

OPERATIONAL REVIEW

CURRENCY

Provides market leading printed banknotes, banknote paper and a comprehensive portfolio of banknote security features. Working in partnership with its customers to provide effective currency solutions, the business also advises on critical issues of currency strategy such as design, demand forecasting, denominational structure and protection against counterfeiting.

Performance in 2011/12

Banknote print volumes at 6.4bn notes (2010/11: 5.9bn) were 8 per cent higher reflecting the good opening order book and the strong order intake during the year. Paper output volumes of 11,000 tonnes (2010/11: 9,900 tonnes) were up 11 per cent primarily reflecting the internal print volumes, as well as additional external sales.

Revenue increased by 15 per cent to £332.6m (2010/11: £289.0m) reflecting the increase in volumes noted above while operating profit at £45.3m (2010/11: £28.5m) was up 59 per cent. Operating margins improved to 13.6 per cent (2010/11: 9.9 per cent).

The increase in operating profit reflects the higher volumes, an improved product mix compared with the prior year and the benefits of the Improvement Plan. However, some of the gains were offset by increased raw material and component costs, most notably on cotton which had an adverse impact of £9m compared with 2010/11. Cotton prices peaked around February 2011 and have declined since then but currently remain above recent historic levels.

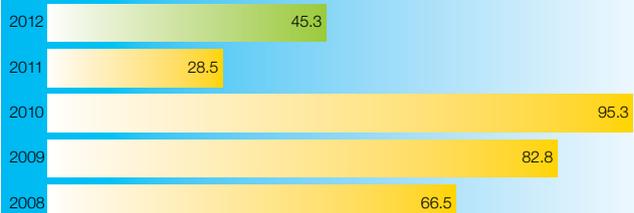
At the year end, the Currency 12 month order book, excluding currently suspended orders, was up 18 per cent at £183m (2010/11: £155m). However, as anticipated, the external market for banknote paper is becoming more challenging, with some downward pricing pressure, as additional capacity has been brought on stream by some of our competitors.

Almost half of all new banknote designs issued into circulation in the past two years were created by De La Rue.

Revenue £m



Operating profit before exceptional items £m





South Sudan – supporting the birth of a nation

When the countdown to independence began, the South Sudanese knew they would need to design, create, print and issue a brand new fully functioning currency within just six months to safeguard the economic stability of the new country. A project of this nature would normally take a minimum of 18 months so the transitional government needed to be sure it could partner with a reliable supplier capable of providing expertise in all aspects of planning, designing and producing an entirely new currency. Once a new denominational structure and volumes had been agreed, De La Rue created nine high quality banknotes from concept and owing to its capability as an integrated supplier was able to ensure the notes were delivered on time.



OPERATIONAL REVIEW

CONTINUED

Market

Continued underlying growth in the market for banknotes remains evident despite the increase in the number of electronic transactions. We continue to expect the long term growth trend for the world market for banknotes to be c4 per cent annually, although the pattern varies considerably between countries. The market available to commercial providers of banknotes and their components is expected to grow at a broadly similar trend rate.

The currency market does, however, exhibit short term variations in order patterns according to the individual decisions taken by central banks. This has the potential to create material volume variation year on year for commercial providers such as De La Rue.

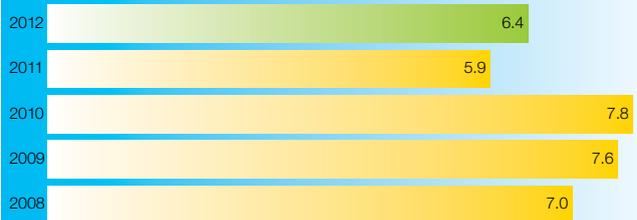
Central bank policy determines the issuance of notes into circulation taking into consideration factors such as design, durability and security:

- A country's currency is a statement of its national identity and the quality of design is of prime importance. Design is a key strength of De La Rue and provides an opportunity for us to differentiate ourselves from other suppliers. Our design excellence has been recognised, with De La Rue customer banknotes winning every major industry design award in the past five years
- The durability of banknotes directly affects the life of a note in circulation and hence the cost to a central bank. De La Rue has developed a range of features to improve durability. For example, Stonegrade™ combines three market proven durability technologies in one banknote: Cornerstone® and Edgestone™, both reinforced paper features, and a preprint anti soiling coating which protects the surface of the banknote. An alternative option to improve durability is the use of a polymer substrate. De La Rue is building on its polymer offering, Flexycoin®, and the first customer order has been secured and is currently in production
- Security and the threat of counterfeiting continues to be a factor driving demand. De La Rue offers a full range of overt and covert security features as integral parts of the substrate, surface applications and printed features. We are developing a range of new capabilities such as innovative banknote thread designs including InSight™, the first banknote security feature to bring together super wide thread design, papermaking and sophisticated print technology

De La Rue customer banknotes have won every major industry design award in the past five years.

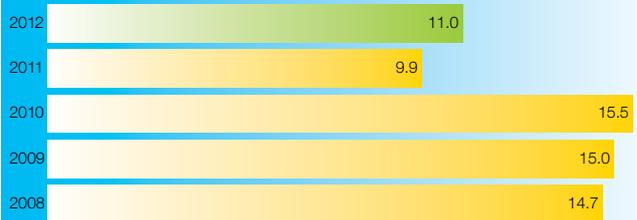
Banknote print volume

Billion notes



Banknote paper output volume

'000 tonnes



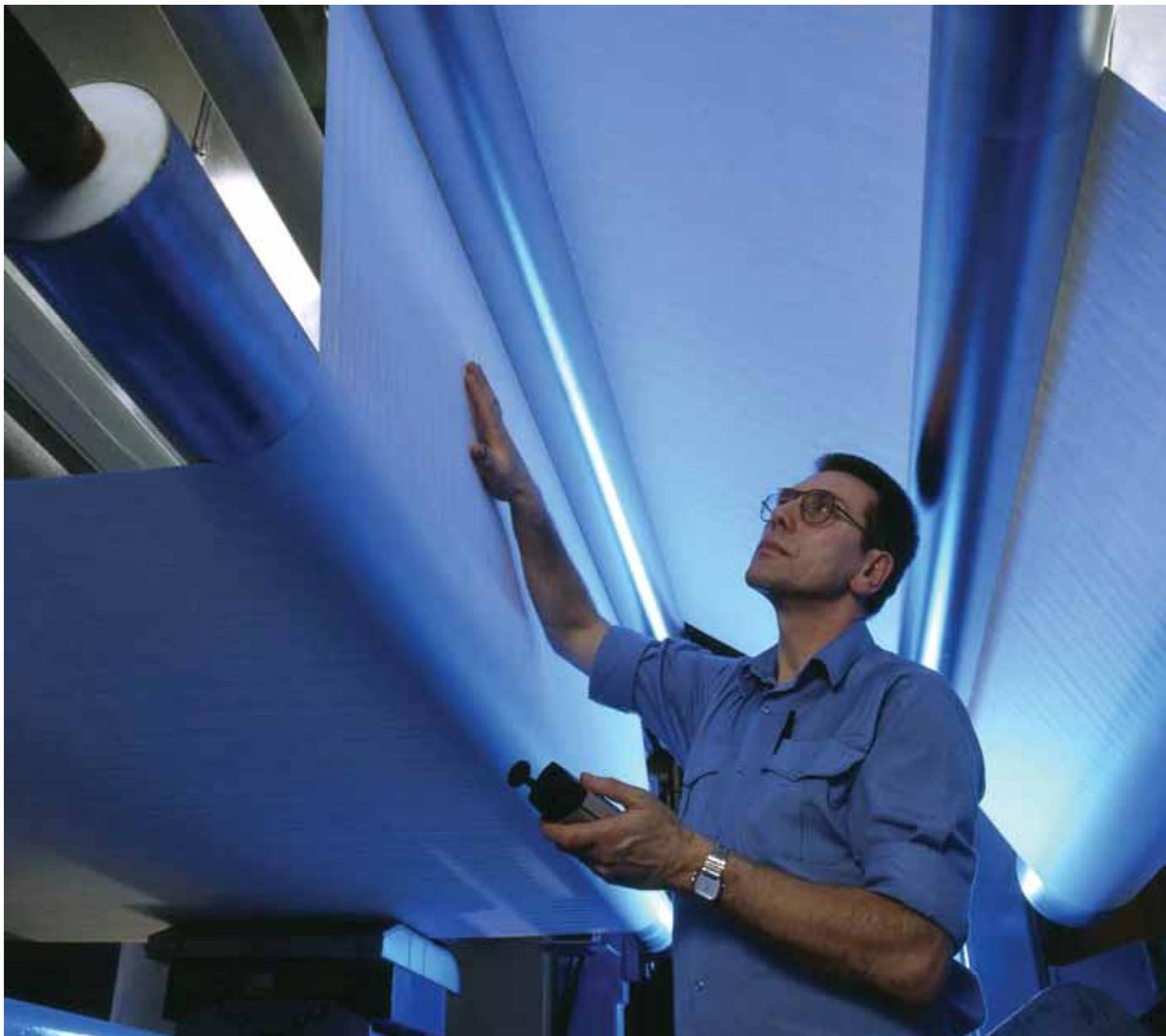
Currency year end 12 month order book

£m



300 years of papermaking

In 1712, paper was made, pressed and dried entirely by hand. Three hundred years later, a typical machine is capable of producing paper for more than 20 million banknotes per day. In the intervening period, De La Rue has been at the forefront of papermaking innovation, pioneering such fundamental advances as embedded and windowed security threads. De La Rue today provides banknote substrates to more customers than any other manufacturer, and in response to recent market demands offers a range of durability solutions including durable paper, coated substrates and polymer. We work with central banks and issuing authorities to help them choose the most appropriate substrates, taking into account considerations such as security, durability and cost effectiveness.



OPERATIONAL REVIEW CONTINUED

SOLUTIONS

Provides specialist physical and digital products and services, including cash processing, revenue and brand protection, identity solutions, and financial and secure documents.

Cash Processing Solutions (CPS)

Performance in 2011/12

Following the recent restructuring programme the performance in CPS continues to improve. Increased volumes of the large DLR 7000 banknote sorter, which processes, sorts and validates up to 2,000 notes a minute, combined with the maintenance of good service revenue have underpinned the 14 per cent increase in revenue. Operating margins have benefited from the restructuring of the business and the improved economies of scale flowing from the higher volumes.

Market

Recognising the need to manage both the cost of cash and the quality of cash in circulation, customers continue to seek control, efficiencies and cost reductions, thereby generating demand for automated cash processing equipment. The trend for central banks to outsource the recycling of banknotes to the commercial sector continues to be evident, increasing the demand for advanced solutions.

This requirement to improve operating visibility and reduce costs also drives demand for cash management software solutions which deliver detailed data and control at all stages of the cash cycle process. This demand creates opportunities for the CPS business within retail and commercial operations as well as De La Rue's core customer base.

The DLR 9000 (see case study opposite) has enhanced De La Rue's product range, meeting currency print facility requirements to improve efficiencies by enabling the quality of banknotes to be rapidly verified as part of the manufacturing process before they are issued.

CPS's global service network supports a large installed base, providing regular service and maintenance to customers and generating stable long term revenue for the business.

Our DLR 7000 high speed sorter processes, sorts and validates up to 2,000 notes per minute.

Revenue £m



Operating profit before exceptional items £m





Securing banknote quality through single note inspection

Building on its industry leading knowledge and experience, De La Rue has developed the DLR 9000 single note inspection system to meet the needs of banknote print works for end of line inspection and processing of printed banknotes. To guarantee the quality of currency, the highly perceptive system inspects every banknote to the highest level of detail, detecting and removing notes that don't meet the defined standard. All banknote data is securely stored, providing full track and trace ability, enabling users to query and analyse the data quickly and easily. The DLR 9000 is simple and intuitive for customers to operate, increasing efficiency and productivity, while its modular design creates a fully configurable and customisable solution that will integrate seamlessly into any production environment.

OPERATIONAL REVIEW CONTINUED

Security Products

Performance in 2011/12

As expected, Security Products has had a challenging year with flat revenue and reduced operating profit resulting from a combination of continued lower Holographic internal and external component sales, and lower demand for brand licensing products. A number of the revenue and cost saving initiatives under the Improvement Plan, including site relocations, will enhance the performance of this operation.

Market

Performance in the government revenue protection and brand authentication sectors reflects the threat of illicit trade and counterfeiting. Security Products has a strong portfolio of secure documents and software solutions to meet customer needs in counteracting these threats.

Governments are working hard to maximise indirect tax revenues on high value consumer goods such as alcohol and tobacco by reducing illicit trade. This year 135 countries agreed on a protocol to eliminate illicit trade in tobacco products as part of the World Health Organisation's Framework Convention on Tobacco Control. This requires those countries to implement systems to allow products to be easily authenticated which will result in higher tax collections.

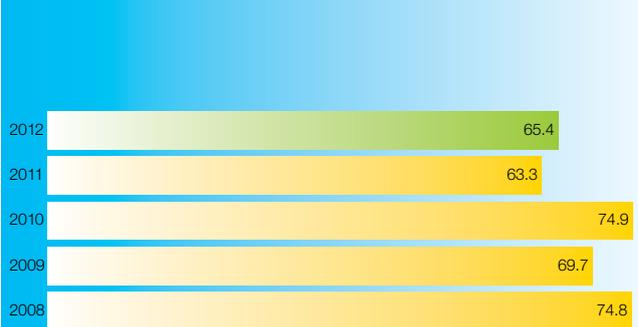
For global brands the threat of revenue losses from counterfeit and parallel trade activities is equally acute. International trade provides an opportunity, but also a threat, to well known brands. Sophisticated product protection technologies linked to digital authentication and tracking solutions are used to ensure that brands are protected and consumers can be confident of using genuine products.

Security Products provides anti counterfeit technology for users of cheques, credit cards, vouchers and postage stamps to minimise the losses from financial fraud.

Security Products supplies other security printers around the world with high security cylinder mould paper suitable for passports and valuable documents. In addition to external sales, the business also supplies De La Rue's Currency and Identity Systems operations with components as part of a robust internal supply chain.

In 2011/12 we printed over one billion postage stamps.

Revenue £m



Operating profit before exceptional items £m





UEFA EURO 2012™ brand licensing

Following the successful UEFA Champions League brand licensing programme, De La Rue was again chosen to provide a similar solution for UEFA's EURO 2012 tournament. High security holographic labels, each uniquely serial numbered, are applied to all UEFA EURO 2012 merchandise. With online ordering and tracking, the solution helps UEFA protect and enhance its brand.

Royal Mail Jubilee stamps

With an association dating back to 1855, De La Rue was the obvious choice when the Royal Mail needed a reliable and high quality partner to print new stamps to celebrate the Diamond Jubilee of Her Majesty Queen Elizabeth II. The series, issued on 31 May 2012, consists of a number of designs taking a look back over the Queen's 60 year reign.



OPERATIONAL REVIEW CONTINUED

Identity Systems (IDS)

Performance in 2011/12

The IDS team has completed the transition on the UK Passport contract from the implementation phase in the prior year to full production and service in the current year. Revenue and profit levels predominantly reflect this successful ramp up to full scale production volumes for the year as a whole. The business has delivered over seven million passports to date under this contract and also supported a successful repatriation of the Foreign & Commonwealth Office passport issuance service.

The international part of IDS performed in line with expectations, continuing to implement a wide range of projects across the globe.

Market

The transition to electronic identity solutions continues to be the most significant trend in the market place with De La Rue well positioned for this development having now delivered a number of projects for customers.

The government identity market is increasingly focussed on complete and integrated solutions rather than just document issuance and as a result, a greater range of technologies is being demanded by customers. Specialist systems integration, therefore, is a key attribute in this area, and De La Rue remains one of the leading providers.

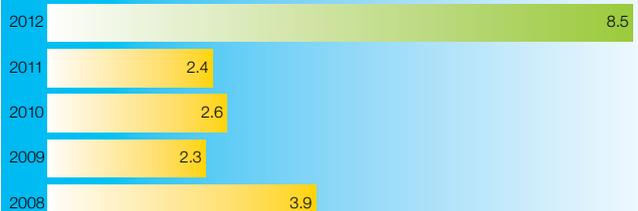
IDS is a contract based business focussing on government customers. The nature of this business is such that revenues can be variable and subject to cancellation or delay. Maintaining as broad a portfolio of business as possible and a strong pipeline of opportunities helps mitigate this risk.

We issue c75,000 secure identity documents around the world every day.

Revenue £m



Operating profit before exceptional items £m





UK Passport – successful full year of delivery

Following a successful go live of the UK Passport project at the end of 2010, De La Rue has had a strong first full year of production with over seven million highly secure books issued to the public to date. In addition to the personalisation of the new book for UK residents, this programme now includes the issuance of documents on behalf of the Foreign & Commonwealth Office. The repatriation of this service allows overseas based UK citizens to renew their passports via local British Embassies and High Commissions around the world, while also ensuring the maximum security benefits associated with a central issuance solution. Place this alongside the delivery of the existing Emergency Travel Document and it is clear that De La Rue delivers a full range of passport and travel document solutions to the UK Government.

