

Martin Sutherland

Chief Executive Officer



The Group's results for 2014/15 reflect the challenging market conditions across all our businesses and hence are, as previously advised, below the level reported in the corresponding period. Within Currency, pricing pressures have continued which has resulted in lower margins, while in Identity Systems and Security Products, the level of new business has been lower than expected. Some mitigation of these conditions has been achieved through operational efficiencies which have realised further benefits of £7m in the period. The actions taken in Cash Processing Solutions (CPS) during the year have returned this business to underlying profitability.

At 28 March 2015, the Group's 12 month closing order book, calculated on a revised basis to include estimated call-off orders for material contracts, was £243m (2013/14 restated: £307m). Pricing in recent tenders continues to reflect the ongoing challenging market conditions.

Strategy

During the past six months we have conducted a strategic review of the Group's businesses and assessed the outlook for the next five years. The review addressed matters such as our customers' changing requirements, a pragmatic appraisal of the Group's capabilities and composition, an assessment of the markets in which the Group operates and an analysis of our competitors. The review has reconfirmed the core strengths and assets of the Group including:

- Powerful brand reputation which engenders longstanding customer relationships
- Leading market positions
- Widely recognised world leading design skills and capabilities
- A long history of product innovation
- A proven track record of delivering operational efficiencies

Having concluded this review we now have a clear Strategic Plan:

- The current integrated portfolio is beneficial and should be maintained
- A differential approach will be applied to products based on market growth opportunities
 - Where products are exposed to low growth markets – we will 'Optimise and Flex' our capabilities through operational efficiencies, cost reduction and accessing flexible capacity
 - Where products are exposed to higher growth and more profitable markets – we will 'Invest and Build' in new capabilities, technologies and resources
- Outcome
 - Higher growth, technology led business
 - Improved and less volatile profitability

The Strategic Plan has recognised and confirmed that the Group derives significant benefit from its existing integrated portfolio of products which provide complementary security and authentication products and services. However, many of our markets have changed in recent years and are expected to continue to change. Some Currency customers are changing their approach to procurement, not just in adopting a more technical process but in some cases seeking to disaggregate currency into its constituent parts, with a growing emphasis on the supply of innovative security components. Our customers in the Identity market often require end-to-end solutions not just a physical token such as a passport or ID card.

In addition to identifying attractive growth opportunities the Strategic Plan will achieve improved profitability, more effective use of capital and reduce the Group's reliance on a small number of material contracts while reducing some of the volatility of the business. The Plan has identified initiatives that will deliver these objectives including seeking to establish longer term contractual commitments from customers, partnering with third parties to provide more flexible capacity to meet surges in demand and a more integrated approach to innovation.

At its core the Strategic Plan has focused our business into product lines and grouped them into those product lines where we will 'Optimise and Flex' and those where we will 'Invest and Build'.

Optimise and Flex: Currency Print, CPS and Currency Paper

As the world's largest commercial banknote printer and a major manufacturer of banknote paper we recognise that these activities are fundamental and core to our brand and also provide the platform from which the other product lines can deliver growth. CPS cash sorting and vault management complements Currency print and shares a common customer base. However, these markets are changing and provide useful but modest growth opportunities.

Accordingly, in Currency print, CPS and Currency paper we will optimise our operations and improve profitability and cash flow through ongoing operational excellence, reducing costs and optimising our production footprint. We will explore opportunities to partner with third parties to provide extra flexibility in our capacities and thereby reduce the impact of unpredictable orders and more efficiently meet short term fluctuations in order demand.

Invest and Build: Polymer, Components, Identity and Security Products

Our market position within Currency print and paper provides us with an enviable platform from which to capture the growth opportunities within the polymer, security components, Security Products and Identity product lines.

We have made good progress since we launched Safeguard®, our polymer substrate, and now have a number of reference customers. We expect demand for polymer substrate to grow at a materially faster rate than demand for paper and as one of only two manufacturers we believe we are well placed to capture this growth.

Within components we see a growing trend from our customers to stipulate specific components in their products. Given the highly technical nature of these components this trend is causing a value shift with an increasing proportion of the total value of a finished banknote residing in the component share and a corresponding decrease in the value share for print. We have an improving pipeline of new products and we intend to increase the level of investment in innovation in this area to ensure we capture an increased share of the growing market for this high margin product line.

Chief Executive's review continued

The Identity market continues to grow with governments increasingly concerned about the authentication of the identity of their citizens and also control over the movement of people at their borders. We are already the largest commercial supplier of passports in the world but we see good opportunities to grow our market share in this area. This growth will arise from increased demand for security features within the passport or identity card and the trend towards governments seeking complete end-to-end solutions addressing personalisation, issuance and integration with other government systems.

As governments increasingly seek software solutions to authenticate products either for tax generation or, in the case of tobacco products for health reasons, we anticipate attractive growth prospects for our authentication products. We have considerable experience of producing the physical tax stamp and increasing experience of delivering an end-to-end service with software products and services.

A common theme across all 'Invest and Build' product lines is technology and innovation. We are well placed to capture the growth opportunities and will seek to build on our position through increased investment in innovation and our people and, where appropriate, through joint ventures and partnerships.

Implementation

We have formulated comprehensive and detailed implementation plans with clearly defined milestones and responsibilities assigned to the Executive Leadership Team. We have already redesigned the organisational structure of the Group to align it with our strategic priorities and needs. In addition we have initiated a culture change programme, a reduction of the Group cost base and a review of the manufacturing footprint. These will realise substantial cost savings which will be largely reinvested in the business to drive growth.

The Group is able to implement the Plan from its existing resources.

Outcome

The successful implementation of the strategy will result in a:

- Better mix of business
- Less volatile performance
- Lower customer concentration
- Higher quality earnings

Which will deliver growth and higher profits.

Currency performance

Market conditions in both print and paper were challenging throughout the period. Through adopting a more tactical approach to both pricing and the utilisation of spare capacity we have achieved satisfactory volumes. Banknote print volumes were up 5 per cent at 6.5bn notes (2013/14: 6.2bn), while paper volumes at 9,400 tonnes were marginally down reflecting the continuing overcapacity and high level of competition in the banknote paper market. The operational excellence, process improvement and asset care programmes have been maintained and the benefits have partially mitigated the impact of lower pricing.

Revenue decreased by 7 per cent to £317.9m (2013/14: £342.7m) largely caused by lower average print and paper prices, reflecting the challenging Currency market conditions and the continuing overcapacity in the paper market partly mitigated by increased revenues from sales of security components. Operating profit* reduced to £50.5m (2013/14: £61.0m) as a result of the lower revenues, partly offset by further operational efficiencies and an improved margin on security components reflecting increased volumes and improved contractual arrangements.

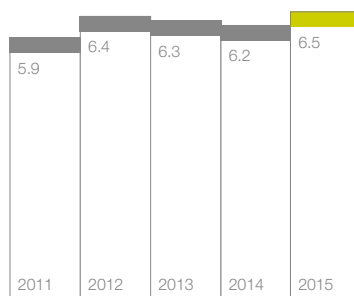
Safeguard, De La Rue's polymer substrate, is now in circulation in seven countries with a number of successful machine trials with state print works and other commercial banknote printers completed during the period. We continue to be encouraged by the progress made since the launch of Safeguard and have a good pipeline of further opportunities.

At the period end the 12 month order book, calculated on a revised basis to include estimated call-off orders for material contracts, was £150m (2013/14 restated: £197m) This reflects volatility in short term market demand and a stance of seeking to maintain margins and avoid uneconomic volumes.

During the period, we were delighted to have been successful in winning the new 10 year Bank of England print contract. De La Rue has been printing sterling banknotes for this important and prestigious customer since 2003. The new contract commenced on 1 April 2015.

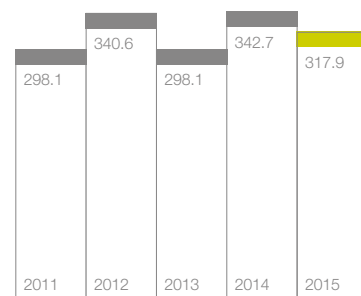
Banknote print volume

Billion notes



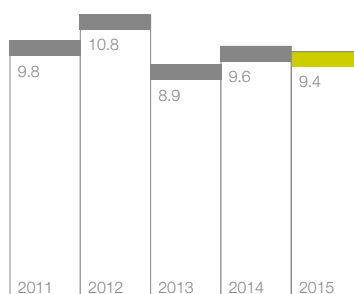
Currency revenue

£m



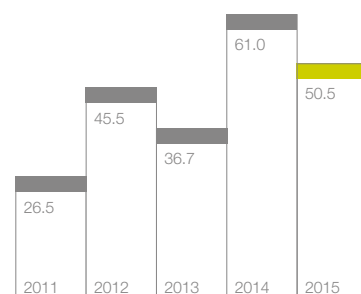
Banknote paper volume

'000 tonnes



Currency underlying operating profit

£m



Identity Systems performance

Identity Systems operating profit* fell to £11.1m (2013/14: £21.9m) reflecting lower than expected tenders for new contracts in the International business and also, as previously announced, the corresponding period benefited from a larger than normal number of contract completions.

The trend towards ePassports from machine readable passports has been slower than expected. In addition a number of tenders for prospective orders have not been issued as early as originally anticipated. As authentication of individual identity and border security is a major concern for governments around the world, we will continue to focus on higher value, longer term ePassport and ID schemes and the development of our digital and service offering.

The UK Passport contract continues to perform well and successfully met all performance measures in a period of unusually high demand. During the period, the milestone of issuing the 20 millionth passport under this contract, which commenced in October 2010, was achieved.

Security Products performance

Operating profit* decreased to £7.5m (2013/14: £10.6m) caused by lower volume call-offs on a number of mature market products. During the period, in addition to ongoing cost reduction initiatives, we further rationalised our manufacturing footprint with the closure of our Dulles facility, with its operations relocating into other existing sites.

The rate of adoption of new tax stamp schemes during the period has been disappointing. This has meant that contracts for tax stamps have not mitigated the expected declines in some of the other more mature product lines.

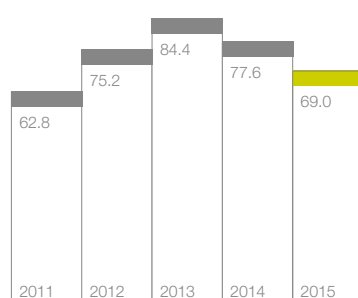
Cash Processing Solutions performance

As a result of the completion during the period of the restructuring programme, notwithstanding reduced large sorter and machine upgrades, CPS has moved back into an underlying profitable position reporting an operating profit* of £0.4m (2013/14: operating loss £4.2m).

*References to operating profit/loss refer to underlying operating profit/loss

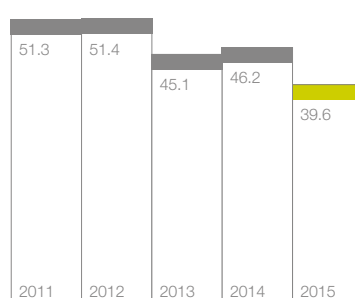
Identity Systems revenue

£m



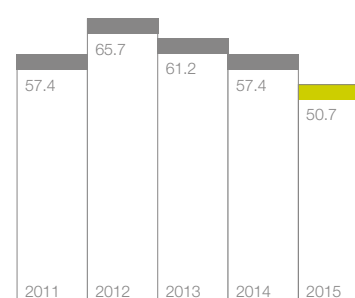
Security Products revenue

£m



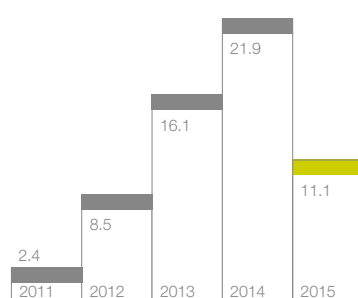
Cash Processing Solutions revenue

£m



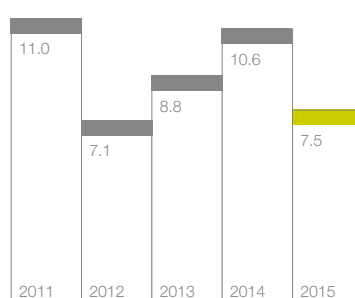
Identity Systems underlying operating profit

£m



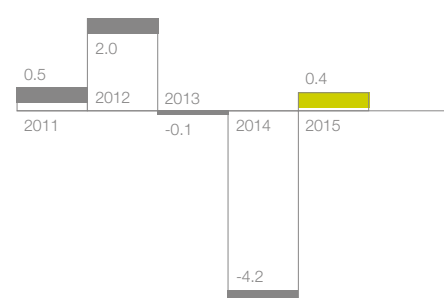
Security Products underlying operating profit

£m



Cash Processing Solutions underlying operating profit

£m



Innovate. Deliver. Grow. Developing end-to-end solutions



During the period six new products were launched. There is a good and growing pipeline of innovation, with nine new products scheduled to launch in 2015/16.

DLR Identify™, our next generation web-based citizen identity management software solution, will be launched in June 2015. It provides the functionality needed to underpin all eGovernment and eCitizen applications as well as border and document control solutions. Also recently launched were a number of patented new technologies and physical innovations including Continuous Bio-Data Page™ – a revolutionary new passport book construction technique, and SHIELD Embossed™, an innovative thin film holographic patch (as shown above).