are attached. As at 21 May 2008 the Company had received the following notifications:

Persons Notifying	Total Number of Shares	Total Number of Voting Rights	Percentage of Voting Rights
Schroders Plc	9,345,970	8,683,079	5.79
Legal & General Group plc	6,350,239	6,350,239	4.23
Barclays Global Investors	5,925,374	5,925,374	3.95
Barclays plc	5,465,751	5,465,751	3.65
Ameriprise Financial Inc	5,381,482	5,381,482	3.59

### Going Concern

Having made appropriate enquiries, 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.

### Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation. The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

# Directors' Report

## continued

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Provision of Information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Research and Development

Research and development for the year has focused on developing and protecting the intellectual property in security features, cash handling and new types of materials across the range of printed documents.

The amount spent in the year was £18.1m (2006/2007 : £18.6m).

### Corporate Governance

A report on corporate governance and compliance with the FRC Combined Code on Corporate Governance 2006 is set out on pages 40 to 44.

The Company has purchased insurance to cover its Directors and officers against their costs in defending themselves in civil legal proceedings taken against them in that capacity. To the extent permitted by UK law the Company also indemnifies its Directors and officers. To the extent permitted by the Companies Act 2006 and the UKLA Listing Rules the indemnification of Directors and officers is permitted so that the Company may advance defence costs in civil or regulatory proceedings on such terms as the Board may reasonably determine but any advances must be refunded in the event that the Director or officer is subsequently convicted. Neither the insurance nor the indemnity provide cover where the Director has acted fraudulently or dishonestly.

### Directors

Details of each person who was a Director at 29 March 2008 and their qualifications, experience and responsibilities are given on pages 34 and 35. A table giving details of their interests as at 29 March 2008 is shown below. All the Directors held office throughout the year, except Michael Jeffries who resigned as a non-executive Director at last year's Annual General Meeting on 26 July 2007.

Keith Hodgkinson and Philip Nolan, each having served two three year terms, will retire and, being eligible, will offer themselves for re-election. Sir Jeremy Greenstock and Stephen King will retire by rotation and, being eligible, will offer themselves for re-election. Nicholas Brookes, having served for three three year terms, will retire and being eligible will offer himself for re-election.

The non-executive Directors hold letters of appointment which will be displayed at the Annual General Meeting, together with the executive Directors' service contracts and indemnification agreements. The Board agreed to reduce the terms of appointment for all non-executive Directors from three year appointments to two year appointments with effect 1 April 2008. Leo Quinn and Stephen King have 12-month rolling contracts, details of which are set out in the Remuneration Report on pages 45 to 52.

Lord Wright, who retired as a Director on 19 July 2000, continues to provide up to 20 days' consultancy each year pursuant to an agreement with the Company dated 20 July 2000 which has been extended to July 2008.

### Directors' Interests

The interests of Directors holding office at the end of the financial year in the ordinary shares of the Company are set out below:

	31 March 2007 ordinary shares of 27 <sup>1</sup> / <sub>4</sub> p each	Following share consolidation on 30 July 2007 ordinary shares of 29 <sup>1</sup> / <sub>2</sub> 21p each	29 March 2008 ordinary shares of 29 <sup>1</sup> / <sub>2</sub> 21p each
Nicholas Brookes	13,005	12,138	12,138
Warren East	3,500	3,266	3,266
Keith Hodgkinson	4,165	3,887	3,887
Stephen King	49,950	46,620	46,620
Philip Nolan	9,000	8,400	8,400
Leo Quinn	43,800	40,878	40,878
Gill Rider	760	709	709

Sir Jeremy Greenstock has no interest in the Company's ordinary shares. There have been no changes in Directors' interests in ordinary shares since 29 March 2008. All interests of the Directors and their families are beneficial.

### Directors' Remuneration

Details of the remuneration and share options of each of the Directors are set out in the Remuneration Report on pages 45 to 52.

### Employees

Details of the Company's employment policies are set out in the Corporate Responsibility Report on pages 30 to 33.

### Payments to Suppliers

The Company and Group's policy is that suppliers be paid on the basis of monthly summary invoicing plus 60 days subject to local laws or other exceptions. The average number of days credit provided by suppliers to the Group has been calculated at 48 days (2007 : 39 days). The Company does not have any trade payables.

### Charitable and Political Donations

Donations for charitable purposes amounting to £79,000 (2007 : £110,587) were made during the year. Details about the De La Rue Charitable Trust are set out in the Corporate Responsibility Report on pages 30 to 33.

### Amendment to Articles of Association

At the Company's annual general meeting a special resolution will be put to shareholders proposing amendments to the existing Articles of Association primarily to accommodate the provisions of the new Companies Act 2006. Further details are contained in the Chairman's letter to shareholders dated 16 June 2008.

#### **Auditors**

A resolution to reappoint KPMG Audit Plc as auditors to the Company will be proposed at the Annual General Meeting.

#### **Annual General Meeting**

The Annual General Meeting will be held at 10.30 a.m. on Thursday 24 July 2008 at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS. The notice of the Annual General Meeting, including a Letter from the Chairman, accompanies this Annual Report.

#### **Directors' Responsibility Statement in Respect of the Disclosure and Transparency Rules**

We confirm to the best of our knowledge:

- (a) the Group financial statements in this report, which have been prepared in accordance with International Financial Reporting Statements as adopted by the EU ('Adopted IFRS'), including interpretations issued by the International Accounting Standards Board ('IASB') and those sections of the Companies Act 1985 applicable to companies reporting under IFRS as adopted in the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole; and
- (b) the parent Company financial statements in this report, which have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and applicable law give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- (c) the Chairman's Statement and Business Review contained in this report include a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



**Louise Fluker**  
Company Secretary  
21 May 2008