

CHIEF EXECUTIVE'S REVIEW

Tim Cobbold
Chief Executive



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Introduction

Over the past year we have focussed on De La Rue's fundamental strengths and started to address the opportunities for improvement encapsulated in the Improvement Plan announced in May 2011. I am therefore pleased to report a much improved financial performance generated by a combination of revenue growth and good progress in enhancing business efficiency and reducing cost. At the same time we have grown the order book and built a good opportunity pipeline for the year ahead.

Group revenue increased by 14 per cent to £528.3m (2010/11: £463.9m) with strong performances in both the Currency and Solutions business units. Operating profit before exceptional items was up 56 per cent to £63.1m (2010/11: £40.4m), as a result of the revenue growth, an improved product mix in Currency and the first wave of benefits of the Improvement Plan. The Group operating profit margin (before exceptional items) increased by 3.2 percentage points to 11.9 per cent (2010/11: 8.7 per cent) reflecting the inherent operational gearing in the business, the benefits of the Improvement Plan and better product mix.

At the year end, the 12 month order book for Currency was up 18 per cent at £183m (2010/11: £155m) while Solutions was up 5 per cent at £65m (2010/11: £62m). These figures exclude order volumes which have yet to be confirmed on committed contracts.

Delivering the Improvement Plan

The fundamental strengths of De La Rue – brand and reputation, long standing customer relationships, technology and design, robust market growth and a high margin and cash generative business model – provide the platform for the Plan. During the past year, in addition to executing the Plan we have focused on reinforcing and leveraging these strengths.

Good progress has been made in the first year of the Plan which contributed approximately £8m to the reported operating profit mainly as a result of actions in process improvement and procurement. Importantly, good momentum has also been established in the initiatives to generate revenue growth and accelerate innovation.

In order to implement the Plan effectively we have made significant changes to the structure and organisation of the Group establishing a functional organisation which supports the four pillars of the Plan:

Customer focus

The new Currency and Solutions business unit teams now share common marketing and pipeline management processes and have together created more than 40 country plans. Each country plan identifies the strategic long term goal in that country as well as the near term tactical opportunities. This approach has already generated encouraging new business opportunities.

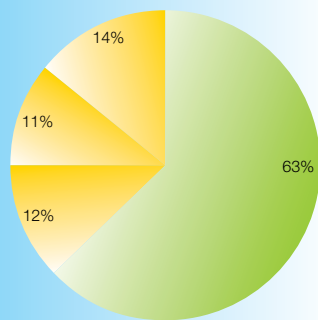
Innovation

A new Group wide business development function now drives our innovation agenda. Relationships have been established with leading academic institutions and industry to improve the pipeline of ideas and access to research and early stage technologies. We are investing in a new, industry leading, technical centre at our facility in Overton which will provide the research and development facilities to further accelerate innovation.

Business revenue

Percentage

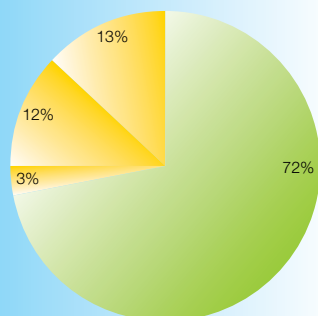
- Currency 63%
- Solutions 37%
- Cash Processing Solutions 12%
- Security Products 11%
- Identity Systems 14%

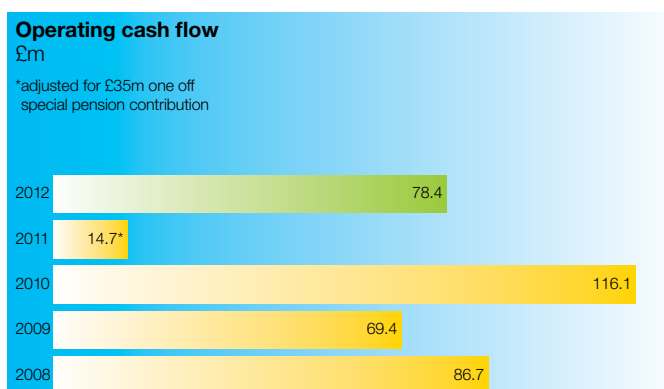
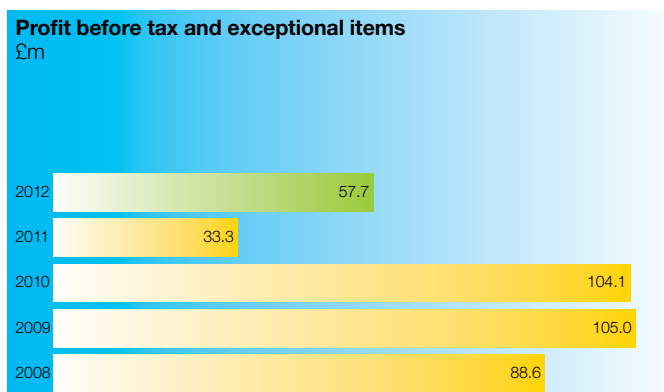
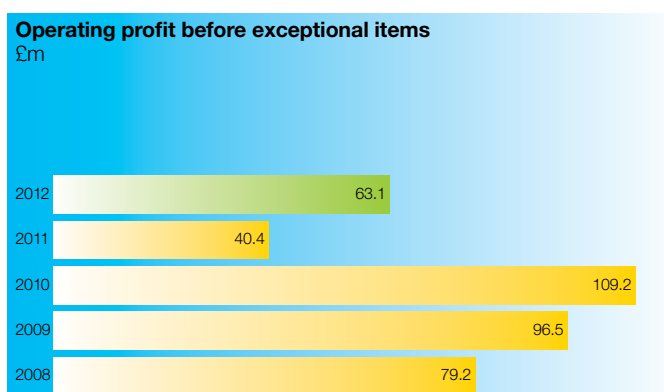
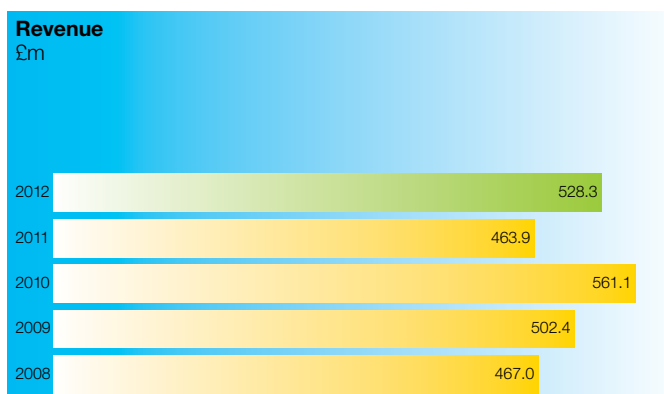


Operating profit before exceptional items

Percentage

- Currency 72%
- Solutions 28%
- Cash Processing Solutions 3%
- Security Products 12%
- Identity Systems 13%





Professionalism

The significant level of change in the past year has been managed by the business transformation team which is now focussing on the continued improvement of the processes and systems deployed in the business. This will ultimately lead to a revision to the IT infrastructure in the Group.

Operational excellence

A new Group Supply Chain function has been established to focus on operational excellence. This includes central manufacturing, design, quality and procurement functions in order to drive process improvement and to reduce cost.

Industry best practice quality processes and systems, utilising proven approaches and techniques from outside the industry, have been introduced and are already improving quality performance.

The teams in the manufacturing facilities have been focussed on excellence in workplace management and on waste reduction. Good progress has been made with significant reductions in production set up times and waste levels, in some cases by as much as 50 per cent.

The central procurement team has, through consolidating the supply base and placing a greater focus on all constituents of cost, negotiated annualised savings of c£10m, of which c£5m has already been delivered in 2011/12.

A review of the Group's manufacturing facilities was completed in August 2011. The conclusion was to relocate the Dunstable operation to our Gateshead facility and to transfer the Basingstoke based Holographics activity to our facility in Westhoughton. The consolidation of these facilities has commenced and will generate annual savings of c£6m when complete.

People

Our employees have again demonstrated their loyalty and commitment to the business and understanding of the case for change. I would like to express my thanks and appreciation to everyone for their contribution and positive attitude during a time of significant change.

I would also like to thank, on behalf of the Board, Nicholas Brookes for his enormous contribution to De La Rue during the past 15 years. As Chairman, he has overseen considerable change within the Company and on behalf of all his friends and colleagues within De La Rue, I wish him well in his retirement.

Conclusion

De La Rue has made rapid progress in the past year and although there remains much still to do, I am confident, given the fundamental strengths of the business, the commitment of the employees and the momentum we have established, that the business is well placed for the future.