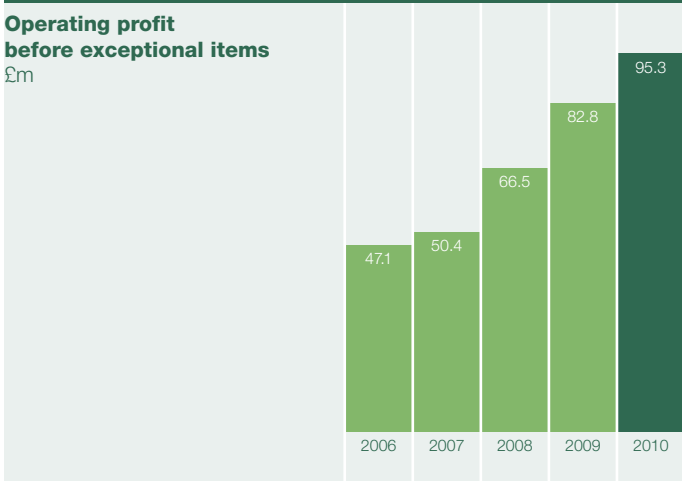
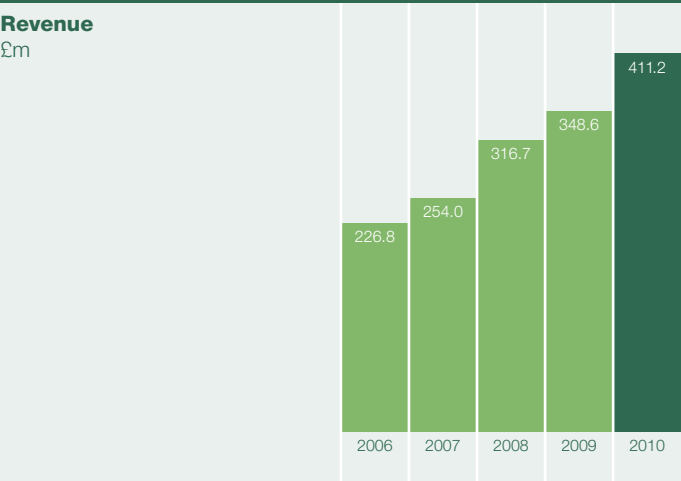


OPERATIONAL REVIEW



CURRENCY

De La Rue Currency provides market leading banknote paper, printed banknotes and an unparalleled portfolio of banknote security features. Working in partnership with its customers to provide effective currency solutions, the business can also advise on critical issues of currency strategy such as design, demand forecasting, denominational structure and protection against counterfeiting.



Strategy

Currency's strategic objective is to develop further its global market leading position as a commercial provider of banknotes, banknote paper, security features and associated services. There are three key elements behind the strategy:

- Close customer relationships: by developing and maintaining the closest possible partnerships with its customers, the business understands their requirements and can tailor the products and services that it provides to meet their particular needs. This understanding of customer needs also drives the innovation process
- An efficient and high quality manufacturing base: as the largest commercial manufacturer of banknotes and banknote paper in the world, Currency has natural economies of scale, which are enhanced by comprehensive programmes of continuous improvement to reduce costs while increasing quality
- Innovation: in both its products and its processes, the delivery of novel security features helps combat the threat of counterfeiting, while the efficiency of the cash circulation cycle is key to Currency's market leadership

Drivers of performance in 2009/2010

During the year, Currency delivered growth in sales of 18 per cent and in operating profit of 15 per cent. Please see page 15 of the Chief Executive's Review for commentary on the specific performance.

This was an outstanding year for the Currency business with high capacity utilisation across all of its manufacturing units. There was a good quality mix of work and the strong margins achieved were due to some high specification work and productivity improvements as well as foreign exchange.

The business did not see any reduction in demand despite the uncertain global economic environment. The main driver of banknote demand is central bank policy and this remains unchanged from previous years and is forecast to continue in the future (see following section).

Drivers and market trends for the future

In terms of the issuance of new notes into circulation, demand is driven by central bank policy decisions, of which those that affect note lives are the most significant. The policy factors – which include launches of new designs, changes in cash recycling policy and developments in cash handling automation – are the most important and consequently the global economic situation has not had a significant impact on the Currency business.

As cash handling becomes increasingly mechanised and counterfeiting ever more sophisticated, so the requirement for central banks to ensure an adequate supply of secure, high quality banknotes underpins long term demand for Currency's products and services.

Cash remains the world's predominant payment system, as measured by the number of transactions undertaken, as a result of the particular characteristics that it has in comparison with other payment systems. These characteristics include its universal acceptability and the speed and lack of any requirement for complex infrastructure at the point of transaction. Although interest in new, alternative payment systems continues, there is little evidence currently that such systems will fundamentally change the dynamics between cash and non-cash payment methods.

Risks

The Currency business operates within a defined market and the business is exposed to the short term ordering cycles of central banks. Significant year on year changes in volume or customer mix could affect profitability. The loss of key customers, either in banknotes or banknote paper, could have a major effect on the Group's results and prospects which the business mitigates by achieving diversity in its customer base.

Although the overall level of banknote counterfeiting around the world remains low, analysis of counterfeit notes indicates that criminals are attempting increasingly to simulate some of the security features introduced over the last ten to fifteen years. Currency undertakes extensive analysis of counterfeits to assess this trend and has a continuing programme of innovation, in many cases involving novel materials and processes, to develop new features to remain ahead of the counterfeiter.



In 2009 the Clydesdale Bank launched a new family of banknotes, its first for over two decades. De La Rue was proud to work with the bank, Scotland's largest issuer of currency, over two years to produce this superb series. The notes display Scotland's five Unesco World Heritage Sites alongside celebrated national figures such as the poet Robert Burns and the doctor and suffragette Elsie Inglis. The designs were the first to include De La Rue's innovative Depth™ Image hologram. In May 2010 the series was awarded the prestigious Best New Banknote award by the International Association for Currency Affairs.

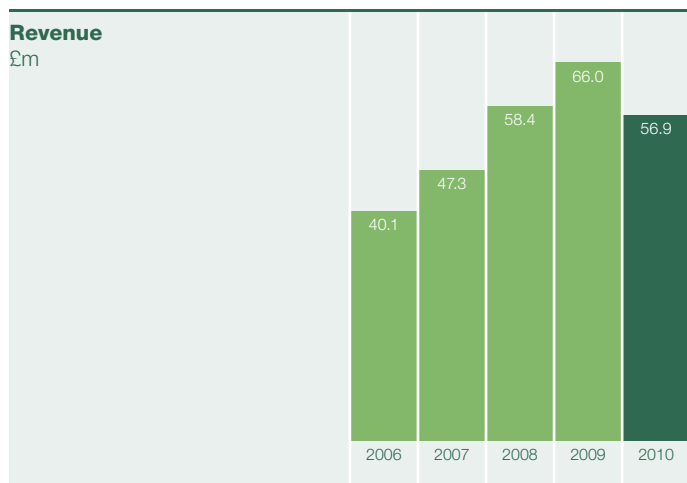
OPERATIONAL REVIEW

continued



CASH PROCESSING SOLUTIONS

De La Rue Cash Processing Solutions (CPS) is integral to the De La Rue Currency offering with shared central bank customers. The business provides bulk cash handling organisations with a range of sophisticated high speed cash sorting and authentication systems as well as software solutions, consultancy, service and support to enhance the productivity, performance and security of cash processing operations.



Strategy

CPS' strategic objective is to deliver stable and sustainable business growth by leveraging De La Rue's strength in developing customer relationships, bringing innovative solutions to our customers and by delivering excellence in execution.

This will be delivered by:

- Leveraging De La Rue's market position and strategic customer relationships and focusing on our key market segments of central banks, commercial banks and cash-in-transit companies
- Continued investment in research and development programmes that deliver innovative solutions to our customers and benefit their cash processing operations
- Designing customer-focused excellence into our processes to ensure that we meet and exceed customer expectations

CPS is proud of its long term relationship with central banks, commercial banks and other bulk cash handlers. We seek to build sustainable partnerships with our customers and deliver innovative solutions that can take advantage of future market opportunities.

Drivers of performance in 2009/2010

During the year, CPS saw a fall in sales of 14 per cent and a reduction in operating profit of £3.9m. Please see page 15 of the Chief Executive's Review for commentary on the specific performance.

Trading conditions remained difficult during the year and reductions in customer discretionary spend resulted in order deferrals. However, we are pleased that our service revenues have held up in the year, testimony to our continued customer focus.

Management has made good progress in its actions to refocus the business on its key customer segments as well as to rationalise the product and manufacturing base. Overall the CPS business has been able to deliver a positive operating cash flow before exceptionals for the year.

Notwithstanding the difficult market conditions, CPS has achieved a major milestone in installing the new DLR 7000 high speed note sorter into all key market segments of central banks, commercial banks and cash-in-transit companies (see case study below). Innovation continues to be core to the strategy: for example this year has seen the successful introduction of the new Cobra shredder solution to a number of central bank customers worldwide.

Drivers and market trends for the future

The growing use of automation in the cash cycle continues to drive change in the cash processing industry. The growth in the number of ATMs has made cash available 24 hours a day, driving ever higher volumes of banknotes, even in developed economies where credit cards might have been expected to reduce the demand for cash. Moreover, the economic downturn has driven increased cash usage as the public turn to cash as a means to control personal expenditure.

Central banks have increased their focus on security and performance and a number have introduced performance standards for the authentication and fitness sorting of banknotes in the commercial sector. This has helped central banks to achieve their objectives of ensuring the integrity of banknotes and ensuring the efficient supply of cash, wherever and whenever it is needed. It has also led to increased demand for advanced banknote processing solutions from the commercial sector as they look to improve operational efficiency within these regulatory frameworks.

The demands on the products and services we provide are increasing, as customers challenge us to deliver higher levels of security, performance and productivity. Central and commercial banks are seeing a requirement to deliver increasing levels of process control and visibility, allowing organisations to replicate global best practice in their operations. Solutions such as ECM™ Business Intelligence (CPS' cash management software) are designed to deliver critical business data to decision makers in real time, and have allowed users to realise significant operational savings. We anticipate that demand for such solutions will continue to grow as organisations demand greater process control and become more cost focused and data driven.

The cash processing industry is a vital part of the economy and we anticipate that it will remain so whilst demand for banknotes continues to grow. The trend for some central banks to outsource the recycling of fit banknotes to the commercial sector will continue to drive the demand for advanced solutions, whilst the current economic challenges will continue to drive the search for productivity gains across the industry.

Risks

Whilst the underlying business drivers remain strong, the CPS business is exposed to long ordering processes of central and commercial banks, frequently for customers in the developing world. Significant year on year changes in volume or customer mix could affect profitability, which the business mitigates by achieving a diversity of its customer base. One of the strengths of the CPS business is that a significant part of the business is annual service and maintenance of the installed base. These are very stable, long term contracts to maintain mission critical machine operation.

CPS' total solution package typically represents a major investment by its customers. Therefore, the profitability of the CPS business in any given period can fluctuate significantly, depending upon the customer demand and the specific solutions delivered in that period.



The DLR 7000 high speed banknote sorter is now processing banknotes on a daily basis for central banks, commercial banks and cash-in-transit companies worldwide, including leading Irish bank AIB and Paris-based CIT Temis. AIB Currency Services says 'the DLR 7000 has provided AIB with a modern, effective and efficient solution which enables us to run a world class operation serving our customers and servicing our branches and ATM network'. Temis, a local leader in its sector, automated its two cash centres using the DLR 7000. Gilles Goudron, Managing Director, said 'We are now running over 1 million notes per day and the system has already delivered significant savings to our operation'.

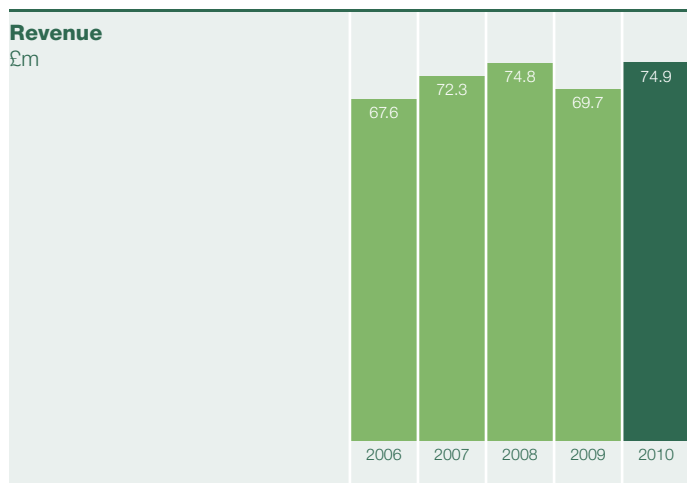
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SECURITY PRODUCTS

De La Rue Security Products consists of specialist businesses whose solutions are critical to authenticating products, documents and revenues for governments, global corporations and financial institutions around the world. It produces authentication labels, brand licensing products, government documents, cheques and postage stamps as well as vital components for our Currency and IDS business units.



Strategy

Security Products' strategy is to build market share in three segments with long term growth prospects: government revenues, brand authentication and components supplied to internal customers.

The businesses that make up Security Products are amongst the leaders in their respective markets and are renowned for delivering innovative solutions. This is a result of investment in new technology, leveraging the Group's intellectual property and research and development activities.

Security Products' solutions are critical to authenticating revenue streams, documents, products and people, and are continually upgraded to maintain effectiveness. Increasingly the business delivers a complete solution, including secure tokens, data management, supply chain services and on-line authentication capability.

Productivity gains continue to be delivered through continuous process improvement, sharing fixed costs and rigorous cost control, helping to maintain the trend in increasing profit and better margins.

Drivers of performance in 2009/2010

During the year, Security Products delivered growth in sales of 7 per cent and growth in operating profit of 35 per cent. See page 15 of the Chief Executive's Review for commentary on the specific performance.

Performance was in line with expectations, showing an improvement over 2008/2009 in terms of orders, sales and operating profit, reflecting growth in each of the target segments. This focused approach combined with high contract renewal rates and increased efficiency gives Security Products a stable platform for growth.

This year Security Products secured new multi year contracts in all of its target sectors: government revenue contracts in Africa and the Middle East, brand authentication business with organisations in UK, Europe, Asia and North America and internal component orders from both Currency and IDS, including the first use of the Depth™ Image holographic feature on a family of banknotes by Clydesdale Bank (see customer case study on page 17).

Security Products has shown considerable resilience to weak economic conditions. Orders from commercial customers were relatively slow in the first half, continuing the trend from the end of 2008/2009, but there is now some evidence that growth is returning.

The challenge for Security Products is to deliver continually value to our customers by combining the latest security with world class, cost effective service to create superior solutions.

Drivers and market trends for the future

Security Products is focused on three distinct markets, each with attractive characteristics:

- **Government revenues:** Security Products is already one of the leading suppliers of tax stamps on tobacco and alcohol products. This market has long term growth prospects with over 100 countries without schemes in place. As governments seek to raise and protect revenues, we expect new schemes to be introduced and existing schemes upgraded
- **Brand authentication:** Security Products' combination of world class design, manufacturing excellence and unbeatable security has led to long term relationships with many of the world's leading brands to protect their revenue streams and global reputation. Security Products works with brand owners such as FIFA, football's governing body, who successfully license their brand and benefit from technology that reveals counterfeit, royalty under-reporting and grey market diversion issues (see case study on FIFA below). We expect brand owners to continue to place increasing emphasis on protecting their revenue streams and brand integrity as the global economy recovers
- **Internal components:** Security Products is a key supplier of security features and components to the Currency and IDS business units of De La Rue. Security Products will benefit from the long term growth in each of these businesses

Security Products has achieved notable productivity gains in the last few years. There is potential for further improvement and we are putting additional investment into realising these benefits, including a significant training initiative 'Leading Performance'.

Risks

Security Products' customers are principally governments, major commercial organisations and financial institutions constantly threatened by counterfeiting and illicit trade issues. Solutions need to be continually upgraded to meet these threats.

Sales cycles can be lengthy, but once contracts are secured the business benefits from significant stability and good forward visibility. Managing the customer relationship over time becomes critical.

Government spending continues to be under scrutiny and the implementation of tax stamp schemes must demonstrate the ability to increase revenue collections. Without this evidence schemes may be delayed.

Our commercial customers are more vulnerable to weak economic conditions but there is some evidence that growth is returning.

Digital authentication remains the long term objective for many progressive customers and Security Products has developed solutions that provide functionality today and a roadmap towards future upgrades.



Having successfully delivered a high quality, reliable service to more than 170 licensed customers at over 400 manufacturing sites for the 2006 FIFA World Cup™, De La Rue Holographics was delighted to be asked to replicate the model for the 2010 FIFA World Cup™. Our holograms, designed specifically for the 2010 event with enhanced security features, are being used on all official 2010 FIFA World Cup™ branded licensed merchandise, enhancing FIFA's iconic brand, protecting its revenues and making it easier and faster for football fans to identify genuine FIFA licensed products.

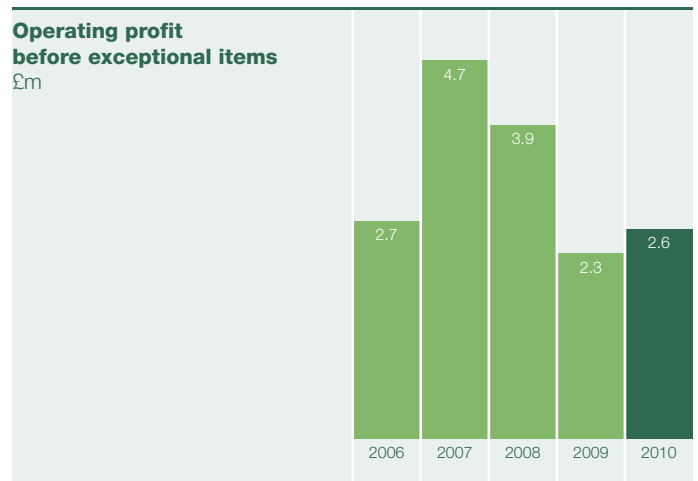
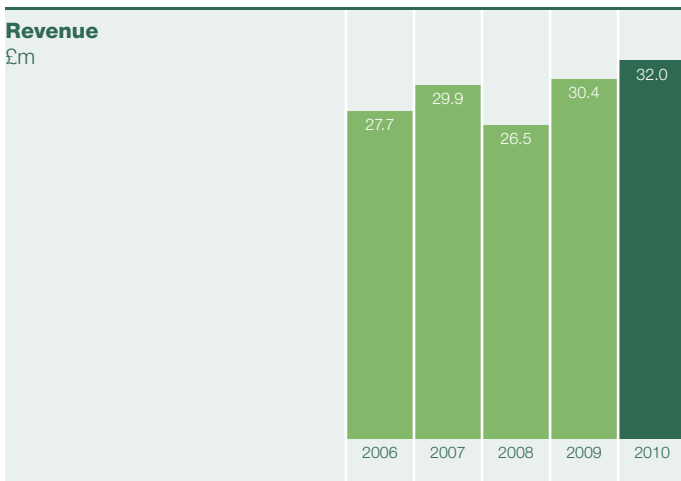
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IDENTITY SYSTEMS

De La Rue Identity Systems (IDS) is a world expert in the delivery and management of secure government identity programmes, systems and solutions. A reliable and trusted partner of governments worldwide, IDS has implemented over 100 projects in 65 countries focusing on the provision of passport, ePassport, national ID and eID, driving licence and voter registration schemes.



Strategy

IDS' goal is to deliver growth by developing its customer base in existing regions and continue to extend its capabilities and offerings in response to the evolving needs of the identity market.

The business delivers this goal in three ways:

- Continued development of sales channels – deepening its relationships with existing customers while leveraging Group networks and external partnerships to find new opportunities
- Innovation and breadth of proposition – targeting research investment and using existing Group technologies to develop new and differentiated security features for identity documents, alongside the ongoing development of software systems and electronic identity (eID) solutions
- Delivery of customer-focused operational excellence – driving cost advantages and superior customer satisfaction through continuous improvement in quality and manufacturing efficiency

Drivers of performance in 2009/2010

During the year, IDS delivered growth in sales of 5 per cent and growth in operating profit of 13 per cent. Please see page 15 of the Chief Executive's Review for commentary on the specific performance.

The identity market is continuing to grow. Despite evidence that the global economic crisis has in some cases slowed down the roll-out and development of identity programmes, underlying trends and drivers remain consistent as the pressures to improve cross-border security and demands for public sector identity programmes continue. Further driving performance, the business continues to manage its supply chain effectively, both controlling costs and mitigating the risks. As a manufacturer this has meant a focus on continuous improvement in quality and efficiency and as a reseller and integrator of issuance solutions, robust procurement strategies and delivery methodology.

In the current year IDS was successful in winning the contract to design, manufacture and supply the UK passport. This is a 10-year contract valued at around £400m. The implementation programme has now commenced and is set to deliver substantial growth in the coming year. Other successes during the year include the award for East Africa's first eID solution in Rwanda (see case study below), delivery of a national ID card and system in Guyana and an update to the existing Bahrain passport including the first ever instance of Cornerstone™ in a travel document (Cornerstone™ is a paper feature originally developed for banknotes that ensures greater durability). In addition to further developing its eID capability during 2009/2010, IDS also delivered EAC (Enhanced Access Control) capability allowing it to provide the latest secure ePassport solutions comprising enhanced security protocols for the safe storage and accessing of fingerprint data on the chip.

IDS' new purpose built ePassport factory in Malta, which opened last year, has now reached full operational status. Investment in this plant will continue in order to ensure the latest technological advancements are installed.

Drivers and market trends for the future

Technology will continue to drive growth. More countries will move to higher value eSystems, with an increase in associated needs for more sophisticated data security management.

IDS will continue to see its markets transition to ePassports and eID from non-chipped solutions at a steady pace. This provides a natural opportunity for growth as new eID solutions increase the scope of a country's requirements, adding the need for more complex secure data capture and data management. With a large customer base yet to move to eSystems, IDS is well-positioned to grow organically. At the same time this transition provides challenges as it is a natural re-tender point. IDS is focused on ensuring it is well positioned where it is incumbent and able to satisfy these changing customer needs.

The new contract for the UK passport marks a significant opportunity. Operational efficiencies and enhancements will flow from increased scale, while in parallel the business continues to deliver significant new services alongside its existing operations.

Risks

Due to the expanding nature of the service proposition around ePassports and eID systems, IDS is seeing continued competition from players who do not come from a security print heritage. It is also seeing increasingly sophisticated sales processes often involving partnership and contact with a wider range of stakeholders. Typically contract values may increase but also the sales process grows in length and complexity.

As an integrator of services from other companies, IDS must ensure it manages risks in its supply chain. Finding the right partners and putting in place strategies to ensure it manages the risk of supplier failure are key to success.

IDS is a contract-based business focusing on government customers. As such its revenues can be lumpy in nature. Government contracts can be prone to cancellation or delay at short notice and the business aims to ensure it has a sufficiently strong pipeline and range of ongoing contracts to ensure it maintains steady growth.



Reaffirming its strong ties with the Government of Rwanda, IDS has been awarded the contract to design and implement East Africa's first national eID project. De La Rue has been working in Rwanda for over ten years and already delivers its passport, current ID card, driving licence and supporting systems. The new smart eID card device is at the leading edge of technology and innovation and will deliver a document that offers multi-application functionality, allowing citizens easier access to services while also providing improved levels of security.