

# Chief Executive's review

Given the fundamental strengths of the business and real momentum on the Improvement Plan, I believe that the Group has a strong foundation from which to achieve sustainable growth over the long term.



**Tim Cobbold**  
Chief Executive

## Introduction

During the year, we have made good progress on the Improvement Plan and enter the third year of the Plan with real momentum. The benefits gained in cost savings and process improvement have helped improve our operating margin notwithstanding the challenging market conditions.

The Group has reported an 8 per cent reduction in revenue to £483.7m (2011/12: £528.3m) largely reflecting lower trading volumes in the Currency business unit. Operating profit (before exceptional items) was £63.2m (2011/12: £63.1m).

Savings of £12m were realised in the period bringing the annual cost reductions under the Improvement Plan to £20m.

Order intake in the period was lower than originally expected, reflecting delays in a number of important Currency contracts, lower overspill and the challenging currency market. At the year end, the Group 12 month order book, excluding currently suspended orders, was down 17 per cent at £207m (2011/12: £248m).

However, the pipeline of order opportunities is strong, with an increased level of overspill prospects compared with the low level experienced in 2012/13. We expect that an appropriate proportion of this pipeline will be converted into orders for delivery in 2013/14.

## Delivering the Improvement Plan

We have continued to make good progress on the implementation of the Plan, the benefits of which have become more important in the increasingly challenging currency market. The improvements generated through the revenue initiatives have helped in part to mitigate these challenges. The cost reduction programme is ahead of schedule and is now expected to exceed our original target by £10m and deliver annual savings of £40m by the end of the Plan. We have identified further cost reduction opportunities that will be pursued in the periods beyond 2013/14.

The Plan includes an investment programme to improve manufacturing capability, quality and efficiency with capital expenditure in the period of £37.1m, bringing the cumulative spend in the first two years of the Plan to £69.2m. Over the three years of the Plan we expect to have invested c£100m. This ongoing programme will give the Group greater flexibility and improve its competitive position, allowing it to respond better to market opportunities.

## Revenue growth

Customer focus and innovation are two key elements of the Improvement Plan designed to generate sustainable long term growth. Both aspects are now well established and have considerable momentum throughout the organisation.

### Country plans

- These are now an established part of our sales planning process and are in use throughout the business. They ensure that the Group's sales activities are coordinated as well as providing a strategic perspective on the opportunities in a country or region. As a result we have combined sales responsibilities in a number of territories

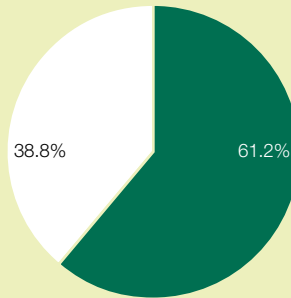
### Innovation

- R&D has become a key focus for the business and this year more qualified ideas have progressed through the development process. We expect the level of investment in R&D to increase to ensure we have a strong pipeline of new technologies, solutions and security features
- Construction of the new technology centre is well advanced and will be completed on schedule during the summer
- The development of Safeguard™, our polymer banknote substrate, and related security features, has been a priority. Three polymer note orders have been received during the year from both banknote and substrate customers and the first banknote produced on the Safeguard™ substrate, the Fiji \$5, entered circulation in 2013
- We have established several promising technical partnerships to accelerate the rate of idea generation and development and to access technologies new to the industry
- Insight™, the next generation of Optiks™, was launched in the year and we were honoured to receive the Queen's Award for Enterprise: Innovation this year for the Optiks™ product. This is the twelfth time De La Rue has received a Queen's Award

### Business revenue

Percentage

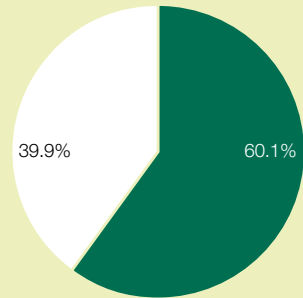
- Currency 61.2%
- Solutions 38.8%
  - Cash Processing Solutions 12.7%
  - Security Products 8.7%
  - Identity Systems 17.4%



### Operating profit before exceptional items

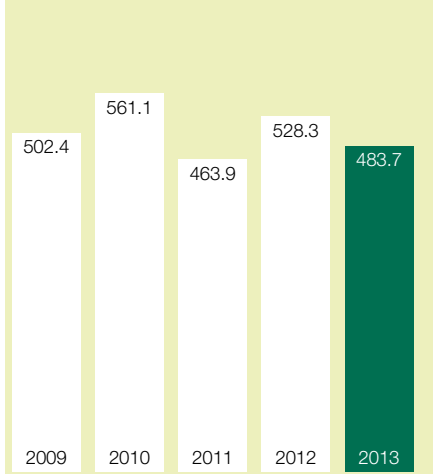
Percentage

- Currency 60.1%
- Solutions 39.9%
  - Cash Processing Solutions 0%
  - Security Products 14.1%
  - Identity Systems 25.8%



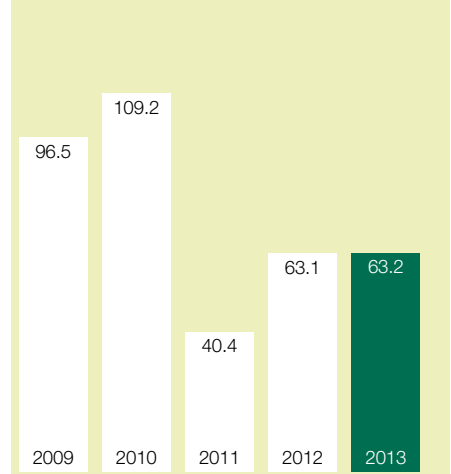
### Revenue

£m



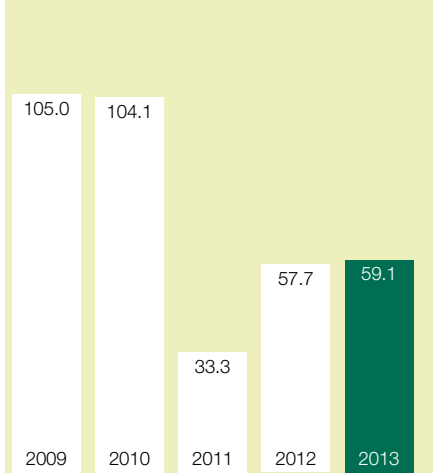
### Operating profit before exceptional items

£m



### Profit before tax and exceptional items

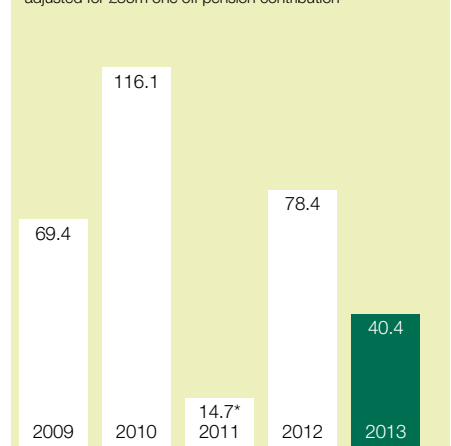
£m



### Operating cash inflow

£m

\*adjusted for £35m one off pension contribution



# Chief Executive's review

Continued

## Cost reduction

The Improvement Plan included targeted cost reductions of £30m (excluding movements in cotton comber pricing) from process improvement, procurement and facility optimisation. Excellent progress has been made in all areas, and with the experience gained from these initiatives we have now identified opportunities for further savings primarily in process improvement and procurement. Based on current volume expectations, these opportunities are targeted to generate an additional £10m of annual cost reductions by the end of the Plan.

## Facility optimisation

- The relocation of operations from the Stroudley Road and Dunstable factories into the Westhoughton and Gateshead facilities respectively is now complete. This consolidation is generating savings of £6m per annum and we are already benefiting from improvements in the operating performance of the transferred processes in their new locations

## Procurement

- A strong procurement team has been established and is proving effective at generating cost reductions in the supply chain by deploying skills and techniques developed outside the industry
- As a result the procurement cost reduction target has been raised by 25 per cent to £15m per annum
- Supplier quality improvement and relationship management programmes have been introduced, we believe for the first time in the industry. These have already been successful in driving quality improvement, accelerating innovation and delivering cost reduction in the supply base

## Process improvement

- Significant investment programmes, particularly in Westhoughton and Gateshead, are well underway and proceeding to plan. These, combined with a continued focus on lean manufacturing, are providing enhanced capability and capacity, reduced cost and improved quality as more up to date technologies are introduced
- Excellent progress continues to be made in establishing a continuous improvement culture and in creating an industry leading supply chain with the operational flexibility to meet the variability in demand which is a feature of this 'lumpy' market. A key element of this flexibility has been the negotiation of new labour agreements in some facilities with discussions ongoing in others. These have been complemented by new, flatter management structures where responsibilities and accountabilities are much clearer
- The strengthened quality team remains focused on implementing world class systems and processes, introducing proven tools and techniques from other industries. This has already delivered a significant improvement in all quality measures, both external and internal. These initiatives have been supported with investment in new, industry leading environmentally controlled quality laboratories and equipment
- The Improvement Plan anticipated an investment programme of c£100m over the three year period to facilitate quality and productivity improvements. The investment programme is proceeding well with capital expenditure of £37m in the year and tangible benefits already being delivered

## People

De La Rue is proud of the quality of its employees who are relied upon by customers around the world for their knowledge, dedication and expertise. In a period of ongoing change they have continued to meet the needs of our customers and embrace the necessary changes in the business and I thank them for their contribution and support.

## Conclusion

We enter 2013/14 with increased cost savings identified and a strong pipeline of order opportunities which must of course be secured for delivery in the year. As a consequence, I remain confident of achieving the 2013/14 Improvement Plan target of an operating profit in excess of £100m.

Given the fundamental strengths of the business and real momentum on the Improvement Plan, I believe that the Group has a strong foundation from which to achieve sustainable growth over the long term.