

Chairman's statement



Nicholas Brookes
Non-executive Chairman

Operating profit of £40.4m
(before exceptional items)

Dividend maintained

A total of 42.3p for the year

Net debt remains low at £31.2m

UK Passport contract

Successful launch in October 2010

Camelot investment

Gain of £55.1m on sale

Improvement Plan

Formulated and underway

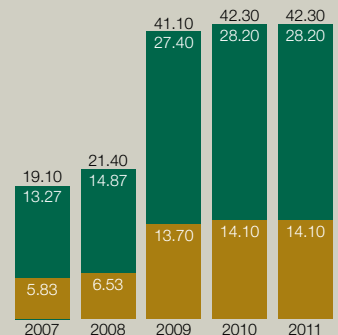
Dividends per share

Pence

■ Final

■ Interim

Includes proposed
2011 final dividend



Group results

The 2010/11 financial year has undoubtedly been a difficult one for De La Rue, our employees, customers and shareholders. We have dealt with a number of challenges including paper production issues, lower than expected banknote print volumes, changes in senior management and a takeover approach.

With the appointment of Tim Cobbold as Chief Executive in January 2011 and a number of other changes in senior management, we now have in place the team that will lead our recovery. An Improvement Plan, which is set out in the Chief Executive's review, has been formulated by this team and is already being implemented. The objective is to maintain our strong market position, improve margins and cash flow and to deliver a recovery in operating performance whilst ensuring the business is well positioned to maintain sustainable growth.

Paper production issues

In July 2010 the Board commissioned an investigation by external lawyers into issues that had been brought to its attention internally. The investigation, which was completed in October 2010, found nothing of substance to support the matters raised other than in respect of some paper production issues where it was found that a small number of the many detailed specification parameters of some paper had fallen marginally short of specification. It was also established that certain paper specification test certificates had been deliberately falsified. The Board reported the findings of the investigation to the appropriate authorities, who are considering the matter, and is implementing a number of measures arising from the findings of the investigation.

Whilst the Board was satisfied that neither the physical security nor the security features in the paper were compromised, production and shipment of the affected banknote paper was immediately, and remains, suspended.

Discussions remain ongoing with the principal customer concerned and the authorities, and therefore there remains uncertainty as to the ultimate outcome of these issues, including their financial impact.

Supply of all other banknote paper and all the other activities of the Group, including banknote printing, were and remain unaffected. Every effort was made to keep customers well informed and the Board values their continuing support.

Dividends

The Board is recommending a final dividend of 28.2p per share (2009/10: 28.2p per share), subject to shareholders' approval. This will be paid on 4 August 2011 to shareholders on the register on 8 July 2011. Together with the interim dividend paid in January 2011, this will give a total dividend for the year of 42.3p (2009/10: 42.3p per share).

The Board's decision to maintain the dividend reflects its confidence in both the strong fundamentals of the business, including a robust cash flow and a strong balance sheet, and in its ability to recover from the setbacks of 2010/11.

Disposal of shareholding

In July 2010 the Group completed the sale of its 20 per cent investment in Camelot, the UK national lottery operator, for a cash consideration of £77.6m. The Group's investment in Camelot proved very successful but was no longer considered core to De La Rue's ongoing strategic development. Following the disposal, £35m of the proceeds were utilised to make a special contribution to reduce the Group's pension fund deficit.

Board changes

During the year there have been a number of changes to the Board which are more fully described in the corporate governance statement on page 37.

James Hussey resigned from the Board as Chief Executive on 12 August 2010. On the same date I was appointed Executive Chairman and Colin Child, Group Finance Director, took on the additional role of Chief Operating Officer, roles we held until 1 January 2011 when Tim Cobbold was appointed Chief Executive. Tim brings a wealth of experience, including managing international businesses at the most senior level for more than 20 years. His experience is proving invaluable as the Group pursues its Improvement Plan and adopts a more modern and efficient approach which will not only help develop the De La Rue brand but ensure that we continue to meet the expectations of our international customer base.

In a challenging year I should like to thank the Non-executive Directors, the senior management team and our employees, throughout the Group, for their support and determination to resolve the issues we faced. They have all shown an exceptional commitment to De La Rue.

Outlook

De La Rue's strengthened senior management team and its loyal, experienced and skilled employees will build on the Group's fundamental strengths to put the business back on track to deliver the value shareholders expect.

Current trading is in line with the Board's expectations with an encouraging order book profile and a good pipeline of opportunities.

The Improvement Plan has a target to achieve an operating profit in excess of £100m within three years by both restoring revenue growth and delivering significant cost reduction. The Board is confident that this plan can be delivered.

