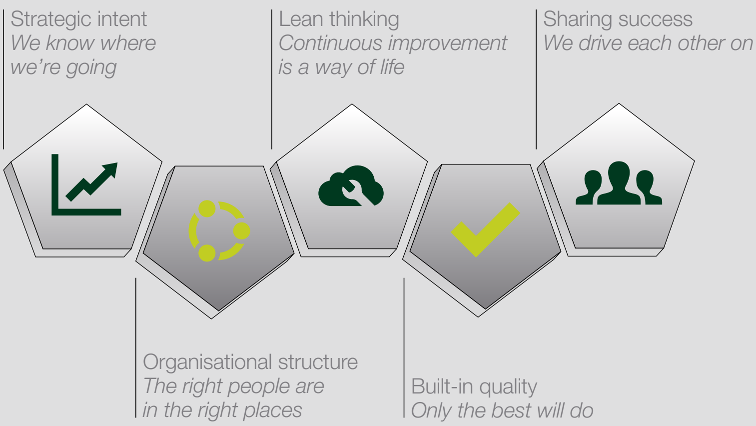
Innovation at work



De La Rue is pursuing operational excellence with a clear quality roadmap against which to measure progress

Quality from start to finish

De La Rue's holistic approach to quality includes working with our suppliers and right across our integrated supply chain from design to delivery.

By tailoring proven methods drawn widely from other manufacturing industries we are delivering improvements in our key quality measures.

We are building close partnerships with our suppliers to drive quality improvements from source and co-developing products to speed up innovation.

Our dedicated quality planning process ensures consistent quality is achieved throughout production, addressing every key point of a customer specification. To ensure we continue on this journey we are setting ourselves challenging targets to reach in the coming years.

Performance and financial review

Colin Child
Chief Operating Officer and
Group Finance Director

Introduction
In 2013/14 De La Rue grew underlying operating profit by 43 per cent and revenue by 6 per cent. These results demonstrate the significant progress the Group has made by implementing its three year Improvement Plan which has seen profit grow from £40m in 2010/11 to £90m in 2013/14.

The Group's 12 month order book at 29 March 2014 was £218m, 5 per cent higher than the prior year end. The Currency business' order position was up 8 per cent reflecting some significant contract wins albeit at reduced contribution levels. These reduced contribution levels reflect the continuing overcapacity in the banknote paper market which has led to a more difficult pricing environment in the printed banknote market.

Amendments to the IAS 19 accounting standard are effective for the 2013/14 financial year. This requires the replacement of the expected return on assets and interest charge on pension scheme liabilities with a net financing cost based on the discount rate as well as the recognition of the pension scheme administration costs in operating profit. The impact of IAS 19 in the current period has been to reduce underlying operating profit from £90.5m to £89.3m, comparatives have been restated as required by the standard.

Financial results
Underlying operating profit (after IAS 19 adjustments) was up significantly at £89.3m (2012/13: £61.5m) reflecting the benefits of the Improvement Plan, increased paper and component volumes and a strong performance in Identity Systems offsetting a less favourable product mix in Currency and reduced volumes in Cash Processing Solutions. The Improvement Plan realised savings of £20m in the period, bringing the annual savings under the Plan to £40m. The Group underlying operating profit margin improved to 17.4 per cent (2012/13: 12.7 per cent). Foreign exchange movements adversely impacted revenue by £3m but improved operating profit by £2m (2012/13: adverse £3m and £2m respectively).

Underlying profit before tax increased by 51 per cent to £77.3m (2012/13: £51.3m) despite higher net finance costs of £4.7m (2012/13: £3.6m) and IAS 19 finance charges of £7.3m (2012/13: £6.6m). Underlying earnings per share increased by 58 per cent to 60.7p (2012/13: 38.5p). Exceptional charges in the year totalled £17.5m (2012/13: £7.6m) predominantly due to asset impairments in relation to the CPS business and the cost of implementing the Improvement Plan. Basic earnings per share were 47.3p (2012/13: 37.4p).

The Group has generated a good underlying operating cash flow of £99.1m (2012/13: £73.0m). Net debt at 29 March 2014 remained modest at £89.9m, up £13.2m from the prior year end.

Delivering the Improvement Plan
2013/14 was the final year of the three year Improvement Plan which provided a strong emphasis and focus on the key areas of customers, revenue growth and cost reduction and included a programme of investment to improve manufacturing capability, quality and efficiency. Although the benefits of the Improvement Plan have been achieved, its culture of continuous improvement has been embedded within the Group and will lead to further efficiency gains in the future.

Initiatives under the Improvement Plan have delivered the following:

- Country plans; firmly established throughout the business and are integral to the sales planning process
- Innovation; new industry leading technology centre fully operational with a good new product pipeline
- Process improvement; £19m of cost and efficiency savings delivered over the Plan
- Procurement; £14m of savings delivered over the Plan
- Facility optimisation; two facilities consolidated into existing footprint generating savings of £7m
- Standardisation; sales and operational planning process deployed

Although good progress continues to be made on revenue growth initiatives, we have yet to see their full benefit due to the more challenging market conditions.

Currency

Currency performance 2013/14

Banknote print volume at 6.2bn notes was similar to the prior year (2012/13: 6.3bn). Paper output volume was up 10 per cent at 9,600 tonnes (2012/13: 8,700 tonnes) despite the continuing overcapacity in the banknote paper market.

Revenue grew by 15 per cent to £342.7m (2012/13: £298.1m) largely due to increased direct banknote paper and component sales. In addition the average price of banknotes sold was higher than in the corresponding period albeit below the historic average for this mix of work.

Underlying operating profit improved by 63 per cent to £62.0m (2012/13: £38.0m) principally reflecting the benefits from the ongoing cost reduction programme together with the positive impact of the higher revenues.

At the year end, the Currency 12 month order book, excluding currently suspended orders, was up 8 per cent at £170m (2012/13: £158m). The level of early orders for 2015/16 is encouraging.

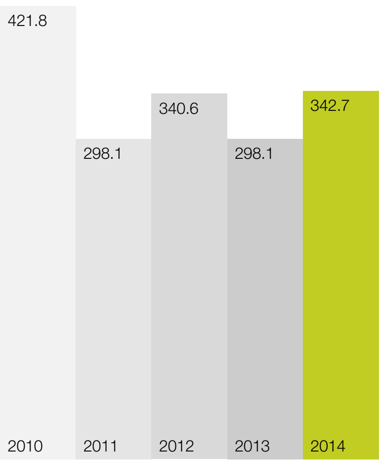
Solutions

Solutions performance 2013/14

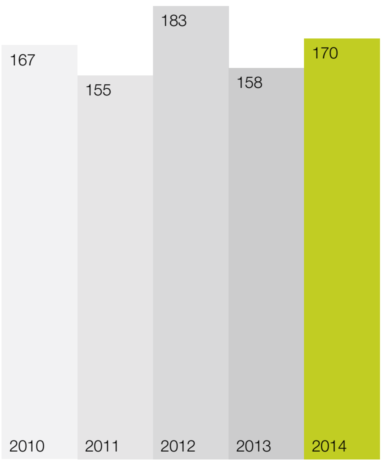
Revenue declined by 5 per cent to £181.2m (2012/13: £190.7m) largely as 2012/13 included one off revenue items in Identity Systems. Underlying operating profit improved by 13 per cent to £28.5m (2012/13: £25.2m) reflecting a strong performance in Identity Systems offset by a disappointing performance within Cash Processing Solutions.

At the year end, the Solutions 12 month order book was £48m (2012/13: £49m). These figures exclude order volumes which have yet to be confirmed on committed contracts.

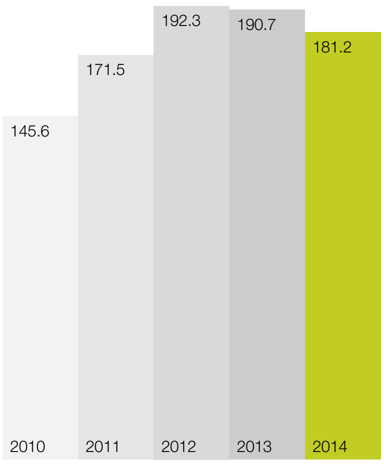
Currency: Revenue
£m



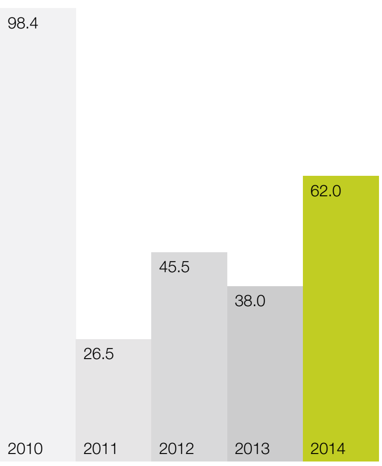
Currency year end 12 month order book
£m



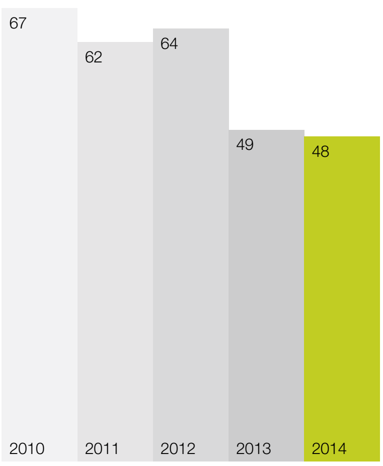
Solutions: Revenue
£m



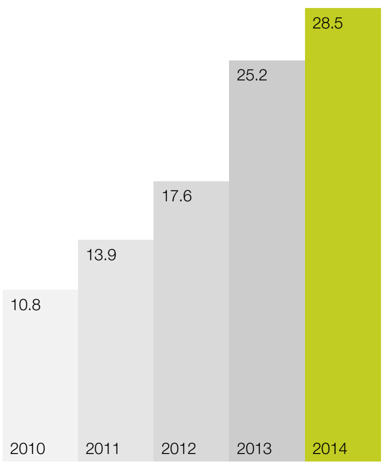
Currency: Underlying operating profit
£m



Solutions year end 12 month order book
£m



Solutions: Underlying operating profit
£m



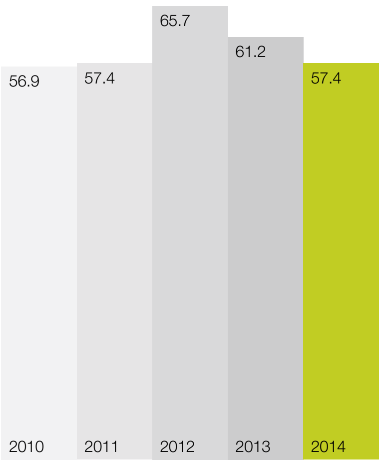
Cash Processing Solutions performance 2013/14
The CPS business performance was disappointing with revenues 6 per cent lower mainly reflecting reduced large sorter sales and a reduction in service revenue. The lower revenue and increased machine trial costs on prospective orders resulted in an underlying operating loss of £4.1m (2012/13: £nil). The business has a target of achieving breakeven in 2014/15.

The carrying value of the CPS intangible and tangible assets has been reviewed in the light of the poor trading performance of this business. This has resulted in a non-cash exceptional asset impairment charge of £14.2m (see note 9).

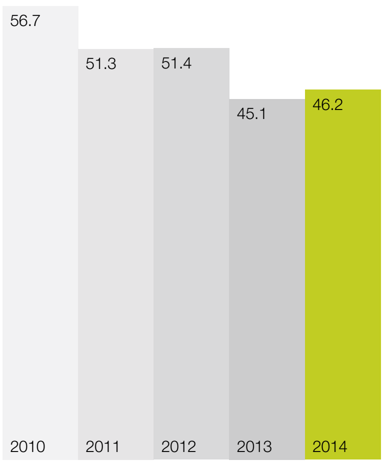
Security Products performance 2013/14
Revenue grew by 2 per cent to £46.2m (2012/13: £45.1m) mainly due to increased passport and other security paper volumes. Underlying operating profit increased to £10.6m (2012/13: £8.9m) mainly reflecting the benefits of the Improvement Plan and the full year effect of reduced costs following the relocation of manufacturing from Dunstable to the Gateshead factory.

Identity Systems performance 2013/14
The Identity Systems business performed strongly throughout the year. Although revenue declined by 8 per cent to £77.6m (2012/13: £84.4m), largely as the corresponding period included one off sales in relation to the HM Passport Office regional office roll out project, underlying operating profit increased to £22.0m (2012/13: £16.3m). The increase in underlying operating profit reflects a strong performance across all operations largely generated by further operating efficiencies and within the International part of the business, an unusually high number of longer term contracts completed in the year.

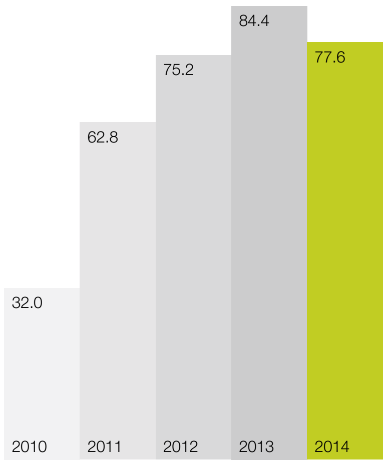
Cash Processing Solutions: Revenue
£m



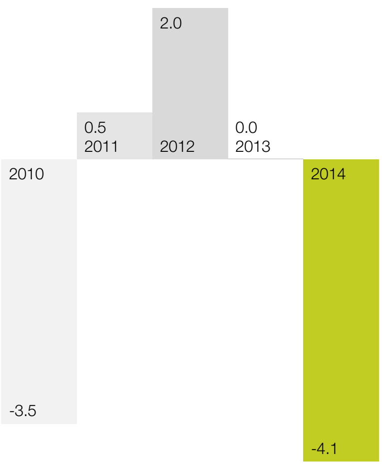
Security Products: Revenue
£m



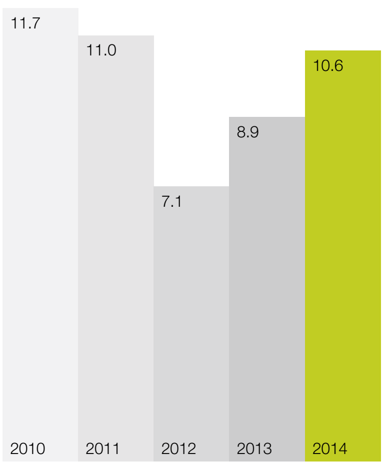
Identity Systems: Revenue
£m



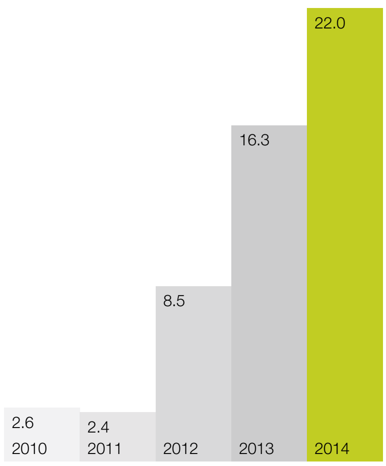
Cash Processing Solutions: Underlying operating profit
£m



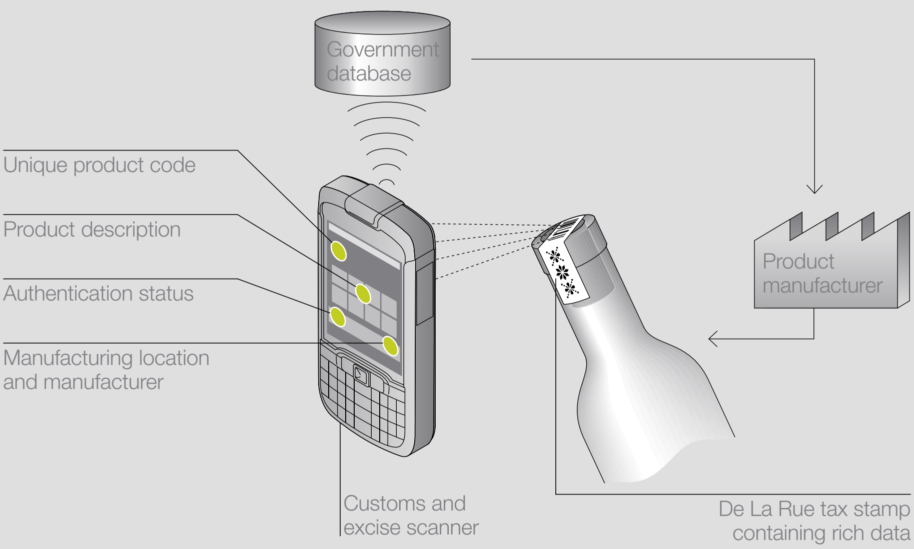
Security Products: Underlying operating profit
£m



Identity Systems: Underlying operating profit
£m



Innovation at work



Implementation of security stamp schemes

De La Rue has been working closely with manufacturers to facilitate the application of tax stamps in their factories by engaging with them at the development and testing stages of the stamps. As a result governments have seen faster acceptance and implementation of tax stamp schemes, which leads to higher revenues and a reduction in illicit trade in a shorter period of time.

Performance and financial review continued

Key financial summary

	2014	2013	Change
Revenue	**£513.3m**	£483.7m	6%
Underlying operating profit[1]	**£89.3m**	£61.5m	45%
Reported operating profit	**£71.8m**	£53.9m	33%
Underlying profit before tax[1]	**£77.3m**	£51.3m	51%
Reported profit before tax	**£59.8m**	£43.7m	37%
Underlying earnings per share[2]	**60.7p**	38.5p	58%
Basic earnings per share	**47.3p**	37.4p	26%
Underlying operating cash flow[3]	**£99.1m**	£73.0m	
Cash conversion[4]	**111%**	119%	
Net debt	**£89.9m**	£76.7m	
Dividends per share[5]	**42.3p**	42.3p	

[1] Before an exceptional operating charge of £17.5m (2012/13: £7.6m)

[2] Before exceptional charges per note 1 and exceptional tax credit of £4.2m (2012/13: £6.5m)

[3] Underlying operating profit adjusted for depreciation and the movement in working capital

[4] Underlying operating cash flow divided by underlying operating profit

[5] Includes proposed final dividend

Exceptional items

During the period exceptional costs of £17.5m have been charged (2012/13: £7.6m).

The costs of implementing the Improvement Plan in the current financial year were £3.5m (2012/13: £7.6m). This brings the cumulative exceptional charges taken in respect of the Improvement Plan to a total of £35.2m and a cumulative cash cost to date of £29.0m.

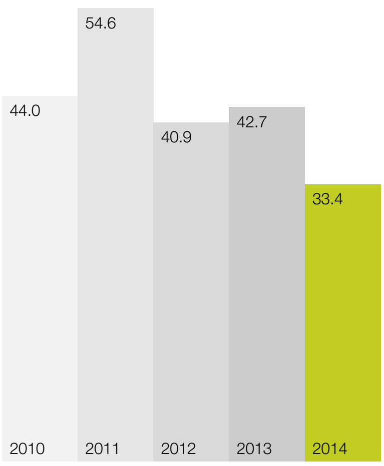
In addition, £1.1m of charges were incurred in connection with the preparation of bids for the supply of products or services under multi year arrangements, £2.2m of charges with regard to the resolution of an overseas historic indirect tax liability, £1.0m of legal and professional fees incurred in relation to an aborted acquisition and £14.2m in respect of asset impairments in relation to the CPS business (see note 9 for details). These costs were partly offset by a gain on the sale of fixed assets of £4.5m. The 2013/14 net cash cost of exceptional items was £4.0m.

Dividend

The Board is recommending a final dividend of 28.2p per share (2012/13: 28.2p per share). Together with the interim dividend paid in January 2014, this will give a total dividend for the year of 42.3p per share (2012/13: 42.3p per share). Subject to approval by shareholders, the final dividend will be paid on 1 August 2014 to shareholders on the register on 4 July 2014.

The Board's normal dividend policy is to maintain a cover of 1.75 times on underlying earnings. The proposed total dividend for the year is covered 1.45 times which, although below the policy level, reflects the Board's confidence in the underlying strengths of the business.

Group working capital – advance payments
£m



Cash flow and borrowings

Underlying operating cash flow, comprising underlying operating profit adjusted for depreciation and the movement in working capital, was £99.1m (2012/13: £73.0m). This represents a cash conversion ratio (underlying operating cash flow divided by underlying operating profit) of 111 per cent (2012/13: 119 per cent).

Cash expenditure on items such as capital investment, special pension contributions, dividends and tax totalled £112.3m. After allowing for the underlying operating cash flow income of £99.1m this resulted in an increase in net debt to £89.9m (2012/13: £76.7m).

The Group utilises a £200m revolving credit facility which expires in December 2016. The key financial covenants on this facility, which the Group has operated well within throughout the period, require that the ratio of EBIT to net interest payable be greater than four times and the net debt to EBITDA ratio be less than three times. At the year end the specific bank covenant tests were as follows:

EBIT/net interest payable of 18.0 times.

Net debt/EBITDA of 0.83 times.

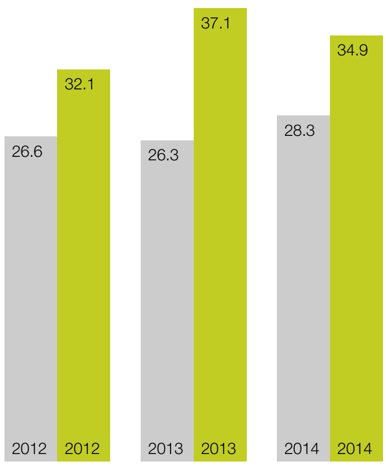
Capital structure

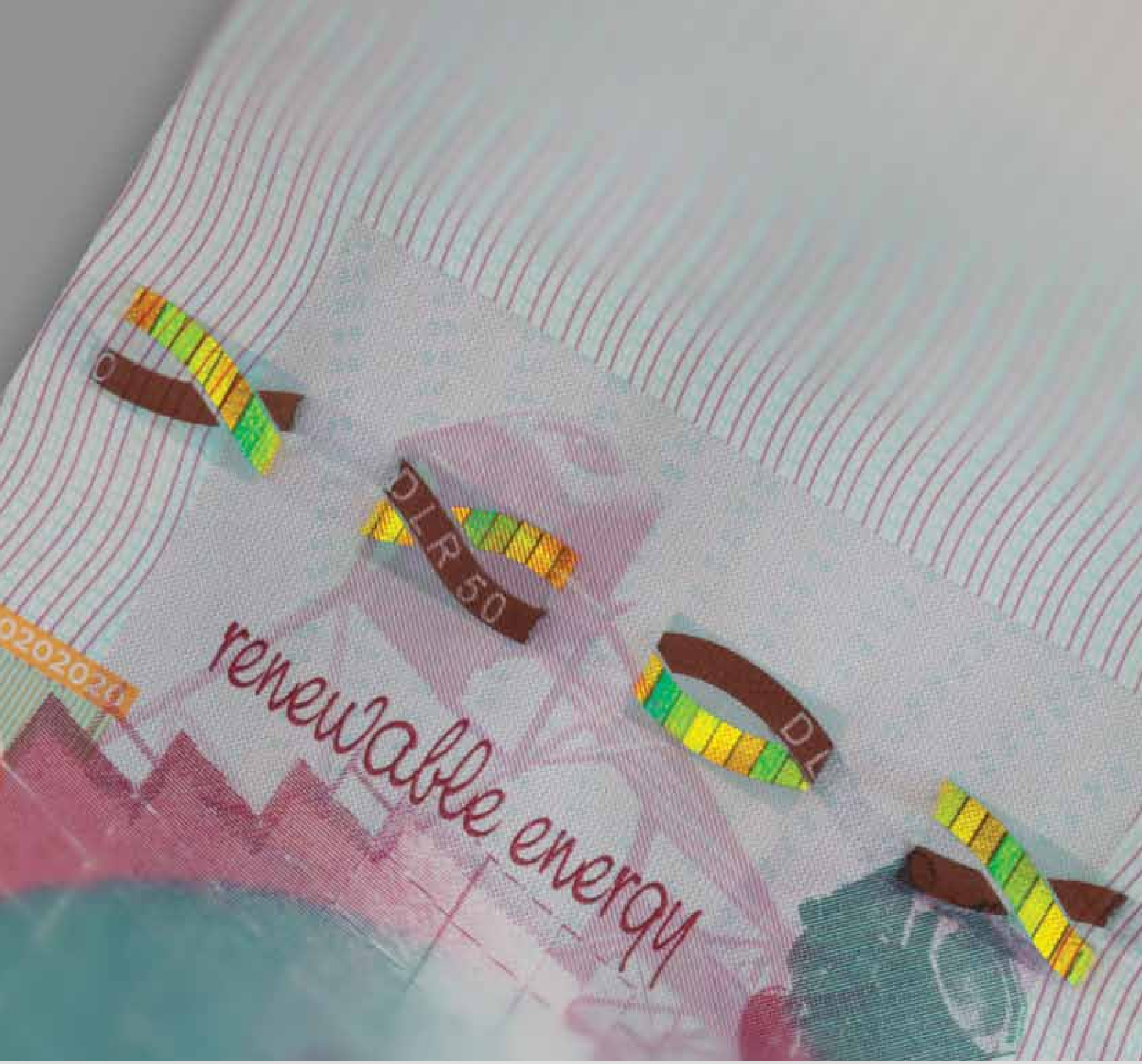
At 29 March 2014 the Group had net liabilities of £70.4m (30 March 2013: £66.6m), predominantly reflecting the recognition of the long term retirement benefit obligations and dividends paid.

The Company had shareholders' funds of £235.5m (2012/13: £273.0m) and had 100.7m fully paid ordinary shares in issue (2012/13: 99.7m) at the year end.

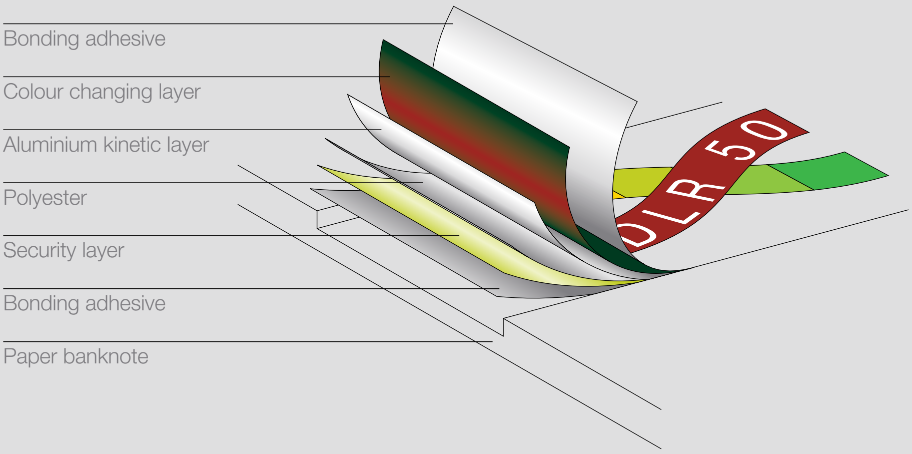
Capital expenditure relative to depreciation
£m

Capital expenditure
Depreciation





Innovation at work



Kinetic StarChrome is a metallised polyester thread combining kinetic movement with colour changing effect

Next generation security thread
Following on from the development (by De La Rue) of the first embedded metallic thread in the 1940s, Kinetic StarChrome® is De La Rue's latest premium security thread. It was developed to encourage and instigate public authentication as well as secure the banknote against the counterfeiter. This is achieved through the integration of dynamic kinetic movement and high impact colour change.

The thread unites two secure technologies with intuitive effects to create an engaging, robust and durable public security feature. It is built upon De La Rue's StarChrome, a secure, proven and effective technology. This is combined with the kinetic movement to deliver instinctive public recognition.

Performance and financial review continued

Interest charge
The Group's net interest charge increased to £4.7m (2012/13: £3.6m) predominantly reflecting the higher average level of net debt during the period. The IAS 19 related finance cost, which represents the difference between the interest on pension liabilities and assets, was £7.3m (2012/13: £6.6m).

Taxation
The net tax charge for the year was £11.9m (2012/13: £5.5m). The effective tax rate, before exceptional items, was 20.8 per cent (2012/13: 23.4 per cent), reflecting the reduction in the UK statutory tax rates and the benefit of the introduction of the UK patent box regime.

Tax credits relating to exceptional items arising in the period were £0.9m (2012/13: £2.1m). In addition there was an exceptional credit of £3.3m (2012/13: £4.4m) in respect of the determination of the tax treatment of prior year exceptional items, of which £1.7m credit related to discontinued operations.

Principal exchange rates used in translating the Group's results

	2013/14 Average	2014 Year end
US dollar	**1.59**	**1.66**
Euro	**1.19**	**1.21**

	2012/13 Average	2013 Year end
US dollar	1.58	1.52
Euro	1.22	1.18

Pension deficit and funding
During 2013/14, special funding payments of £11.5m were made to the Group's defined benefit pension fund (closed to new members in 2010 and future accrual from April 2013). The Group's latest formal (triennial) funding valuation of the UK defined benefit pension scheme took place on 5 April 2012 and identified that the scheme had a deficit of £180m. The special funding arrangements remain unchanged and are expected to eliminate the deficit in line with the original timetable by 2022.

IAS 19 – Employee Benefits
The valuation of the UK pension scheme under IAS 19 principles indicates a scheme deficit pre tax at 29 March 2014 of £165.6m broadly unchanged from the prior year (30 March 2013: £166.7m). The charge to operating profit in respect of the UK defined benefit pension scheme for 2013/14 was £1.2m (2012/13: £1.7m). In addition, under IAS 19 there was a finance charge of £7.3m arising from the difference between the expected return on assets and the interest on liabilities (2012/13: £6.6m).

Amendments to the IAS 19 accounting standard are effective for the 2013/14 financial year. This requires the replacement of the expected return on assets and interest charge on pension scheme liabilities with a net financing cost based on the discount rate. IAS 19 requires retrospective adoption and therefore prior periods have been restated.

The impact of the change has been to increase operating costs by £1.2m (2012/13: £1.7m), increase the net interest expense by £6.7m (2012/13: £6.1m) and reduce taxation by £1.8m (2012/13: £1.9m), with compensating adjustments in other comprehensive income leaving equity unchanged. This has reduced profit after tax by £6.1m (2012/13: £5.9m), and reduced underlying and basic EPS by 6.1p (2012/13: 5.9p).

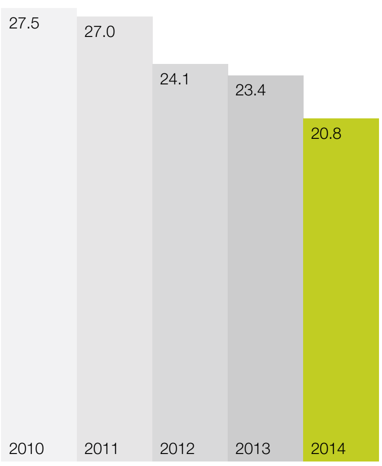
The IAS 19 calculation is sensitive to small changes in the base assumptions used in the valuation. See note 22 for details of the impact on the scheme valuation.

Analysis of the Group's assets/(liabilities) and related cash/(debt) by currency

	2014 Group assets/ (liabilities) £m	2014 Group cash/ (debt) £m	2014 Net assets/ (liabilities)* £m	2013 Net assets/ (liabilities)* £m
Sterling	**(62.0)**	**(71.3)**	**(133.3)**	(151.9)
US dollar	**28.5**	**(25.0)**	**3.5**	3.9
Euro	**40.8**	**(0.5)**	**40.3**	63.6
All other	**7.1**	**6.9**	**14.0**	13.1
	14.4	**(89.9)**	**(75.5)**	(71.3)

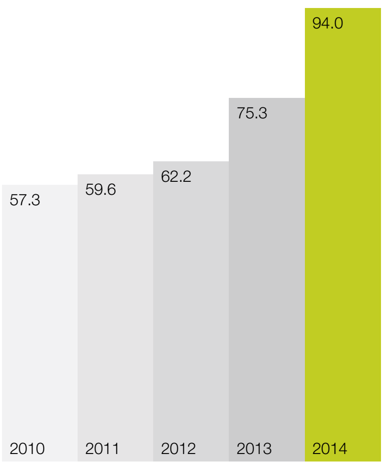
*Excluding non-controlling interest

Underlying effective tax rate before exceptional items
Percentage



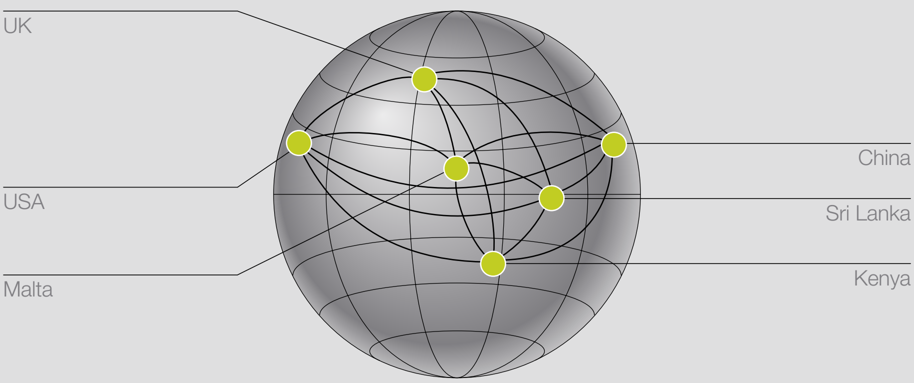
Group working capital – trade working capital
£m

Trade working capital comprises inventory plus trade receivables less trade payables and advance payments



Geographic revenue by destination
- UK 23%
- Rest of Europe 15%
- Americas 7%
- Rest of world 55%

Innovation at work



The entire network of De La Rue sites is working together to ensure that we have effective business continuity capability for our customers

Ensuring business continuity

The business continuity management system operated at the Group head office in Basingstoke, UK and at the banknote manufacturing site in Debden, UK has been certified to ISO 22301.

The management system defined by the ISO standard gives De La Rue a robust preparedness by ensuring we have identified contingency for our critical activities. This protects against and reduces the impact of a disruptive event, while ensuring our business continues with minimal impact to our customers.

The award of this certification is a significant achievement for De La Rue, understood to be the first company in the banknote industry to achieve this standard.