Financial review

The ongoing benefits of the Improvement Plan have helped to mitigate the more challenging market landscape and the Group remains in a strong financial position with good cash flow and a modest level of debt.

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Key financial summary

	2013	2012	Change
Revenue	**£483.7m**	£528.3m	(8%)
Operating profit before exceptional items[1]	**£63.2m**	£63.1m	–
Profit before tax and exceptional items[1]	**£59.1m**	£57.7m	2%
Profit before tax	**£51.5m**	£32.9m	57%
Headline earnings per share[2]	**44.4p**	43.5p	2%
Basic earnings per share	**43.3p**	31.8p	36%
Operating cash flow	**£40.4m**	£78.4m	
Cash conversion[3]	**55%**	97%	
Net debt	**£76.7m**	£24.8m	
Dividends per share[4]	**42.3p**	42.3p	

[1] Before an exceptional operating charge of £7.6m (2011/12: £24.8m)

[2] Before exceptional charges per note 1 and exceptional tax credit of £6.5m (2011/12: £13.2m)

[3] This is a measure of the extent of conversion of operating profit to cash. It is calculated as follows: operating cash flow excluding exceptional items, special pension fund contributions and movement in advance payments (2012/13: + £2m, 2011/12: - £13m), less capital expenditure, divided by operating profit before exceptional items

[4] Includes proposed final dividend

Introduction

The 2012/13 year has proved a more difficult one than expected, with order delays and a more competitive market place impacting the Group's results. However, good progress has been made on the Improvement Plan which has helped to mitigate the challenging market environment.

Financial results

The Group has reported an 8 per cent reduction in revenue to £483.7m (2011/12: £528.3m). This reduction primarily reflects lower trading volumes in the Currency business unit.

Operating profit before exceptional items was in line with the prior year at £63.2m (2011/12: £63.1m) with lower material costs and Improvement Plan savings offsetting the reduced trading volumes and a less favourable product mix. The Improvement Plan savings of £12m realised in the period bring the annual cost reductions under the Plan to £20m. As a result, the Group operating profit margin (before exceptional items) improved to 13.1 per cent (2011/12: 11.9 per cent). Foreign exchange movements adversely impacted revenue by £3m and operating profit by £2m (2011/12: £1m and £1m respectively).

Profit before tax and exceptional items increased by 2 per cent to £59.1m (2011/12: £57.7m) reflecting lower finance costs of £4.1m (2011/12: £5.4m). Headline earnings per share, before exceptional items, also increased by 2 per cent to 44.4p (2011/12: 43.5p).

Exceptional charges in the year totalled £7.6m (2011/12: £24.8m) predominantly in relation to the ongoing implementation of the Improvement Plan. Basic earnings per share was 43.3p (2011/12: 31.8p).

De La Rue has continued its track record of good cash generation with net cash of £40.4m generated from operations. At the year end, the Group had a modest level of net debt of £76.7m (2011/12: £24.8m).

Exceptional items

Exceptional costs of £7.6m were incurred in 2012/13 in connection with the ongoing costs of implementing the Improvement Plan (2011/12: £24.8m). This brings the cumulative exceptional charges taken in respect of the Improvement Plan to a total of £31.7m. The cash cost of exceptional items in the period was £17.3m (2011/12: £3.7m) bringing the cumulative cash cost under the Improvement Plan to date to £21.0m.

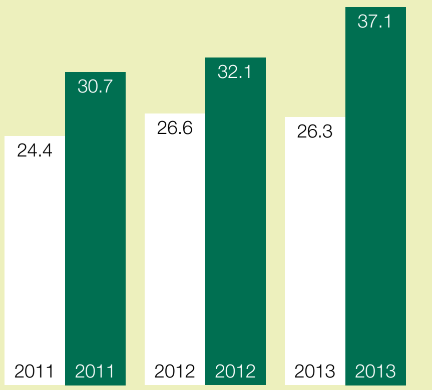
The £7.6m exceptional operating charge reported in 2012/13 (2011/12: £24.8m) comprised £0.8m (2011/12: £11.3m) in staff compensation, £0.2m (2011/12: £1.1m) of fixed asset impairment charges, £4.3m (2011/12: £8.8m) for site exit costs and £2.3m (2011/12: £2.9m) in other associated reorganisation costs. The exceptional charge in 2011/12 also included additional costs of £0.7m associated with the paper quality issue that arose in 2010/11.

Dividend

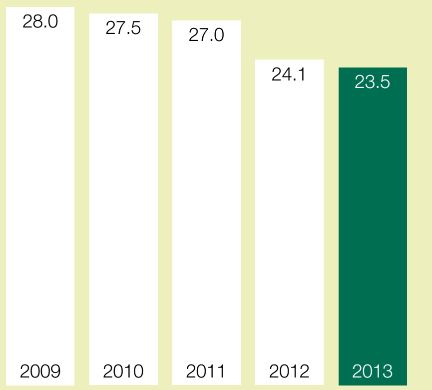
The Board is recommending a final dividend of 28.2p per share which, together with the interim dividend paid in January 2013, will give a total dividend for the year of 42.3p per share (2011/12: 42.3p per share).

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 1.05 times which, although below the policy level, reflects the Board's confidence in delivering the Improvement Plan.

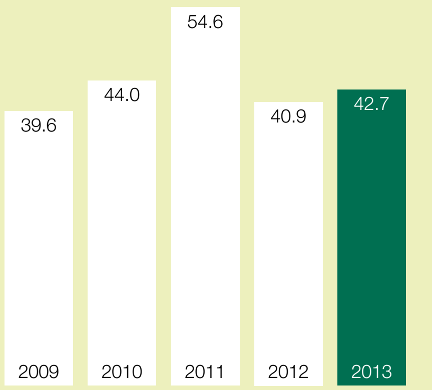
Capital expenditure relative to depreciation
£m
Capital expenditure
Depreciation



Underlying effective tax rate before exceptional items
Percentage

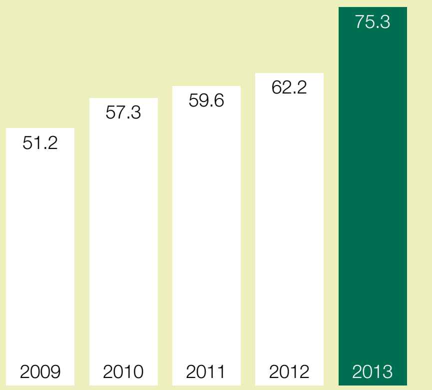


Group working capital – advance payments
£m



Group working capital – trade working capital
£m

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



Taxation

The net tax charge for the year was £7.4m (2011/12: £0.7m). The effective tax rate, before exceptional items, was 23.5 per cent (2011/12: 24.1 per cent), predominantly reflecting the reduction in the UK statutory tax rates.

A credit of £2.1m (2011/12: £6.2m) arises on the exceptional items noted above. In addition there was an exceptional credit of £4.4m (2011/12: £7.0m) in respect of the determination of the tax treatment of prior year exceptional items.

Cash flow and borrowings

Cash inflow from operations was £40.4m (2011/12: £78.4m) primarily reflecting the high level of cash spend on exceptional items and an increase in year end working capital. The movement in working capital predominantly reflects an increase in trade debtors resulting from the timing of shipments around the year end. Advance payments increased to £42.7m (2011/12: £40.9m). Capital expenditure of £37.1m (2011/12: £32.1m) was higher than depreciation, reflecting expenditure on Improvement Plan projects.

The Group ended the year with modest net debt of £76.7m (2011/12: £24.8m).

During the period the Group renewed and increased its revolving credit facility from £175m to £200m. As the draw downs on this facility are typically rolled over on terms of between one and three months the borrowings are disclosed as a current liability. This is notwithstanding the long term nature of this facility which expires in December 2016.

The key financial covenants on this facility remain unchanged and 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: 16.1 times

Net debt/EBITDA: 0.97 times

Capital structure

At 30 March 2013 the Group had net liabilities of £66.6m (31 March 2012: £45.6m), predominantly reflecting the increase in retirement benefit obligations and dividends paid.

The Company had shareholders' funds of £273.0m (2011/12: £204.8m) and had 99.7m fully paid ordinary shares in issue (2011/12: 99.5m) at the year end.

Interest charge

The Group's net interest charge was £3.6m, down on the prior year (2011/12: £4.1m). The IAS 19 related finance cost, which represents the difference between the interest on pension liabilities and the expected return on assets, has reduced to £0.5m (2011/12: £1.3m) as a result of the lower discount rate used to calculate the interest charge.

Principal exchange rates used in translating the Group's results

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

	2011/12 Average	2012 Year end
US dollar	1.60	1.60
Euro	1.16	1.20

Pension deficit and funding

During 2012/13, special funding payments of £16.2m 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 the scheme had a deficit of £180m (5 April 2009: £204m deficit). The arrangements in respect of the special funding payments 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 30 March 2013 of £166.7m (31 March 2012: £143.3m), an increase of £23.4m. This change primarily reflects increased scheme liabilities resulting from increased longevity assumptions and reduced discount rates applied to the scheme valuation being partly offset by asset growth. The charge to operating profit in respect of the UK pension scheme for 2012/13 was £7.8m (2011/12: £7.8m). In addition, under IAS 19 there was a finance charge of £0.5m arising from the difference between the expected return on assets and the interest on liabilities (2011/12: £1.3m).

Amendments to the IAS 19 accounting standard will be 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 will be restated.

The Group estimates the impact of the change, had it been effective in 2012/13, would have been to increase operating costs by £1.4m, increase the net interest expense by £6.2m, with compensating adjustments in other comprehensive income leaving equity unchanged. This would therefore reduce profit after tax by £7.6m and reduce headline and basic EPS by 7.6p.

The estimated impact for the 2013/14 year is to reduce operating profits by £1.7m (the Improvement Plan operating profit target will be impacted by the same amount) and increase the net interest expense by £6.7m and hence reduce headline and basic EPS by 8.4p.

The IAS 19 calculation is sensitive to small changes in the base assumptions used in the valuation. An indication of the sensitivity is as follows:

	Change in assumption	Change in liability
Discount rate	+0.1%	+£15m
	-0.1%	-£15m
Inflation rate	+0.1%	+£12m
	-0.1%	-£12m

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

	2013 Group assets/ (liabilities) £m	2013 Group cash/ (debt) £m	2013 Net assets/ (liabilities)† £m	2012 Net assets/ (liabilities)† £m
Sterling	**(85.8)**	**(66.1)**	**(151.9)**	(112.4)
US dollar	**20.6**	**(16.7)**	**3.9**	3.6
Euro	**63.7**	**(0.1)**	**63.6**	52.8
All other	**6.9**	**6.2**	**13.1**	6.5
	5.4	**(76.7)**	**(71.3)**	(49.5)

†Excluding non controlling interest.