

Our Business

The Group

The Group comprises four strategic business units of Currency, Cash Processing Solutions (CPS), Security Products and Identity Systems (IDS).

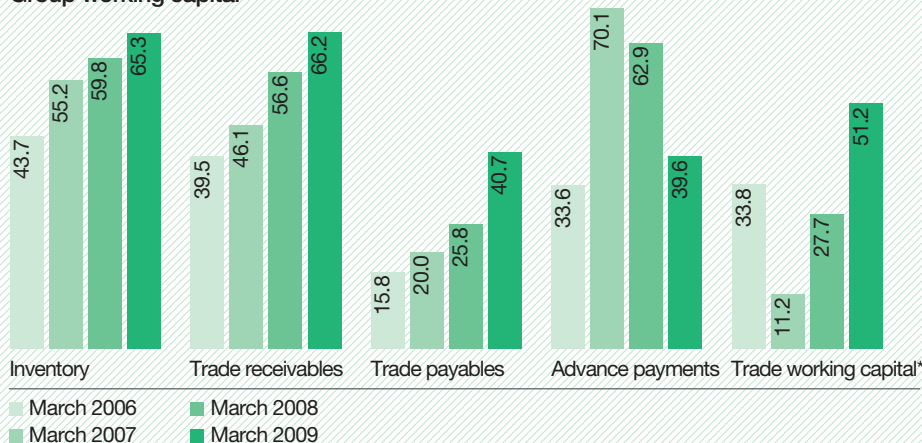
	2008/2009	2007/2008	Change
Revenue	£502.4m	£467.0m	7.6%
Profit before tax	£96.1m	£91.2m	5.4%
Profit before tax and exceptional items ⁽¹⁾	£105.0m	£88.6m	18.5%
Basic earnings per share	277.7p	57.8p	380.4%
Headline earnings per share ⁽¹⁾	57.0p	41.7p	36.7%
Operating cash flow	£69.4m	£86.7m	(20.8%)
Net (debt)/cash at end of year ⁽²⁾	(£33.1m)	£106.7m	-
Dividends per share [†]	41.1p	21.4p	92.1%

[†]includes proposed final dividend

⁽¹⁾ before exceptional costs of £8.9m (2007/2008: income £2.6m)

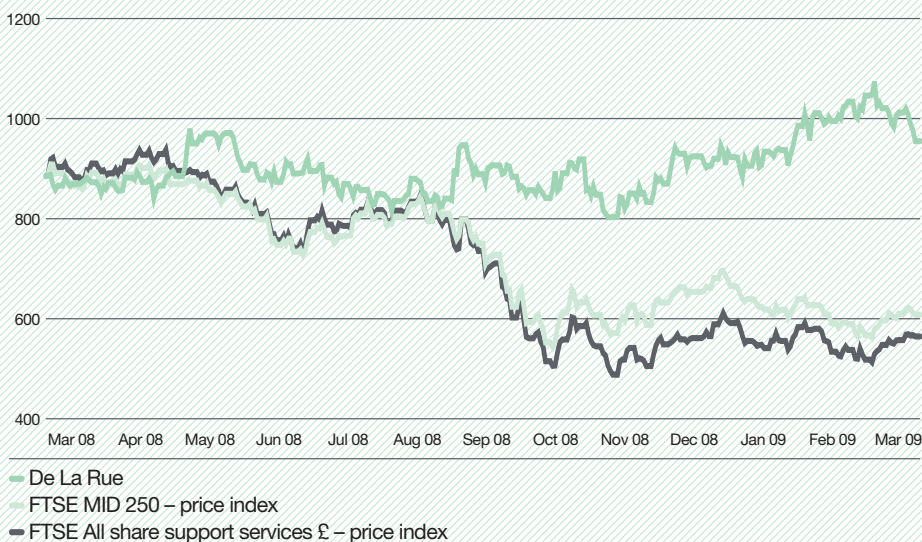
⁽²⁾ cash and cash equivalents of £58.5m (2007/2008: £120.3m) less current and non-current borrowings of £91.6m (2007/2008: £13.6m)

Group working capital



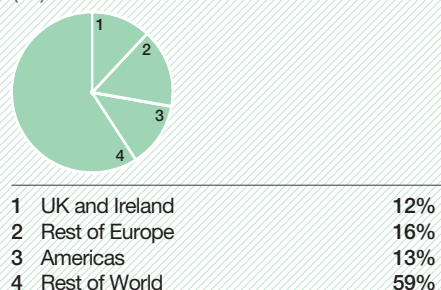
*Trade working capital comprises inventory plus trade receivables less trade payables and advance payments.

De La Rue plc share price performance 2008/2009

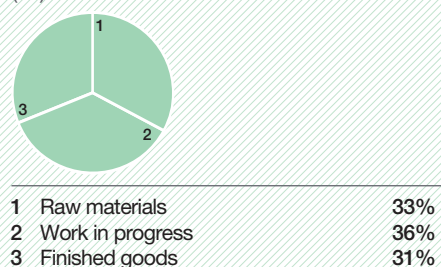


Note: scaled for comparison.

Geographical analysis of Group revenue (%)



Group inventory position – £65.3m (%)



Market capitalisation: 28 March 2009

£927.4m

Employees: operating in 24 countries

4,000

Operating cash flow

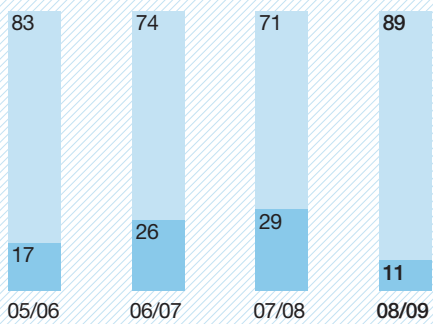
£69.4m

Currency

	2008/2009	2007/2008	Change
Revenue	£348.6m	£316.7m	+10.1%
Underlying operating profit ⁽¹⁾	£82.8m	£66.5m	+24.5%

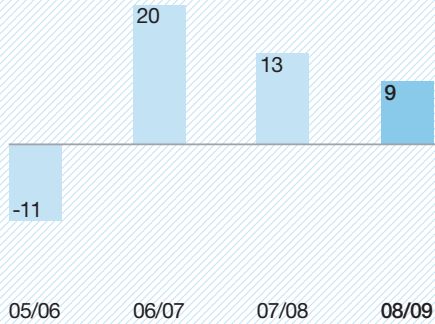
⁽¹⁾ before exceptional items

Banknotes base/overspill
(% of sales)

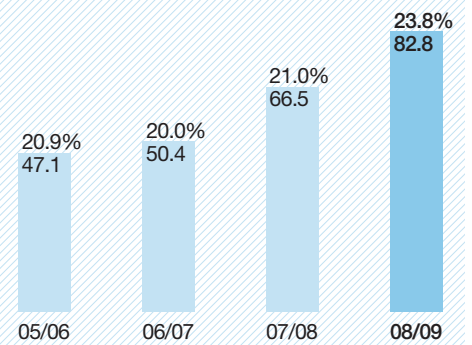


■ Base
■ Overspill

Currency print volumes
(% movement)

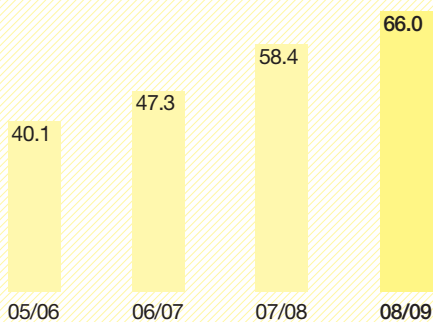


Operating profit and margins
(before exceptional items)
(£m)

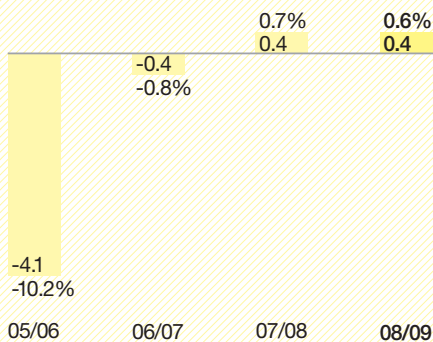


Cash Processing Solutions (CPS)

Revenue
(£m)

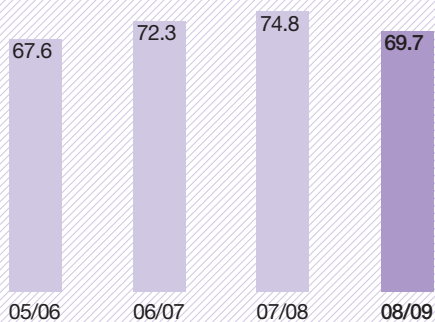


Operating profit and margins
(before exceptional items)
(£m)

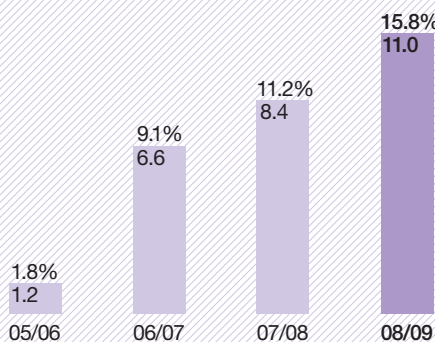


Security Products

Revenue
(£m)

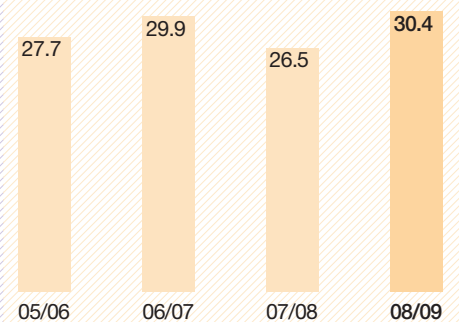


Operating profit and margins
(before exceptional items)
(£m)

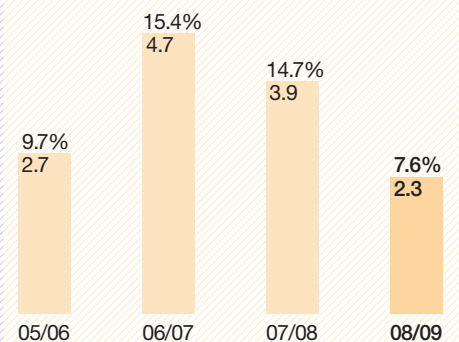


Identity Systems (IDS)

Revenue
(£m)

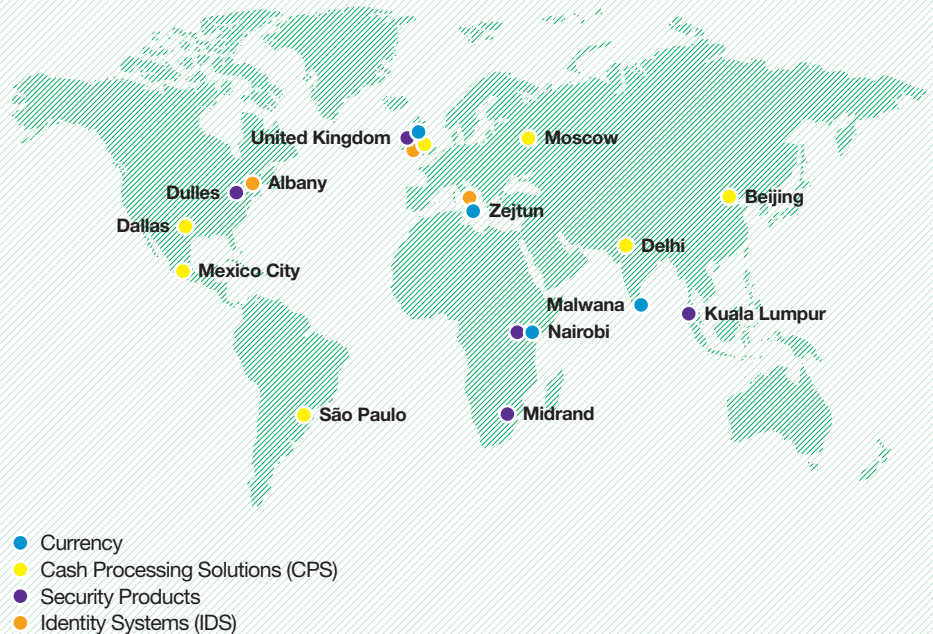


Operating profit and margins
(before exceptional items)
(£m)



Review of Operations

Key Businesses and Activities



This section of the report reviews the year for each of the businesses, and outlines the main trends and factors likely to affect their future development and performance within the Group. Risks and Risk Management are described on pages 34 to 37.

Currency Strategy

Currency's strategy is to maintain and enhance its position as the leading commercial provider of banknotes, banknote paper, security features and associated services worldwide.

The strategy is executed by focusing on three key areas:

- **close customer relationships:** by developing and maintaining the closest possible partnerships with its customers, the business understands their requirements and can tailor the products and services that it provides to meet their particular needs. This understanding of customer needs also drives the innovation process.
- **an efficient and high quality manufacturing base:** as the largest commercial manufacturer of banknotes and banknote paper in the world, De La Rue Currency has natural economies of scale, which are enhanced by comprehensive programmes of continuous improvement to reduce costs while increasing quality.

– **innovation:** in both its products and its processes the delivery of novel security features helps combat the threat of counterfeiting while the efficiency of the cash circulation cycle is key to De La Rue's market leadership.

Key drivers and performance

Currency turned in another strong performance in 2008/2009, assisted by continuing high levels of demand for banknotes around the world, and operated at very high levels of capacity utilisation throughout the year.

Overall banknote volumes increased by 8.5 per cent (2007/2008: increase of 13.4 per cent) despite the very low proportion of overspill work of 11 per cent compared to 29 per cent in 2007/2008. Operating profit margins benefited from volume increases, productivity improvements and the weakening of Sterling exchange rates against the Euro and the US Dollar. In addition, there was a more favourable mix of work compared to the corresponding period last year.

Banknote paper continues to operate at full capacity but production rose by 2.6 per cent (2007/2008 up 18.3 per cent). This was underpinned by productivity improvements, although timing of shipments resulted in volumes sold being only marginally up year on year.

The good order book in Currency continues to provide good visibility into 2009/2010.

Trends and factors of current and future performance

In relation to cash issuance by central banks note retirement is the most important factor as well as changes in the underlying level of GDP and changes in using cash as a means of payment.

Note retirement is affected by:

- the timing and frequency of new note design launches
- changes in cash recycling policy and technology
- growth in automated cash handling by retail banks requiring a cleaner note policy
- changes in denomination structure
- progressive developments in counterfeiting

Marketplace – key challenges and opportunities in the industry

Demand for banknotes continues to be strong around the world, with no indications of a significant decline in demand despite the global economic situation. Although economic growth is one driver of banknote demand, it is not as important as other factors such as shortening design cycles and changes in cash circulation policy. Similarly the continuing development of alternative payment systems shows no signs of a significant impact on cash usage. The value of cash in circulation as a proportion of GDP remains extremely stable in even the most developed economies.

The threat of counterfeiting is ever present and counterfeiters will always try to exploit the latest developments in digital reprographic technology. De La Rue Currency combats this by continuing to invest extensively in the development of innovative and effective security features, using some of the newest developments in materials science. The proportion of counterfeit currency in circulation generally remains extremely low.

Cash Processing Solutions Strategy

CPS' strategic goal is to deliver steady and sustainable growth by utilising De La Rue's reputation in developing strategic customer relationships; and by delivering excellence in execution.

This will be achieved by:

- **Continued development of sales channels:** CPS will grow and strengthen its sales capacity and sales presence by leveraging Group networks and partnering externally where appropriate.
- **Continued development of product offering:** by identifying market trends and investing in R&D, CPS will continually refresh its product portfolio to capitalise on market opportunities in the cash handling environment.
- **Delivering customer-focused excellence:** CPS will leverage its industry expertise to deliver a product set and standard of service that enhances customers' own performance.

Working in tandem with the existing customer base is an important element of CPS' product portfolio strategy. As experts in the industry, CPS can through its products and services help customers to build leading edge strategies which take advantage of new market opportunities.

Key drivers and performance

Over the last decade, technology has begun to influence this historically conservative market sector. At the bank branch level, the growth of ATM networks has increased the accessibility of cash and has underpinned the continuing usage of cash as an ideal medium for a large number of low value transactions. The expectation in the current economic climate that people will use more cash as a method of controlling personal expenditure has increased pressure on financial entities to maintain the integrity and availability of cash in circulation.

For central banks, the automation of cash processing provides a means of fulfilling the twin objectives of security and accuracy, validating both the required standard and integrity of each note.

Review of Operations continued

Commercial bulk cash handlers are sensitive to profit fluctuations and are continually looking to rationalise their business processes and to reduce overheads. In the automation of cash handling, ultra high speed and medium speed sorters can now offer feature rich output, including detailed data on throughput and productivity levels. Combined with industry designed software to track and manage the flow of cash around a cash centre, these capabilities provide commercial entities with the management tools necessary to reduce their costs, maximise their throughput and rationalise their operations.

The development of a refreshed product portfolio was a vital strategic achievement for CPS. During the last year, the business introduced two major products to its portfolio, the DLR7000, the latest in the range of ultra high speed sorters, and monitoring software, ECM™ Dashboard.

Trends and factors of current and future performance

CPS provides consultancy-led cash handling solutions, including banknote sorters, to help central banks, note issuing authorities, commercial banks and other handlers of bulk cash worldwide to process cash efficiently and improve customer service.

CPS focuses on delivering innovation, security and productivity benefits for its customers by tailoring the right solution of hardware and software with cash centre design and process for particular segments of the market which complement the Currency business and maximise the commercial sector. The emerging markets such as Brazil, Russia, China and India may provide further opportunities. CPS' products also comply with the European Central Bank's Banknote Recycling Framework.

Marketplace – key challenges and opportunities in the industry

Cash processing is an essential aspect of the currency life cycle as it assists in maintaining the authentication and integrity of all cash in circulation. As such the cash processing industry is a mature market with a number of differing suppliers and vendors offering a variety of products to manage and control the handling of cash. In order to differentiate itself from other vendors, CPS works with its customers at a strategic level. These strategic relationships allow for greater clarity of discussion and ultimately an improved product and solution offering.

Cash is a valuable commodity that needs to be handled securely by all of those entities responsible for its production, circulation, ownership, transportation and ultimately destruction. Each customer segment has a different but valuable role to play in the currency life cycle, with all customers having individual business drivers and standards to maintain. These requirements heavily influence the cash processing methodology employed. By highlighting its own knowledge of these requirements, CPS seeks to position itself as a market leader on whom the industry can depend.

With its continued investment in innovation and refreshed portfolio CPS is well positioned to provide solutions to meet the needs of its key customer segments.

Looking forward there will be a continued requirement in the market for productivity solutions to enable effective management of the cash cycle. The business anticipates growth opportunities and will seek to improve profitability over the next two years through continued focus on operational efficiency.

ECM™ is a trademark of De La Rue International Limited.

Security Products Strategy

Security Products contains the three niche businesses of Holographics, Security Papers and Security Print. While each of these is among the leading players in its respective area, both Holographics and Security Papers compete in relatively concentrated markets, while Security Print's market is more diverse.

Over recent years, Security Products' strategy has been to reposition the business to focus on and build market share incrementally in segments with strong long term growth prospects. These are brand licensing solutions and authentication labels, government documents, financial card holograms and supplying components to other parts of De La Rue, such as Currency.

Security Products' strategy for the immediate future is to invest in new technology to improve its differentiation in target markets. It will benefit from sharing the Group's intellectual property.

It will achieve further productivity improvement, by building on the Group's existing facilities and by continuing to control costs – a programme that has already delivered significant enhancement to profitability.

Many of Security Products' applications are seen as 'mission critical' to its customers, either in securing their revenues or authenticating their product. This means that the solutions offered by Security Products have to be both effective and robust. Increasingly the business is delivering a full service to its customers, including data management and on-line authentication capability.

In the longer term, Security Products expects to evolve into a solutions business and will upgrade its capability accordingly, using internal development, selective recruitment and external partnerships.

Key drivers and performance

Security Products met its targets for the year, demonstrating continued progress in executing its strategy and strengthening its contribution to the Group. Following the disposal of the De La Rue Smurfit joint venture during the previous year, comparisons are made on a like-for-like basis.

The business grew both its sales and order book, despite the impact of the downturn in its commercial markets and sectors related to consumer demand. This was underpinned by a strong performance from internal components in particular.

A tight rein was kept on overhead and operating costs, delivering more than four percentage points' improvement in operating profit to 15 per cent for the full year.

The modest improvement in sales and the strongly improved profitability combined to drive a substantially higher operating profit, while a marked decrease in working capital resulted in more than 100 per cent of this being converted into cash.

Trends and factors of current and future performance

De La Rue operates as the largest commercial security printer and, in addition to supplying Currency, produces authentication labels; brand licensing products; government documents; overseas cheques; postage stamps and holograms. Opportunities for growth will centre around the development of new customers for these solutions and in particular:

- potential for fiscal stamp growth: at present many countries around the world have either partial fiscal stamp schemes or no such schemes. As governments seek to enhance and protect their revenues, they will tend to introduce new or improved schemes.
- potential in brand licensing: Security Products has been successful in winning several high profile brand licensing contracts. This is a market with scope for further growth.

Other factors relevant to the business include:

- productivity: in recent years, the business has improved productivity, resulting in improved competitiveness. This allows the business to build share in some of its more traditional, less differentiated markets.
- exchange rates: many of its competitors are based in the euro zone. The business is currently benefiting from the high value of the Euro compared to Sterling.

Marketplace – key challenges and opportunities in the industry

Security Products' customers fall into two broad categories: governments and international commercial organisations. In both cases many contracts are secured on a multi-year basis. This means that, while sales cycles may be long, once contracts are secured the business benefits from a significant degree of continuity and a good level of forward visibility.

While Security Products has shown considerable resilience, it is not immune to the current economic climate. Call-off orders from its commercial customers, particularly in the brand licensing and authentication labels area, were scaled back in the second half of the year, reflecting weaker demand in their end consumer markets. At present, there is no sign that demand is yet returning to normal levels, despite the long term trend toward increased demand for such solutions.

In government business, Security Products has two routes to growth: building market share in a currently fragmented market and increasing its use of De La Rue's reputation and relationships across the world. At the same time, Security Products' internal components businesses will continue to work closely with the Currency business and benefit from the ongoing strength of demand in that market.

Review of Operations continued

Identity Systems

Strategy

Identity Systems' (IDS) goal is to deliver steady and sustainable growth, focusing on existing markets while at the same time continuing to extend its capabilities and customer offering so as to benefit from the expansion of the identity market as it evolves.

The business has three streams through which it intends to deliver this strategy:

- **continued development of sales channels:** growing and strengthening its sales presence to capitalise on market growth; leveraging Group networks and partnering externally where appropriate.
- **innovation and breadth of proposition:** targeting research investment to develop differentiated security features for documents using Group technology. The business will also expand its range of solutions to meet customers' changing needs by investing in enhanced software and infrastructure capabilities and broadening its range of electronic identity solutions.
- **delivery of customer-focused operational excellence:** maintaining focus on quality and procurement excellence to ensure cost advantages and superior customer satisfaction.

Key drivers and performance

The identity market is growing steadily, driven by increased cross-border security initiatives and growing public sector spending on identity card initiatives. In addition, the technology has developed rapidly with the advent of both ePassports, which include a chip and Radio Frequency Identification (RFID) antenna, and chipped identity cards. Not only does this technology drive increased document sophistication, it also requires a complex, secure infrastructure to handle, store and encrypt personal data.

Profitability and success are strongly dependent on IDS' ability to buy effectively and to manage production costs. In bringing together identity solutions to meet customer needs, the business may act as a reseller and integrator, adding various elements supplied by third parties to its core proposition. Robust procurement, particularly for chipped inlays, is essential. The increased cost of materials with the move to ePassports and exacting customer requirements also drive a focus on quality and cost control, especially within the manufacturing base.

During the year, De La Rue opened its state of the art ePassport factory in Malta. Benefiting from operational synergies with neighbouring Currency facilities, the site will enable the business to capitalise on the continuing conversion from old style machine readable passports to ePassports.

The business achieved sales of £30.4m in 2008/2009 (2007/2008: £26.5m), with significant wins stemming from previous investment in capability. The launch of its first chipped, RFID identity card helped to secure a major contract renewal in the year. The business also introduced its first complete integrated national ePassport and electronic identity card programme. IDS now has contracts for the supply of ePassports to five countries.

Trends and factors of current and future performance

The following factors are relevant to the IDS business:

- the growth rate in the identity market is above 10 per cent and is driven by the transition to electronic and new technologies, coupled with an increasing need to identify individuals for social and security reasons.

- growth of data management services: such as secure data capture transmission, authentication and management. These are early signs of a gradual move away from physical documents to bio-verification.
- increased technology sophistication: passports need to be integrated into overall government systems and as the electronic requirements increase complexity so opportunities for product and service are created.

The technology shift also opens opportunities for De La Rue to partner with State Print Works as they, too, make the transition to ePassports, with the provision of procurement, personalisation and issuance services.

Marketplace – key challenges and opportunities in the industry

Although most of the larger developed countries have now moved to ePassports, in IDS' core markets customers are continuing to transition gradually, as expected. IDS has aimed to place itself strongly in the machine readable passport market in order to benefit from this transition. The changing technology increases the scope of countries' requirements, adding a need for more sophisticated services for data capture, handling and assurance. In the identity card market, IDS has pursued a similar strategy, culminating in the sale of its first chipped identity card products this year.

IDS has opportunities to grow as its target customers pursue this migration to electronic identity cards and ePassports. The growing technology challenges faced by governments also present IDS with an opportunity to deepen its services to existing customers. The business anticipates continued steady growth. The business will also seek to improve profitability over the next two years through continued procurement focus and improvements in production efficiency.