

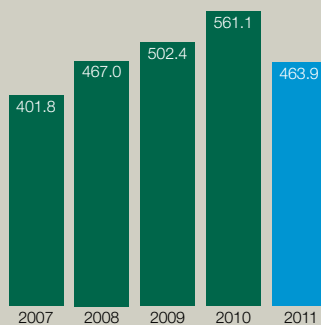
Chief Executive's review



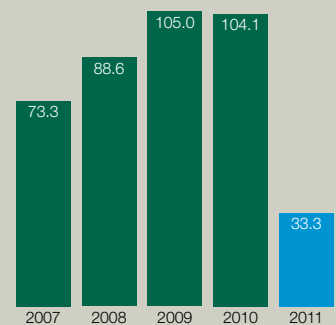
Tim Cobbold
Chief Executive

I am confident that, with the fundamental strengths of the Group and a clear Improvement Plan, we will deliver the value that shareholders rightly expect.

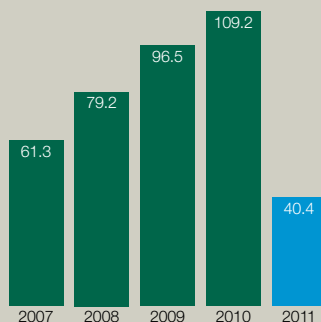
Revenue £m



Profit before tax and exceptional items £m

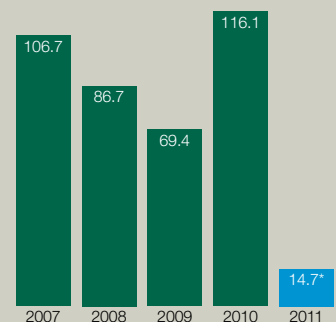


Operating profit before exceptional items £m



Operating cash flow £m

*adjusted for one off special pension contributions



Introduction

Clearly this has been a challenging year for De La Rue, as outlined in the Chairman's statement, but my first few months as Chief Executive have confirmed my original assessment of the potential to build on the fundamental strengths of the business. My initial focus has been to develop and begin to execute a detailed Improvement Plan that will generate the value that shareholders rightly look to the Board to deliver. This will bring De La Rue back on track and also create a firm base from which the Group will be able to deliver further growth.

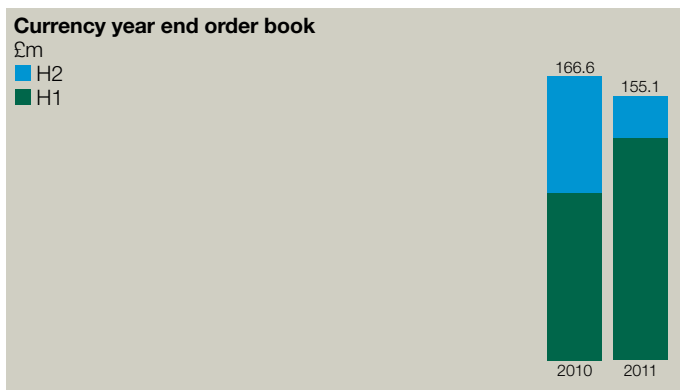
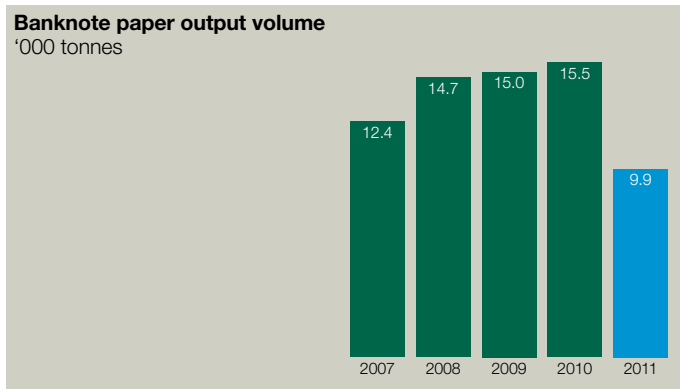
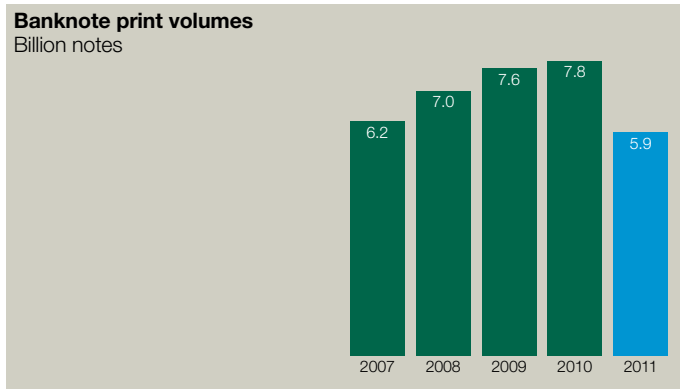
Results summary

Revenue fell by 17 per cent to £463.9m (2009/10: £561.1m) predominantly as a result of the lower paper and print volumes sold in the year representing £122m of the movement. IDS's revenue increased by £31m following the completion of the implementation phase of the UK Passport contract. Security Products' revenue was down £12m mainly due to the flow through impact of lower internal component sales from the Holographics operation into the Currency business. During the year, favourable foreign exchange movements contributed £10m to revenue (2009/10: £27m).

There was an operating exceptional charge of £15.6m in the year (2009/10: £7.5m). This comprised costs of £29.0m arising from the paper production quality issues in addition to corporate costs of £2.6m relating to the takeover approach received at the end of 2010. These costs were partially offset by a one-off curtailment gain of £16.0m arising from the closure of the defined benefit pension scheme to further accruals from 2013. In addition, a non operating exceptional profit of £55.1m has been recognised following the sale, for £77.6m, of the Group's investment in Camelot, the UK national lottery operator.

Profit before tax and exceptional items decreased by 68 per cent to £33.3m (2009/10: £104.1m) due to the trading issues noted above and in addition, there was no income in the year from associates (2009/10: £6.3m), following the sale of the Group's investment in Camelot. This was partly offset by lower external interest of £3.8m (2009/10: £5.1m) and pension interest charges of £3.3m (2009/10: £6.3m). Headline earnings per share decreased by 69 per cent to 24.0p (2009/10: 76.2p) while the basic earnings per share was 67.6p compared with 71.0p in 2009/10, representing a decrease of 5 per cent.

After paying a one off special pension contribution of £35.0m, the cash outflow from operations in the year was £20.3m (2009/10: inflow of £116.1m). Excluding this contribution cash generated from operations in the year was £14.7m. The reduction reflects the lower level of trading in the period and the paper production issues. The Group ended the year with net debt of £31.2m (2009/10: £11.0m). Interest cover remained good at 21.0 times (2009/10: 21.2 times).



Chief Executive's review continued

De La Rue's fundamental strengths

Notwithstanding the issues of the past year De La Rue is a business with enduring fundamental strengths. It is these strengths which provide the foundation for our Improvement Plan.

Brand and reputation

The Group has manufactured banknote paper for nearly 300 years, printed banknotes for 150 years and together with other security products, supplies over 150 countries. In so doing it has established a leading brand which is recognised globally.

Long standing customer relationships

De La Rue has over many years established long standing relationships with central bank governors, their staff and state printing works across the globe. The market is defined by deep and long term customer relationships – the case studies on pages 10 and 11 demonstrate the effectiveness of De La Rue in developing partnerships with its customers over the long term. These relationships provide unique access to a market which consequently has high barriers to entry and which demands proven capability. These long term relationships are supported by experienced and long serving employees, who remain a significant strength of the business.

Market leading position

De La Rue has a market leading position as the largest integrated commercial provider of printed banknotes and a major supplier of banknote paper. As a vertically integrated business the Group is able to provide customers with a complete suite of security features: as an integral part of the paper substrate, as part of the printed features or both as part of a security solution. The Group has also successfully leveraged this capability into its non Currency business.

Technology and design

Over many years the Group has built a significant design capability and a valuable technology portfolio which is highly regarded by its customers. The Group has industry recognised creative flair and expertise in the design of banknotes and security documents. This design capability, aligned with a strong and developing portfolio of technology, provides a formidable competitive differentiator. The high value security features we produce appear in more banknote issues in the available market than those made by our peers.

Robust market growth drivers

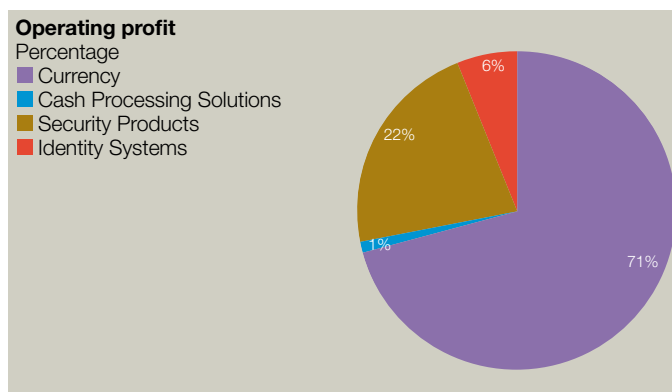
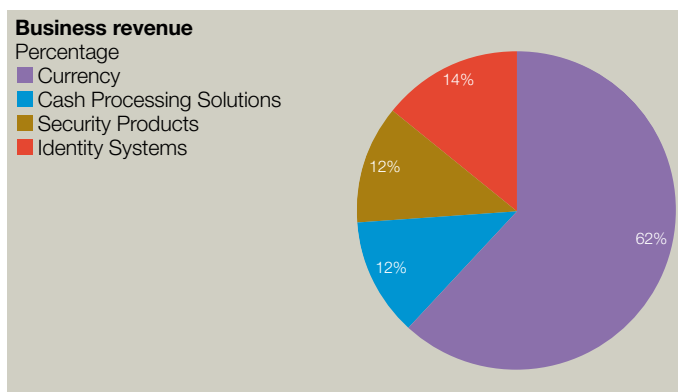
Despite the growth in alternatives such as plastic cards and electronic payments, the number of banknotes in circulation globally is expected to grow by between 2 and 4 per cent annually in the long term though subject to some shorter term variability.

There is an increasing need for enhanced security – be it identity security, security against counterfeiting and fraud or brand authentication. Customers are seeking increasingly sophisticated technology solutions which De La Rue is well placed to provide to combat constantly evolving threats.

Over 70 per cent of the Group's revenues typically come from emerging and developing countries, which positions the Group well for growth.

High margin and cash generative business model

De La Rue's business model is high margin and cash generative which allows for sustained investment in the business and attractive returns for shareholders.



Improvement Plan

An Improvement Plan has been formulated which has at its core the objective of leveraging the capabilities of the Group more effectively than it has done in the past and providing focus to our activities. This is a pragmatic plan and recognises that the business has fundamental strengths upon which De La Rue can build but that the Group must become more efficient and effective.

The target is to return the business to an operating profit in excess of £100m within a three year timeframe by restoring the growth in revenue to historic rates of around 4 per cent, although greater growth is expected in the current year. In addition c£30m of cost reductions are planned, accruing broadly evenly over the three years. It is estimated that the Improvement Plan will incur exceptional charges in the region of £25m and related capital expenditure of approximately £20m, with the majority of the cash cost expected to arise in the first two years.

The Improvement Plan has four defining principles:

- **Customer focus**

The Group will adopt a One De La Rue approach to strengthen sales capability and reach. Regional and country sales plans are being developed and executed

- **Innovation**

De La Rue will accelerate product innovation and deploy new technologies to provide market leading security solutions and features. The Group will explore new partnerships to generate, within its market, new business streams to improve its competitive position and market access

- **Professionalism**

Standardised processes and common systems, including IT, will be adopted in order to improve and develop the level of professionalism in the business

- **Operational excellence**

De La Rue will reduce its cost base, improve quality and productivity, increase its market competitiveness and grow capacity through improved asset utilisation. Specific initiatives, which have already been started, include:

- Operational process improvement – reducing waste and improving quality
- Effective procurement
- Optimisation of Group facilities

Reshaped organisation

The organisation will be reshaped in order to strengthen further the senior management team and allow De La Rue's capabilities to be used more effectively. This structure will ensure management focus on each element of the Improvement Plan as follows:

- A new Group wide supply chain function will target quality improvement and waste reduction. External recruitment to lead this area is well advanced
- The senior management of the three smaller 'Solutions' businesses, CPS, Security Products and IDS will be consolidated into a single business unit. This business will be led by Kevin Freeguard, previously responsible for CPS and Security Products, and will maximise the use of common capabilities, whilst retaining appropriate market insight
- The senior management of the Currency business will concentrate on serving the customer to deliver revenue growth whilst maximising the synergies between its sales resource and that of the Solutions business. The Holographics operation, previously a part of Security Products, will become part of the Currency business, upon which it depends. The Currency business will continue to be led by Keith Brown
- A new business development function will lead and accelerate the innovation within the Group and will be responsible for all (non IT) related product development, R&D and for exploring new business relationships and partnerships. This will be led by Constance Baroudel, previously Group Director of Strategic Marketing
- To drive the change effectively through the organisation James Thorburn, previously Managing Director of IDS, will lead a business transformation team

People

De La Rue is fortunate to have experienced and loyal employees and I would like to take this opportunity to thank them all for their dedication and hard work.

On behalf of the Board I should also like to thank Nicholas Brookes for taking on the role of Executive Chairman in the five months prior to my joining the Group and for guiding De La Rue through the challenging issues it faced last year.

Conclusion

Whilst recognising the challenges ahead, I am confident that, given the strong fundamentals of De La Rue's business, the commitment of its employees and a clear Improvement Plan, we will deliver the value that our shareholders expect.

I am determined that De La Rue will become a more efficient, customer focused, innovative business which will be well placed to grow sustainably in the future.

Despite the difficulties this year, our business is fundamentally strong. On the following pages I want to highlight some of the core strengths that form the foundation of an exciting future for De La Rue...

Strong fundamentals

Long lasting customer relationships
De La Rue is privileged to enjoy some very enduring customer relationships, many of which have developed into strategic partnerships. These strong relationships promote loyalty as customer needs are consistently understood and met during the course of the association.



Bank of Mauritius – 150 year partnership

The first banknote order placed with De La Rue was from the Government of Mauritius in 1860. Some 150 years later, the Bank of Mauritius is still a customer and De La Rue uses its deep experience and understanding of currency gained through serving central banks around the world to develop a tailored currency strategy with the Bank. By investing time in understanding customers' specific market issues, De La Rue has been able to respond to their technical and cultural requirements to deliver a currency they can count on.

A range of Mauritian banknotes, from the earliest to the most recent

Bank of England banknote paper

De La Rue has been supplying banknote paper to the Bank of England since 1725 – a relationship of over 285 years. Joint developments with the Bank have included the introduction of security threads into banknotes in the 1940s and windowed security thread in the early 1980s. The Bank has always been an important customer and the partnership was extended in 2003 when De La Rue began printing sterling as well as providing the paper (see front cover image).

Watermark on Bank of England £20 note



Strong fundamentals continued

Specialised design skills

It is not enough just for De La Rue's products to be beautifully designed – they also need to be highly secure, durable and capable of mass manufacture. The design expertise of De La Rue's banknote artists has been recognised by the International Bank Note Society as well as the International Association of Currency Affairs with the presentation of no less than eight design awards in recent years. Either by working closely with experienced designers from customer institutions or by using internal design teams, De La Rue produces stunning results.

Hong Kong – HSBC \$1,000

The new HSBC \$500 and \$1000 notes issued in 2010 are the result of very close collaboration between De La Rue and the Bank's note designer. A total of 1,500 hours of work was involved for each denomination, including origination and proofing. Design ideas from the Bank were converted into functioning banknotes, incorporating security and manufacturing requirements whilst equally respecting creative freedom. De La Rue is well positioned to achieve this for every customer because of its unrivalled design experience and expertise.

Each detail of the intaglio (raised) print on a banknote starts with an illustration (left image) then progresses through to engraving (middle image) and proofing before appearing fully printed on the finished banknote (right image). Detail from HSBC \$1,000 banknote





King Tutankhamen hologram

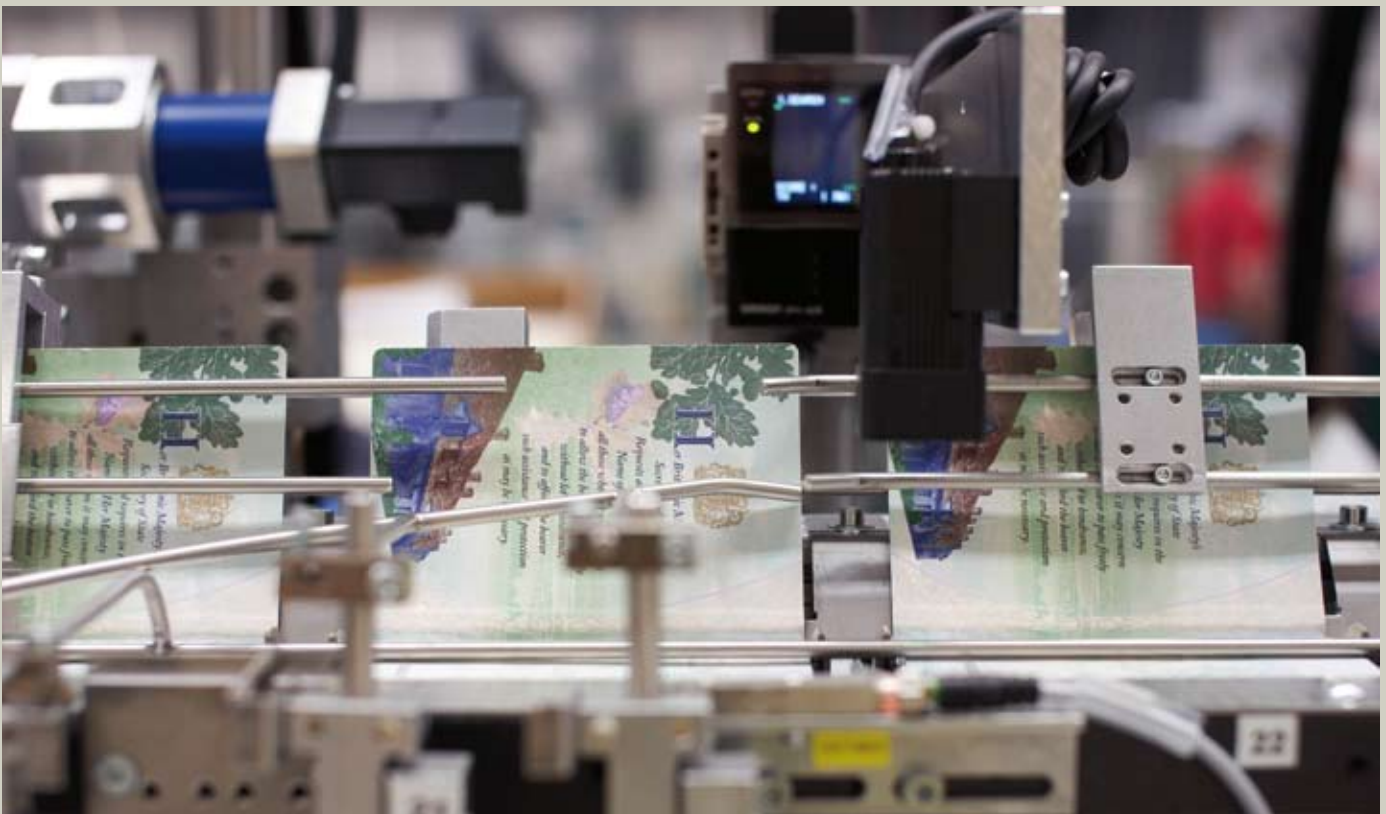
This new hologram from De La Rue Holographics was produced using complex techniques, creating a simple but very striking visual effect that is both highly attractive and secure. The image of King Tutankhamen was created from a model rather than digital artwork, resulting in a more lifelike, three dimensional image. Photographing the model from multiple angles allowed the holographers to create the visual effect of movement as the head appears to turn when the hologram is tilted. In addition to the time taken to research and manufacture, it took in excess of 100 hours of dedicated work just to create the master hologram for this high quality image.

Images of the King Tutankhamen hologram

Strong fundamentals continued

Technology expertise

De La Rue has a proven track record of technological innovations from inventing the envelope folding machine in 1846, to pioneering security thread in banknotes in the 1940s, to today's complex and sophisticated solutions. The aim is to create smart solutions that meet customer requirements, working to provide the technological answers to their needs.



UK Passport

Understood to be one of the most secure identity documents in the world, De La Rue delivers a first world solution for the design, manufacture and personalisation of the new UK ePassport. Providing the highest levels of quality, accuracy, security and innovation for the customer, De La Rue has perfected a sophisticated layering of paper, print and finishing security techniques designed to combat specifically identified threats and ensure document integrity. At the same time the system's networks and IT infrastructures have all been designed to exacting government standards to ensure data integrity throughout the entire manufacturing and personalisation process.

The new UK Passport, issued following a complex and highly secure production process

Implementation of Enterprise Cash Management (ECM™) software by Absa

Absa (The Amalgamated Banks of South Africa Ltd) was seeking to increase the cash processing capacity at its branches but at the same time reduce the processing costs. It chose to replace its manual process with an electronic solution offering higher levels of efficiency and control. Absa selected De La Rue's ECM™ software to enhance the productivity, performance and security of its cash handling operations. The result, integrating ECM™ software, has been an overall 90 per cent increase in throughput and greatly improved levels of service for Absa's customers.

Screenshot of ECM™ software

