Financial Review

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Key Financials (continuing operations)

	2008/2009 £m	2007/2008 £m	Change %
Operating profit before exceptional items	**96.5**	79.2	21.8
Profit before tax and exceptional items	**105.0**	88.6	18.5
Exceptional items	**(8.9)**	2.6	
Profit before tax	**96.1**	91.2	5.4
Headline earnings per share	**57.0p**	41.7p	36.7
Basic earnings per share	**277.7p**	57.8p	380.4
Dividends per share	**41.1p**	21.4p	92.1

Analysis of the Group's assets and related cash/debt by currency

	2009 Group Assets £m	2009 Cash/(debt) £m	2009 Net Assets† £m	2008 Net Assets† £m
£ Sterling	**(23.9)**	**(23.3)**	**(47.2)**	47.3
US Dollar	**39.2**	**(24.3)**	**14.9**	22.9
Euro	**39.1**	**2.0**	**41.1**	65.0
All other	**(3.6)**	**12.5**	**8.9**	78.0
Total	**50.8**	**(33.1)**	**17.7**	213.2

†Excluding minority interest.

In this section of the Business Review we analyse the strong performance and financial position of the Group at 28 March 2009. We also consider the accounting and reporting policies and procedures that support De La Rue's financial performance and position and the key influences on the Group's ongoing financial performance.

Financial Results

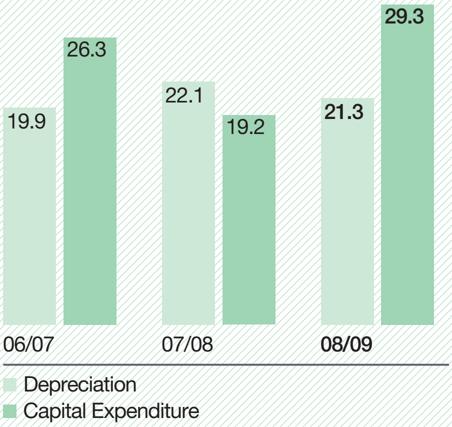
Profit before tax increased by £4.9m to £96.1m (2007/2008: £91.2m) and the Group's operating profits of £87.6m represented an increase of £8.4m or 11 per cent compared with last year (2007/2008: £79.2m). Headline earnings per share increased by 37 per cent to 57.0p (2007/2008: 41.7p) reflecting the improved trading performance and the benefits of the share consolidation carried out in conjunction with the return of cash. Basic earnings per share from continuing operations were 50.9p compared with 43.4p in 2007/2008, representing an increase of 17 per cent.

In Currency, banknote export volumes remained consistent (up 3 per cent on 2007/2008), with a number of new banknote families being launched and a particularly strong sales mix. Overspill represented only 11 per cent (2007/2008: 29 per cent). Productivity efficiencies increased paper output (up 3 per cent on 2007/2008) with the business continuing to benefit from strong capacity utilisation. Overall Group operating profit margins were 2.2 percentage points higher at 19.2 per cent (2007/2008: 17.0 per cent).

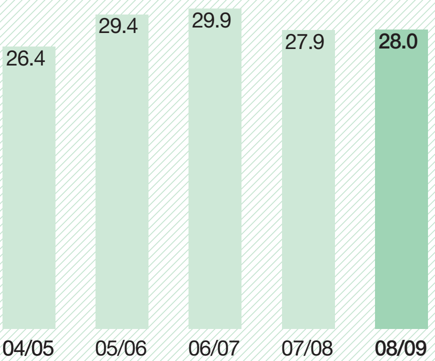
Discontinued Operations

The Group completed the sale of its Cash Systems activities (excluding Cash Processing Solutions) on 1 September 2008. In accordance with the requirements of IFRS5 (non-current assets held for sale and discontinued operations), Cash Systems has been classified as a discontinued operation and has been disclosed as such. The comparatives have been restated accordingly. Profit from discontinued operations (after tax) was £296.5m, which included £12.6m (after tax) from the trading profit of the discontinued activities for the five months

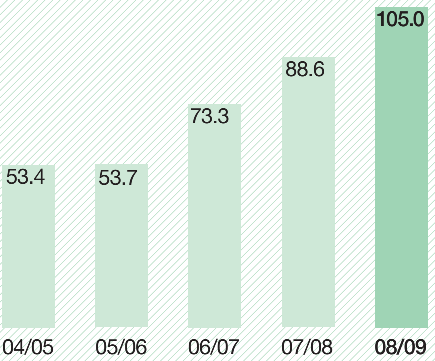
Capital expenditure relative to depreciation
(£m)



Underlying effective tax rate (before exceptional items)
(%)



Profit before tax and exceptional items
(£m)



to 1 September 2008. The profit on the disposal represents the proceeds of Cash Systems on a cash free, debt free basis, less net assets disposed and related transaction costs.

Exceptional Items
Following the sale of Cash Systems, there was an exceptional charge of £8.9m in the year reflecting the restructuring costs associated with downsizing the central organisation, principally covering redundancy, separation costs and site rationalisation charges. This programme is largely complete. In the prior year, the Group terminated its joint venture agreement with the Banco de Portugal and disposed of its holding in Valora-Servicos de Apoio a Emissao Monitaria SA. The investment had previously been written down and the proceeds on disposal of £1.7m were credited as an exceptional item. In addition, in November 2007 the Group disposed of its 50 per cent shareholding in De La Rue Smurfit Limited to its joint venture partner generating a exceptional profit on disposal of £0.9m.

Interest Charge
The Group's net interest income was £1.4m (2007/2008: £2.0m) which reflected the net benefit from the underlying cash generation of the Group. In addition, the IAS19 related finance item, arising from the difference between the interest on liabilities and the expected return on assets, was a charge of £1.8m compared with a credit of £0.3m the previous year.

Taxation
Tax for the year on continuing operations was £28.5m, including an exceptional tax credit of £0.9m (2007/2008: £24.7m). The effective tax rate on continuing operations pre exceptional items was 28 per cent, in line with the last full year's charge. Tax credits relating to exceptional items were £0.9m, with a credit of £1.9m in relation to the central reorganisation being partly offset by a £1.0m charge in respect of the phasing out of Industrial Buildings Allowances, included in the Finance Act 2008.

Cash Flow and Borrowings
During the year operating cash flow from continuing operations was positive at £69.4m compared with £86.7m in 2007/2008. Increased working capital in the year reflected both the increased trading activity and, as expected, a reduction in advance payments of £23m from £63m at 29 March 2008 to £40m at 28 March 2009. Asset working capital ratios remained consistent with the prior year.

Capital expenditure of £29.3m (2007/2008: £19.2m) was higher than depreciation, reflecting the timing of the longer term investment programme directed at enhancing the future capability of the business.

After payment of the 2007/2008 final dividend (£22.3m), the 2008/2009 interim dividend (£13.8m), the B Share dividend of £340.6m, and a £119.3m return of cash, closing net debt was £33.1m compared with net cash of £106.7m at last year end.

During the year, the Group negotiated new borrowing facilities of £175m, comprising a £50.0m three year term loan drawn on 14 November 2008, and a £125.0m revolving facility. Key covenants on these facilities require that the interest cover be greater than four times, and the net debt to EBITDA ratio be less than three times.

Treasury, Foreign Exchange and Borrowing Facilities
The Group Treasury department provides a central service to Group companies and conducts its operations in accordance with clearly defined guidelines and policies, which have been reviewed and approved by the Board. Treasury transactions are only undertaken as a consequence of underlying commercial transactions or exposures and do not seek to take active risk positions. It is Group Treasury's role to ensure that the Group has sufficient available borrowing facilities to meet its needs in the foreseeable future. When managing foreign exchange transactional risk, protection is taken in the foreign exchange markets whenever a business has a firm expectation of confirming a sale or purchase in a non-domestic currency unless it is uneconomical or not practical to do so. For the year ended 28 March 2009 foreign exchange favourably impacted the Group's revenue by £25m and operating profit by £6m, mostly arising from transaction exposure.

Pension Scheme Funding
The Group's last formal (triennial) funding valuation of the Company's UK defined benefit Pension Scheme took place on 5 April 2006 and identified the Scheme had a deficit of £56.0m (6 April 2003: £39.0m deficit). The deficit had arisen primarily as a result of a combination of significant increases in life expectancy, reduced discount rates on liabilities and asset investment performance.

Financial Review
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In April 2004 the Final Salary Section was closed to new entrants with new employees joining the De La Rue Retirement Plan which is a combination of a 1/100ths accrual Final Salary section and a defined contribution arrangement. From June 2007 the normal retirement age was increased from 62 to 65, with retirements before the normal retirement age resulting in a 5 per cent per annum actuarial reduction in pension.

The Group also agreed with the Trustee to make additional special contributions of £12.0m per annum until 2012 or until the deficit is cleared, if sooner. The payments have been made in line with the agreed schedule. Overall, the Group feels these changes fairly reflect a more appropriate sharing of the costs and risks associated with the continued provision of a Final Salary (Defined Benefit) Section.

IAS 19 accounting
It is the responsibility of the independent Trustee to set the method and assumptions for calculating the Scheme liabilities under Scheme Funding Valuation. The assumptions used to calculate the IAS 19 valuation used in the Company's accounts are set by the Company in compliance with the guidance given in IAS 19 and advice from its actuary.

The discount rate used for calculating IAS 19 liabilities is the yield prevailing on AA rated corporate bonds. Those used for ongoing funding valuation are based on actuarial advice taking into account the actual investment profile of assets between bonds and equities over the longer term. This is the principal difference between the two sets of assumptions.

The valuation of the UK Pension Scheme under IAS 19 principles indicates a scheme deficit pre-tax at 28 March 2009 of £67.5m (March 2008: £20.7m). This significant increase in deficit during the year has mainly arisen due to the volatile markets partly offset by the benefit of the Group's special contributions of £27.0m, comprising a regular contribution of £12m (noted above) and a further additional one-off contribution of £15m following the disposal of Cash Systems. The charge to operating profits in respect of the UK Pension Scheme for 2008/2009 was £5.8m (2007/2008: £10.0m). In addition, under IAS 19 there was a finance charge of £1.8m arising from the difference between the expected return on assets and the interest on liabilities.

Principal exchange rates used in translating the Group's results

	2008/2009 Average	2009 Year end	2007/2008 Average	2008 Year end
£				
US Dollar	**1.73**	**1.43**	2.01	1.99
Euro	**1.21**	**1.08**	1.42	1.26

UK Pension Scheme – IAS 19 Valuation

Key assumptions over the past three years for the UK defined benefit scheme

	2008/2009	2007/2008	2006/2007
Key assumptions	%	%	%
Interest rate (AA bond rate)	**6.80**	6.80	5.30
Salary growth	**3.50**	4.10	4.00
Inflation	**2.90**	3.50	3.10
UK pension scheme			
Assets	**£427.3m**	£507.4m	£524.4m
Liabilities	**£494.8m**	£528.1m	£628.7m
(Deficit) – gross	**(£67.5m)**	(£20.7m)	(£104.3m)
(Deficit) – after tax	**(£48.6m)**	(£14.9m)	(£72.7m)