INTERIM REPORT 2010

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De La Rue 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. The company is a leading provider of cash sorting equipment and software solutions to Central Banks, helping them to reduce the cost of handling cash. De La Rue also pioneers new technologies in government identity solutions for national identification, driver's licence and passport issuing schemes. De La Rue employs approximately 4,000 people worldwide and is a member of the FTSE 250.

For further information visit De La Rue's website at www.delarue.com

KEY FINANCIALS

	Half year 2010 £m	Half year 2009 £m
Revenue	**209.2**	252.2
Operating profit*	**27.8**	51.0
Profit before tax and exceptional items	**23.8**	48.0
Profit before tax	**69.4**	44.2
Headline EPS*	**17.2p**	35.1p
Dividend per share	**14.1p**	14.1p

*Group operating profit and headline EPS are reported before net exceptional items of £45.6m in 2010/2011 and (£3.8m) in 2009/10

Summary

- Group's first half performance significantly below prior year, driven primarily by previously announced paper production issues at one facility and a reduction in banknote print volumes
- First half impact of production issues confirmed at £35m comprising £12m trading and £23m exceptional items
- Exceptional gain of £53m from the successful sale of the Group's holding in Camelot
- Net debt reduced since March 2010 by £5.7m to £5.3m
- UK passport successfully launched on schedule in October
- Encouraging levels of recent orders and enquiries in banknote print and paper
- Interim dividend maintained at 14.1p

NICHOLAS BROOKES, EXECUTIVE CHAIRMAN OF DE LA RUE, COMMENTED:

"Issues in paper production at one of our facilities have, as previously advised, had a significant impact on the Group's performance during the first half. The Board took decisive action to eliminate these issues and we are encouraged by the support of our customers and the level of orders and enquiries in recent weeks. The Board reiterates its confidence that neither the physical security nor the security features in the paper were compromised.

"Banknote print volumes in the first half were significantly below the high levels of the prior two years but the Board is confident that this is unrelated to the paper production issues.

"The Board is pleased with the improvement in the performance of Cash Processing Solutions following the restructuring of this business and the rationalisation of its product and manufacturing base.

"We are delighted to report the successful launch of the new UK Passport on time in October 2010. This is a prestigious and complex project which demonstrates De La Rue's ability to deliver effective solutions to the increasingly sophisticated technological demands required of identity systems worldwide.

"We are making good progress towards appointing a new Chief Executive Officer and are pleased that we have attracted such high calibre candidates. We are in the closing stages of negotiation with our preferred candidate and look forward to welcoming him to the Group soon."

INTERIM STATEMENT

The half year performance was dominated by the previously announced paper production issues at one of our facilities, which resulted in lower paper volumes. In addition there has been an unrelated reduction of 30 per cent in banknote print volumes from the high levels experienced in the prior two years largely due to timing issues more fully described below. However, the Board is encouraged by the continued healthy receipt of print and paper enquiries and new orders received in recent weeks.

Revenue was down 17 per cent to £209.2m in the first half (2009/2010: £252.2m). Group operating profit before exceptional items was £27.8m (2009/2010: £51.0m) representing a decrease of 45 per cent. The Group's operating profit margin before exceptional items decreased 6.9 percentage points to 13.3 per cent (2009/2010: 20.2 per cent) driven by the volume reduction outlined above offset in part by favourable foreign exchange of £3m.

There were net exceptional charges of £7.3m in the period (2009/2010: £3.8m). These represent costs of £23.3m arising from the paper production quality issue, including write off of inventories and trade receivables together with other costs relating to the investigation and rectification of these matters. These costs are partially offset by a one-off curtailment gain of £16.0m arising from the previously announced closure of the defined benefits pension scheme to further accruals from 2013. A profit on sale of £52.9m has been recognised following the sale of the Group's holding in Camelot, the UK national lottery operator.

Profit before tax increased to £69.4m (2009/2010: £44.2m) as a result of the gain on the sale of Camelot. Interest charges were reduced as a result of the lower average level of net debt. Headline earnings per share decreased by 51 per cent to 17.2p (2009/2010: 35.1p).

After paying a special pension contribution of £35m following the sale of Camelot, cash outflow from operations in the first half was £16.6m (2009/2010: cash inflow of £32.2m). Excluding special pension contributions cash generated was £18.4m (2009/2010: £37.2m), the reduction reflecting the lower level of trading in the period and the disruption arising from the paper production issues. Net debt has reduced by £5.7m since March 2010 to £5.3m.

Paper production issues

In July certain paper production issues were brought to the Board's attention and production and shipment of the affected banknote paper was suspended immediately. Production for all unaffected customers continued. The Board commissioned an investigation by the Group's external legal advisers.

It was found that some of the many detailed specification parameters on the supply of some paper had fallen marginally short of specification. It was also established that some of the Group's employees had deliberately falsified certain paper specification test certificates and consequently the Group reported its findings to the relevant authorities. The Board reiterates its confidence that neither the physical security nor the security features in the paper were compromised.

By early September the Group was in a position, subject to the agreement of affected customers, to resume supplies of fully compliant paper. Discussions remain ongoing with the principal customer concerned.

The internal investigation has now been concluded. The Group will continue its dialogue and cooperation with the appropriate authorities in relation to this matter.

The Group acted decisively throughout to eliminate these unacceptable practices and to ensure all production is fully compliant with customer specifications. Ongoing dialogue has been maintained with customers and the Board is encouraged by their understanding and support. The Board is pleased with the level of enquiries and new orders received in recent weeks.

The Board's key objective has been, and continues to be, to resolve these issues through:

- an absolute focus on quality, including upgrades in processes and the introduction of independent testing of paper
- new management appointments
- conclusion of a thorough internal investigation and open and honest dialogue with the relevant authorities
- engaging with and reassuring our customers

Whilst there remains uncertainty as to the ultimate outcome of this issue, including its financial impact on the current and subsequent financial years, the Board is confident that all necessary steps have been taken to address the underlying cause in a professional and timely manner.

All other activities of the Group, including banknote printing, remain unaffected by these paper production issues.

Board changes

Colin Child joined the Board on 1 June 2010 as Group Finance Director. Simon Webb left this role and the Board on 31 May 2010.

James Hussey resigned from the Board as Chief Executive Officer on 12 August 2010. On the same date Nicholas Brookes was appointed Executive Chairman and Colin Child took on the additional role of Chief Operating Officer, both of these appointments effective until a new Chief Executive Officer is appointed.

We are making good progress in our appointment of our new Chief Executive Officer and hope to make an announcement soon.

Operating reviews

Currency

	Half year 2010 £m	Half year 2009 £m	Increase/ decrease HY to HY
Revenue	**132.7**	181.2	-26.8%
Operating profit before exceptional items	**21.5**	44.7	-51.9%
Operating profit margin	**16.2%**	24.7%	
Banknote print volume (billion notes)	**2.5**	3.5	-29.6%
Banknote paper output ('000 tonnes)	**5.7**	8.0	-28.6%

As previously indicated, expectations were for a greater than normal weighting of banknote print volumes towards the second half although full year volumes would be comparable to the prior year. Based on recent customer confirmations full year volumes are now expected to be 20 per cent lower than 2009/2010 due to a number of factors including timing of orders, order volume changes and tenders expected but not won. This reduction is unrelated to the paper production issues and is more a reflection of the short term variability in timing of a limited number of key orders. However, the Board is encouraged by the level of recent new orders and enquiries.

Paper volumes were reduced by 29 per cent primarily as a result of the production issues. This volume reduction lowered operating profit compared with the prior year by £12m. In the short term due to recent process changes, it is expected that paper capacity will be closer to the levels seen in 2006/2007 but are expected to recover to recent levels with further process changes and modest capital expenditure. Since the end of the half year, orders for over 2,000 tonnes have been received.

For the Currency business, underlying sales (excluding the impact of foreign exchange) reduced by 28 per cent resulting in lower operating profit margins. The current order book gives coverage of 34 weeks sales, a return to more typical historic levels, including orders which are currently unfulfilled as a result of the production issues.

INTERIM STATEMENT continued

Cash Processing Solutions (CPS)

	Half year 2010 £m	Half year 2009 £m	Increase/ decrease HY to HY
Revenue	**27.2**	28.4	-4.2%
Operating profit before exceptional items	**0.0**	(1.6)	n/a
Operating profit margin	**0.0%**	-5.6%	

The CPS rationalisation programme implemented in 2009/10 has resulted in a significant reduction in the cost base. This has enabled the business unit to break-even during the period despite the small reduction in sales driven by customer mix and timing of order fulfilment. Order receipts have progressed well, reflecting the benefits of greater co-operation with the Currency sales network.

Security Products

	Half year 2010 £m	Half year 2009 £m	Increase/ decrease HY to HY
Revenue	**32.6**	38.0	-14.2%
Operating profit	**5.3**	7.0	-24.3%
Operating profit margin	**16.3%**	18.4%	

Security Products was impacted by the reduction in banknote print and paper volumes which resulted in lower internal component sales by the Holographics business. The remainder of Security Products has continued to trade steadily.

Identity Systems (IDS)

	Half year 2010 £m	Half year 2009 £m	Increase/ decrease HY to HY
Revenue	**20.1**	13.0	54.6%
Operating profit	**1.0**	0.9	11.1%
Operating profit margin	**5.0%**	6.9%	

Sales were higher than the previous year due to the recovery of costs incurred in the set-up of the UK Passport contract. The highly complex implementation phase was completed successfully and on schedule, allowing first production of the new passport to commence in October with a gradual increase in volumes expected in the remainder of the year.

Interim dividend and share buyback

An interim dividend of 14.1p has been proposed for the half year ended 25 September 2010. This will be payable on 99.0m shares (2009/2010: 98.5m) on 12 January 2011 to shareholders on the register on 10 December 2010. The Board has decided not to proceed with the previously announced share buyback at this time.

Interest

The Group's interest charge of £1.7m (2009/2010: £2.5m) reflects the lower level of debt maintained throughout the period. The IAS19 related finance cost, which reflects the difference between the interest on pension liabilities and the expected return on assets, has reduced to £2.3m (2009/2010: £3.1m). This decrease is the result of higher returns based on the increased market valuation of pension assets at the 2009/2010 year end.

Exceptional items

The results for the first half include the following items:

- exceptional operating charges of £23.3 million relating to paper production quality issues associated with a limited number of customers. These include the write off of inventories and trade receivables together with other costs relating to the investigation and rectification of these matters
- an exceptional operating gain of £16.0 million arising as a result of the previously announced closure of the Group's defined benefit pension scheme to future accrual
- a gain of £52.9 million on the sale of the Group's interest in Camelot, the UK national lottery operator. This was completed on 8 July 2010 and the gain comprises the consideration received to date and will be adjusted subject to agreement of the completion accounts.

It is likely that additional exceptional charges relating to these matters will arise in the second half of the current financial year, for further details see note 3.

Cash flow and debt

Cash outflow from operations in the first half was £16.6m (2009/2010: inflow of £32.2m) after a special pension contribution of £35.0m (2009/2010: £5m). Working capital ratios are higher than the corresponding period in the prior year despite lower working capital overall, reflecting the lower level of trading, the timing of shipments and the disruption resulting from the production issues.

Capital expenditure of £21.8m was higher than the prior year and exceeded depreciation, reflecting the Group's near term investment programme, including the establishment of the UK Passport facilities.

Group net debt reduced to £5.3m at 25 September 2010 (2009/2010: £53.4m) following the cash receipts of £73m for the Group's holding in Camelot, less the special pension contribution of £35m.

UK pension scheme

The valuation of the UK pension scheme under IAS19 principles indicates a scheme pre tax deficit at 25 September 2010 of £117.2m, a reduction in the deficit of £7.6m during the period. The deficit was reduced by a special contribution of £35m following the Camelot disposal, the Group's ongoing regular contributions and the one-off curtailment benefit of £16m arising from the closure of the scheme to further accruals in 2013. These were partly offset by the reduction, from 5.8% to 5.2%, in the bond discount rate used to value the scheme liabilities.

Outlook

The timing and volume of order receipts mean that the shortfall in banknote print volumes in the first half will not be recovered in the remainder of the year. As a result it is estimated that full year volumes will be approximately 20% lower than the previous year, with a consequent reduction in internal component sales by Security Products.

Banknote paper volumes for the full year remain uncertain as customer discussions are yet to be concluded. Pending this, the financial impact on the Group for the full year and subsequent years remains unclear.

The Board considers that the medium term market outlook for underlying Currency growth remains unchanged at 2 – 3% per annum. However, as previously advised, owing to the lumpy nature of individual orders in the industry inevitably there will be variations away from this trend, as experienced this year.

De La Rue's restructured and strengthened senior management team, together with its loyal, experienced and highly skilled workforce means the Group is well positioned to build on its global brand and strong customer relationships.

Nicholas Brookes
Executive Chairman
23 November 2010

DIRECTORS REPORT

Principal risks and uncertainties

Throughout its global operations De La Rue faces various risks, both internal and external, which could have a material impact on the Group's long-term performance. The Group manages the risks inherent in its operations in order to mitigate exposure to all forms of risks, where practical, and to transfer risk to insurers, where cost effective.

The Group analyses the risks that it faces under the following broad headings: Specific risks (Technological revolution renders cash obsolete), General Risk (Economic conditions, Laws and regulations), Operational risks (Loss of key customer, Counterfeiting, Reputational damage, Security) and Financial risks (Currency risk, Credit risk, Liquidity risk, Interest rate risk, Commodity price risk).

As described in the 2010 Annual Report, the principal risks include loss of key site, contract issues, product security, pension funding, environmental breach, foreign exchange, health and safety failure, breach of competition regulations, information security and actions of its employees and third parties and these risks, along with the risk management systems and processes used to manage them remain unchanged since the Annual Report was published.

The main specific area of potential risk and uncertainty faced by the Group for the first half of 2010/11 and also for the remaining six months of the year centres on the impact on sales and profit of the paper production issues highlighted above including potential loss of customers or reputational damage. A copy of the 2010 Annual Report is available on request from the Company's registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS or at www.delarue.com.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 16 to 23 of the 2010 Annual Report. The accounting policies used in the preparation of the financial position are described in pages 60 to 65 of the 2010 Annual Report. In addition, pages 13 to 27 and pages 74 to 78 of the 2010 Annual Report include the Group's objectives, policies and processes for financial risk management, details of its financial instruments and hedging activities and its exposure to credit risk, liquidity risk and commodity pricing risk. The financial position of the Group, its cash flow and liquidity position are set out in the Condensed Interim Financial Statements below.

As described on page 29 of the Annual Report, the Group meets its funding requirements through cash generated from operations and a revolving credit facility which expires in September 2013. The Group's forecasts and projections, which cover a period of more than twelve months, taking into account reasonably possible changes in normal trading performance, show that the Group should be able to operate within its currently available facilities. The Group has sufficient financial resources together with assets that are expected to generate cash flow in the normal course of business. As a consequence and not withstanding the uncertainty as to the outcome of the paper production issues noted above, the Directors have a reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Condensed Interim Financial Statements.

A copy of the 2010 Annual Report is available on request from the Company's registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS or at www.delarue.com.

Responsibility Statement of the Directors in respect of the Interim Statement

We confirm that to the best of our knowledge:

- the Condensed Interim Financial Statement has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;
- the Interim Management Statement includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Condensed Interim Financial Statement; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions to those described in the last set of Annual Financial Statements.

The Board

The Board of Directors that served during the six months to 25 September 2010 and their respective responsibilities can be found on pages 36 and 37 of the De La Rue plc Annual Report 2010. Colin Child joined the Board as Group Finance Director on 1 June 2010 with Simon Webb stepping down from that role and the Board on 31 May 2010. James Hussey resigned from the Board as Chief Executive Officer on 12 August 2010.

For and on behalf of the Board

Nicholas Brookes
Executive Chairman
23 November 2010

INDEPENDENT REVIEW REPORT TO DE LA RUE PLC

Introduction
We have been engaged by the company to review the condensed consolidated set of financial statements in the Interim Statement for the six months ended 25 September 2010 which comprises the Group condensed consolidated interim income statement, the Group condensed consolidated interim balance sheet, the Group condensed consolidated interim statement of cash flows, the Group condensed consolidated interim statement of comprehensive income, the Group condensed consolidated interim statement of changes in equity and the notes to the condensed consolidated interim financial statements. We have read the other information contained in the Interim Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements

This report is made solely to the Company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The Interim Statement is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim statement in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this Interim Statement has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Interim Statement based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Statement for the six months ended 25 September 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

A J Sykes
For and on behalf of KPMG Audit Plc
Chartered Accountants
London

23 November 2010

GROUP CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT – UNAUDITED

For the half year ended 25 September 2010

	Notes	**Half year 2010 £m**	Half year 2009 £m	Full year 2010 £m
Revenue	2	**209.2**	252.2	561.1
Operating expenses – ordinary		**(181.4)**	(201.2)	(451.9)
Operating expenses – exceptional	3	**(7.3)**	(3.8)	(7.5)
Total operating expenses		**(188.7)**	(205.0)	(459.4)
Operating profit		**20.5**	47.2	101.7
Split as:				
Operating profit before exceptional items	2	**27.8**	51.0	109.2
Exceptional items	2	**(7.3)**	(3.8)	(7.5)
Profit on sale of associated undertaking	3	**52.9**	–	–
Share of profits of associated companies after taxation		**–**	2.6	6.3
Profit before interest and taxation		**73.4**	49.8	108.0
Interest income		**0.6**	0.2	0.3
Interest expense		**(2.3)**	(2.7)	(5.4)
Retirement benefit obligation finance income		**17.2**	13.2	26.4
Retirement benefit obligation finance cost		**(19.5)**	(16.3)	(32.7)
Total finance costs		**(4.0)**	(5.6)	(11.4)
Profit before taxation		**69.4**	44.2	96.6
Taxation – UK	4	**(0.2)**	(10.9)	(21.3)
– Overseas	4	**(2.8)**	(1.9)	(4.9)
Profit for the period		**66.4**	31.4	70.4
Profit attributable to equity shareholders of the Company		**66.1**	31.1	69.9
Profit attributable to non-controlling interests		**0.3**	0.3	0.5
		66.4	31.4	70.4

Basic earnings per ordinary share	5	**66.8p**	31.7p	71.0p
Diluted earnings per ordinary share	5	**66.5p**	31.4p	70.5p
Headline earnings per ordinary share	5	**17.2p**	35.1p	76.2p

The directors propose a dividend of 14.1p per share for the half year ended 25 September 2010 which will utilise £14m of shareholders' funds. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 26 March 2011.

GROUP CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

For the half year ended 25 September 2010

	Half year 2010 £m	Half year 2009 £m	Full year 2010 £m
Profit for the financial period	**66.4**	31.4	70.4
Other comprehensive income			
Foreign currency translation difference for foreign operations	**(3.5)**	1.0	0.1
Actuarial losses on retirement benefit obligations	**(41.0)**	(89.0)	(72.3)
Effective portion of changes in fair value of cash flow hedges, net of amounts recycled to the income statement	**7.4**	8.3	6.6
Income tax on income and expenses recognised directly in equity	**8.2**	22.5	21.4
Other comprehensive income for the period, net of tax	**(28.9)**	(57.2)	(44.2)
Comprehensive income for the period	**37.5**	(25.8)	26.2
Comprehensive income for the period attributable to:			
Equity shareholders of the Company	**37.2**	(26.1)	25.7
Non-controlling interests	**0.3**	0.3	0.5
	37.5	(25.8)	26.2

GROUP CONDENSED CONSOLIDATED INTERIM BALANCE SHEET – UNAUDITED

At 25 September 2010

	Notes	**Half year 2010 £m**	Half year 2009 £m	Full year 2010 £m
ASSETS				
Non-current assets				
Property, plant and equipment		**171.4**	154.1	165.6
Intangible assets		**20.8**	17.8	19.3
Investments in associates and joint ventures		**0.1**	20.6	0.1
Deferred tax assets		**42.2**	50.3	36.5
Derivative financial instruments		**1.0**	7.8	0.8
		235.5	250.6	222.3
Current assets				
Inventories		**65.5**	72.3	61.0
Trade and other receivables		**74.9**	106.1	76.5
Current tax assets		**2.9**	1.2	3.9
Derivative financial instruments		**17.2**	24.3	20.4
Cash and cash equivalents		**27.3**	38.1	41.6
Non-current assets held for resale		**–**	–	20.5
		187.8	242.0	223.9
Total assets		**423.3**	492.6	446.2
LIABILITIES				
Current liabilities				
Borrowings		**(31.8)**	(40.5)	(51.7)
Trade and other payables		**(161.9)**	(173.2)	(164.2)
Current tax liabilities		**(35.6)**	(44.7)	(34.5)
Derivative financial instruments		**(16.1)**	(25.3)	(24.7)
Provisions for other liabilities		**(32.6)**	(21.7)	(26.1)
		(278.0)	(305.4)	(301.2)
Non-current liabilities				
Borrowings		**(0.8)**	(51.0)	(0.9)
Retirement benefit obligations	8	**(119.5)**	(154.7)	(127.1)
Deferred tax liabilities		**(0.7)**	(0.1)	(0.3)
Derivative financial instruments		**(1.5)**	(10.6)	(2.1)
Other non-current liabilities		**(3.0)**	(1.6)	(5.1)
		(125.5)	(218.0)	(135.5)
Total liabilities		**(403.5)**	(523.4)	(436.7)
Net assets/(liabilities)		**19.8**	(30.8)	9.5
EQUITY				
Ordinary share capital		**45.5**	45.3	45.5
Share premium account		**28.6**	26.6	28.4
Capital redemption reserve		**5.9**	5.9	5.9
Fair value reserve		**1.4**	(2.7)	(3.9)
Cumulative translation adjustment		**0.3**	4.7	3.8
Other reserves		**(83.8)**	(83.8)	(83.8)
Retained earnings		**18.6**	(29.8)	10.4
Total equity attributable to shareholders of the Company		**16.5**	(33.8)	6.3
Non-controlling interests		**3.3**	3.0	3.2
Total equity		**19.8**	(30.8)	9.5

GROUP CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS – UNAUDITED

For the half year ended 25 September 2010

	Notes	**Half year 2010 £m**	Half year 2009 £m	Full year 2010 £m
Cash flows from operating activities				
Profit before tax		**69.4**	44.2	96.6
Adjustments for:				
Finance income and expense		**4.0**	5.6	11.4
Depreciation and amortisation		**11.1**	11.3	23.0
(Increase)/decrease in inventories		**(13.7)**	(7.5)	4.3
(Increase)/decrease in trade and other receivables		**8.7**	(18.7)	16.6
Increase/(decrease) in trade and other payables		**(7.6)**	4.0	(9.9)
Decrease in reorganisation provisions		**(1.1)**	(2.7)	(5.0)
Special pension fund contribution		**(35.0)**	(5.0)	(17.0)
Loss on disposal of property, plant and equipment		**0.8**	0.3	0.9
Profit on disposal of associate		**(52.9)**	–	–
Share of income from associates after tax		**–**	(2.6)	(6.3)
Other non-cash movements		**(0.3)**	3.3	1.5
Cash generated from operations		**(16.6)**	32.2	116.1
Tax received/(paid)		**2.1**	(7.4)	(21.0)
Net cash flows from operating activities		**(14.5)**	24.8	95.1
Cash flows from investing activities				
Disposal of subsidiary undertaking (net of cash disposed) – discontinued		**(0.5)**	(1.5)	(1.0)
Net proceeds from sale of investment in associate		**73.2**	–	–
Purchases of property, plant and equipment (PPE) & software intangibles		**(21.8)**	(16.3)	(33.1)
Development assets capitalised		**(1.1)**	(0.6)	(2.3)
Proceeds from sale of PPE		**0.2**	0.2	0.5
Loans made to associates		**–**	–	(0.6)
Dividends received from associates		**–**	3.1	6.8
Net cash flows from investing activities		**50.0**	(15.1)	(29.7)
Net cash inflow before financing activities		**35.5**	9.7	65.4
Cash flows from financing activities				
Proceeds from issue of share capital		**0.2**	0.4	2.4
(Repayments) / proceeds from borrowing		**(18.4)**	7.8	(32.9)
Finance lease principal payments		**(0.1)**	(1.4)	(3.1)
Interest received		**0.6**	0.4	0.4
Interest paid		**(2.0)**	(1.5)	(3.7)
Dividends paid to shareholders		**(27.9)**	(27.0)	(40.4)
Dividends paid to non-controlling interests		**(0.2)**	(0.2)	(0.2)
Net cash flows from financing activities		**(47.8)**	(21.5)	(77.5)
Net decrease in cash and cash equivalents in the period		**(12.3)**	(11.8)	(12.1)
Cash and cash equivalents at the beginning of the year		**37.8**	50.1	50.1
Exchange rate effects		**(0.5)**	(1.1)	(0.2)
Cash and cash equivalents at the end of the period	7	**25.0**	37.2	37.8
Cash and cash equivalents consist of:				
Cash at bank and in hand		**22.5**	27.1	35.1
Short term bank deposits		**4.8**	11.0	6.5
Bank overdrafts		**(2.3)**	(0.9)	(3.8)
	7	**25.0**	37.2	37.8

GROUP CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the half year ended 25 September 2010

	Attributable to Equity Shareholders							Non-controlling interest	Total equity
	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Cumulative translation adjustment £m	Other reserve £m	Retained earnings £m	£m	£m
Balance at 28 March 2009	45.0	26.5	5.9	(8.6)	3.7	(83.8)	29.0	2.9	20.6
Comprehensive income for the period	–	–	–	5.9	1.0	–	(33.0)	0.3	(25.8)
Share capital issued	0.3	0.1	–	–	–	–	–	–	0.4
Employee share scheme: – value of services provided	–	–	–	–	–	–	1.2	–	1.2
Dividends paid	–	–	–	–	–	–	(27.0)	(0.2)	(27.2)
Balance at 26 September 2009	45.3	26.6	5.9	(2.7)	4.7	(83.8)	(29.8)	3.0	(30.8)
Comprehensive income for the period	–	–	–	(1.2)	(0.9)	–	53.9	0.2	52.0
Share capital issued	0.2	1.8	–	–	–	–	–	–	2.0
Employee share scheme: – value of services provided	–	–	–	–	–	–	0.3	–	0.3
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(0.1)	–	(0.1)
Dividends paid	–	–	–	–	–	–	(13.9)	–	(13.9)
Balance at 27 March 2010	45.5	28.4	5.9	(3.9)	3.8	(83.8)	10.4	3.2	9.5
Comprehensive income for the period	–	–	–	5.3	(3.5)	–	35.4	0.3	37.5
Share capital issued	–	0.2	–	–	–	–	–	–	0.2
Employee share scheme: – value of services provided	–	–	–	–	–	–	0.7	–	0.7
Dividends paid	–	–	–	–	–	–	(27.9)	(0.2)	(28.1)
Balance at 25 September 2010	**45.5**	**28.6**	**5.9**	**1.4**	**0.3**	**(83.8)**	**18.6**	**3.3**	**19.8**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

1 Basis of preparation and accounting policies

This statement is the condensed consolidated financial information of the Company and its subsidiaries (together referred to as the 'Group') and the Group's interests in associates and jointly controlled entities as at and for the half year ended 25 September 2010. It has been prepared in accordance with the requirements of IAS 34 Interim Financial Reporting as adopted by the European Union.

The condensed consolidated interim financial statements have been prepared as at 25 September 2010, being the last Saturday in September. The comparatives for 2009/10 financial year are for the half year ended 26 September 2009 and the full year ended 27 March 2010.

The condensed consolidated financial statements do not constitute financial statements as defined in section 434 of the Companies Act 2006 and do not include all of the information and disclosures required for the full annual financial statements. They should be read in conjunction with the Annual Report 2010 which is available on request from the Company's registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS or at www.delarue.com.

The condensed consolidated financial statements were approved by the Board of Directors on 22 November 2010.

The comparative figures for the financial period ended 27 March 2010 are not the company's statutory accounts for that financial period. Those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The auditors reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The half yearly results for the current and comparative periods are unaudited. The auditors have carried out a review of the Interim Statement 2010/11 and their report is set out on page 6.

In the preparation of this condensed set of financial statements, the Group has applied the same accounting policies as those presented in the Group's consolidated financial statements for the year ended 27 March 2010, as set out on pages 60 to 65 of the Annual Report, as adjusted for the effects of the following:

IFRS 3 (Revised) Business Combinations

The revised IFRS 3 requires changes in the application of acquisition accounting whereby assets and liabilities assumed are recognised at their acquisition-date fair values together with any non-controlling interest in the acquiree. The Group has presented the interests of the non-controlling interests in accordance with the revised standard but did not have any acquisitions or disposals in this period or the prior period.

2 Segmental analysis

The Group's international operations are managed and reported internally on a divisional basis that reflects the different characteristics of each business. These divisions have been disclosed as reportable segments because they are the components that the Board monitors regularly in making decisions about operating matters such as allocating resources to businesses and assessing performance. Each division has its own managing director who reports directly to the Chief Executive. The principal financial information reviewed by the Board, which is the Group's Chief Operating Decision Maker, is revenue and operating profit before exceptional items, measured on an IFRS basis. The Group's segments are:

- Currency – provides banknote paper, printed banknotes and banknote security features
- Cash Processing Solutions – primarily focused on the production of large sorters for central banks, complementing the Currency business.
- Security Products – produces security documents, including authentication labels, travellers' cheques and fiscal stamps.
- Identity Systems – involved in the production of passports, including ePassports, together with other secure identity products.

Analysis by operating segment	**Half year 2010 £m**	Half year 2009 £m	Full year 2010 £m
Revenue by operating segment			
Currency	**132.7**	181.2	411.2
Cash Processing Solutions	**27.2**	28.4	56.9
Security Products	**32.6**	38.0	74.9
Identity Systems	**20.1**	13.0	32.0
Eliminations	**(3.4)**	(8.4)	(13.9)
	209.2	252.2	561.1
Operating profit/(loss) by operating segment			
Currency	**21.5**	44.7	95.3
Cash Processing Solutions	**0.0**	(1.6)	(3.5)
Security Products	**5.3**	7.0	14.8
Identity Systems	**1.0**	0.9	2.6
Operating profit before exceptional items	**27.8**	51.0	109.2
Exceptional items – Currency	**(23.3)**	–	–
Exceptional items – Cash Processing Solutions	**–**	(3.8)	(7.5)
Exceptional items – unallocated	**16.0**	–	–
Operating profit	**20.5**	47.2	101.7
Profit on sale of associated undertaking	**52.9**	–	–
Share of profits of associated companies after taxation	**–**	2.6	6.3
Net interest	**(4.0)**	(5.6)	(11.4)
Profit before taxation	**69.4**	44.2	96.6

3 Exceptional items

	Half year 2010 £m	Half year 2009 £m	Full year 2010 £m
Curtailment gain on closure of defined benefit pension scheme	**16.0**	–	–
One-off costs relating to paper production quality issues	**(23.3)**	–	–
Reorganisation of CPS	**–**	(1.3)	(4.8)
Legacy overseas indirect tax	**–**	(2.5)	(2.7)
Exceptional items in operating profit	**(7.3)**	(3.8)	(7.5)
Profit on sale of associated undertaking	**52.9**	–	–
Total exceptional items	**45.6**	(3.8)	(7.5)
Exceptional items – tax	**3.5**	0.4	2.4

The curtailment gain is a result of the closure of the defined benefit pension scheme to further accruals from 2013 and the freeze in pensionable salary increases from the current year. These changes result in a reduction in the pension liability.

The Group has identified quality issues with a limited number of customers. The company engaged external legal advice to assist it in its investigations. Relevant authorities have been informed and are monitoring the situation. Provision has been made for the costs associated with the issues identified at this stage and which include the write off of inventories and trade receivables and other costs relating to the investigation and rectification of these matters.

Provision has not been made for the potential costs of resolutions with customers or for potential fines from regulatory authorities. The nature and extent of these resolutions with customers will be the subject of ongoing customer discussions, the outcome of which cannot be estimated reliably at present.

The profit arising on the sale of an associated undertaking is in respect of the sale of the Group's share in Camelot, the UK national lottery operator, which was completed on 8 July 2010. The gain shown represents the consideration received to date of £73.2m, net of expenses, and will be adjusted subject to agreement of the final completion accounts and any final distributions arising.

Exceptional costs in the prior year relate to a reorganisation and rationalisation programme in CPS and costs associated with settling historic overseas indirect tax liabilities.

Tax credits relating to exceptional items arising in the period were £0.9m (Half Year 2009: £0.4m, Full Year 2010: £1.0m). In addition there was also an exceptional tax credit of £2.6m in respect of the determination of the tax treatment of prior year exceptional items (Half Year 2009/10: nil, Full Year 2009/10: £1.4m prior year credit).

4 Taxation

A tax charge of 27.3% (six months to 26 September 2009: 27.5%; year to 27 March 2010 27.5%) has been provided based on the estimated effective rate of tax for the year arising on the profits before exceptional items giving rise to tax for the period of £6.5m. This is offset by tax credits of £3.5m on exceptional items as described in note 3.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

5 Earnings per share

	Half year 2010 pence per share	Half year 2009 pence per share	Full year 2010 pence per share
Basic earnings per share	**66.8**	31.7	71.0
Diluted earnings per share	**66.5**	31.4	70.5
Headline earnings per share	**17.2**	35.1	76.2

Earnings per share are based on the profit for the period attributable to ordinary shareholders as shown in the Group condensed consolidated income statement. The weighted average number of ordinary shares used in the calculations is 98,965,509 (2009/10: 98,236,612) for basic earnings per share and 99,437,495 (2009/10: 99,029,076) for diluted earnings per share after adjusting for dilutive share options.

The Directors are of the opinion that the publication of the headline earnings is useful to readers of interim statements and annual accounts as they give an indication of underlying business performance.

Reconciliations of the earnings used in the calculations are set out below.

	Half year 2010 £m	Half year 2009 £m	Full year 2010 £m
Earnings for basic earnings per share	**66.1**	31.1	69.9
Exceptional items	**(45.6)**	3.8	7.5
Tax on exceptional items	**(3.5)**	(0.4)	(2.4)
Earnings for headline earnings per share	**17.0**	34.5	75.0

6 Equity dividends

	Half year 2010 £m	Half year 2009 £m	Full year 2010 £m
Final dividend for the year ended 27 March 2010 of 28.2p paid on 5 August 2010	**27.9**	–	–
Interim dividend for the period ended 26 September 2009 of 14.1p paid on 13 January 2010	**–**	–	13.9
Final dividend for the year ended 28 March 2009 of 27.4p paid on 31 July 2009		27.0	27.0
	27.9	27.0	40.9

An interim dividend of 14.1p has been proposed for the half year ended 25 September 2010. In accordance with IFRS the interim dividend has not been accrued in these condensed consolidated in interim financial statements.

7 Notes to the Group Condensed Consolidated Interim Statement of cash flows

	Half year 2010 £m	Half year 2009 £m	Full year 2010 £m
Analysis of net debt			
Cash at bank and in hand	**22.5**	27.1	35.1
Short term bank deposits	**4.8**	11.0	6.5
Bank overdrafts	**(2.3)**	(0.9)	(3.8)
Cash and cash equivalents	**25.0**	37.2	37.8
Other debt due within one year	**(29.5)**	(39.6)	(47.9)
Borrowings due after one year	**(0.8)**	(51.0)	(0.9)
Net debt at end of period	**(5.3)**	(53.4)	(11.0)

8 Retirement benefit obligations

The Group operates pension plans throughout the world covering the majority of employees. These plans are devised in accordance with local conditions and practices in the country concerned. The assets of the Group's plans are generally held in separately administered trusts or are insured.

	Half year 2010 £m	Half year 2009 £m	Full year 2010 £m
UK retirement benefit obligations	**(117.2)**	(152.5)	(124.8)
Overseas retirement benefit obligations	**(2.3)**	(2.2)	(2.3)
Retirement benefit obligations	**(119.5)**	(154.7)	(127.1)
Deferred tax	**32.2**	43.2	35.5
Net retirement benefit obligations	**(87.3)**	(111.5)	(91.6)

The majority of the Group's retirement benefit obligations are in the UK:

	UK £m	UK £m	UK £m
At 28 March 2010 / 29 March 2009	**(124.8)**	(67.5)	(67.5)
Current service cost included in operating profit	**(4.0)**	(2.3)	(4.5)
Curtailments	**16.0**	-	-
Net finance cost	**(2.3)**	(3.1)	(6.2)
Actuarial gains and losses arising over the year	**(41.0)**	(89.0)	(72.4)
Cash contributions and benefits paid	**38.9**	9.4	25.9
Transfers	**–**	–	(0.1)
At 25 September 2010 / 26 September 2009 / 27 March 2010	**(117.2)**	(152.5)	(124.8)

	Half year 2010 £m	Half year 2009 £m	Full year 2010 £m
Amounts recognised in the consolidated balance sheet:			
Fair value of plan assets	**616.2**	528.1	569.2
Present value of funded obligations	**(726.5)**	(674.0)	(687.3)
Funded defined benefit pension plans	**(110.3)**	(145.9)	(118.1)
Present value of unfunded obligations	**(6.9)**	(6.6)	(6.7)
Net liability	**(117.2)**	(152.5)	(124.8)
Amounts recognised in the consolidated income statement:			
Included in employee benefits expense:			
Current service cost	**(4.0)**	(2.3)	(4.5)
Included in net finance cost:			
Expected return on plan assets	**17.2**	13.2	26.4
Interest cost	**(19.5)**	(16.3)	(32.6)
	(2.3)	(3.1)	(6.2)
Total recognised in the consolidated income statement	**(6.3)**	(5.4)	(10.7)
Actual return on plan assets	**22.5**	104.3	143.8

	Half year 2010 UK %	Half year 2009 UK %	Full year 2010 UK %
Principal actuarial assumptions:			
Future salary increases	**0.00**	3.70	4.10
Future pension increases – past service	**3.40**	3.50	3.70
Future pension increases – future service	**3.20**	3.10	3.50
Discount rate	**5.20**	5.50	5.80
Inflation rate	**3.20**	3.10	3.50
Expected return on plan assets	**6.55**	6.73	6.65

The expected rate of return on plan assets has been determined following advice from the plans' independent actuary and is based on the expected return on each asset class together with consideration of the long term asset strategy.

The mortality assumptions used to assess the defined benefit obligation for the UK plan are based on tables issued by the Continuous Mortality Investigation Bureau. At 25 September 2010 and 27 March 2010 mortality assumptions are based on the PxA92 birth year tables multiplied by a rating of 125% and allowance for medium cohort mortality improvements in future, with a 0.5% mortality improvement underpin (at 26 September 2009 the same mortality assumptions were in place with the exception of the improvement underpin).
The resulting life expectancy for a 65 year old pensioner is 20.5 years.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

9 Related party transactions
During the year the Group traded with Fidink (33.3% owned).

The Group's trading activities with Fidink in the period comprise £7.4m for the purchase of ink and other consumables. At the balance sheet date there was a creditor balance of £1.8m with this company.

10 Contingent liabilities
There are contingent liabilities, arising in the ordinary course of business, in respect of litigation and guarantees in various countries, for which the directors believe adequate provisions have been made in the accounts.

A contingent liability exists in relation to the paper production issues which are described in note 3: Exceptional items. The nature and extent of these contingent liabilities will be the subject of ongoing customer discussions, the outcome of which cannot be estimated reliably at present.

Pursuant to the provisions of Section 17 Companies (Amendment) Act 1986 of the Republic of Ireland, the Company has guaranteed the liabilities of certain of its Irish subsidiaries and as a result such subsidiaries have been exempted from the provisions of Section 17 Companies (Amendment) Act 1986 of the Republic of Ireland.

11 Capital commitments

	Half year 2010 £m	Half year 2009 £m	Full year 2010 £m
The following commitments existed at the balance sheet date:			
Contracted but not provided for in the accounts	**11.5**	33.4	22.1

DeLaRue

De La Rue plc
De La Rue House
Jays Close
Viables
Basingstoke
Hampshire
RG22 4BS

T +44 (0)1256 605000
F +44 (0)1256 605004
www.delarue.com