Review of operations

Currency

	Excluding Paper†			Reported		
	FY19	FY18	Change	**FY19**	FY18	Change
Revenue (£m)	**398.9**	344.1	+16%	**447.1**	371.8	+20%
Adjusted operating profit* (£m)	**41.7**	40.5	+3%	**n/a**	n/a	n/a
Adjusted operating margin*	**10.4%**	11.8%	-140bpts	**n/a**	n/a	n/a
IFRS operating profit (£m)	**n/a**	n/a	n/a	**21.0**	30.7	-32%
IFRS operating profit margin	**n/a**	n/a	n/a	**4.7%**	8.3%	-360bpts
Banknote print volume (bn notes)	**7.5**	7.3	+3%	**7.5**	7.3	+3%
Polymer volume (tonnes)	**998**	810	+23%	**998**	810	+23%

* Excludes exceptional item charges of £2.6m (FY18: net charges of £14.4m). This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on page 153.

The Currency business comprises Banknote Print, Polymer and Security Features.

Excluding paper†, the Currency business delivered 16% growth in revenue to £398.9m (FY18: £344.1m), benefiting from strong growth across all Currency product lines. Adjusted operating profit was up 3% to £41.7m (FY18: £40.5m). The Currency business operating margin reduced year on year due to a mix with more complex and lower margin jobs this year, and continuing competitive pressures and investment.

On a reported basis, revenue was up 20% and IFRS operating profit was 32% lower than FY18 driven by the loss of operating profits from the paper business following the disposal on 29 March 2018, the impact of the reduced margins and investment referred to above alongside increased exceptional charges, with £18m credit loss associated with the accounts receivable balance of a customer in Venezuela in FY19 exceeding the exceptional items in FY18 of £14.4m relating to the Portals disposal.

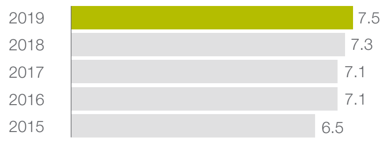
Adjusted and IFRS operating profit were also impacted by a net non-recurring credit of £2.3m due to the release of an accrual relating to a dispute which arose out of the well-publicised events of 2010 concerning one of De La Rue's key customers, and the recognition of a significant bad debt expense (excluding amounts relating to Venezuela).

Currency revenues benefited from the impact of the adoption of IFRS 15 (revenue from contracts with customers) with a net additional amount of £11.9m being recognised on an 'over time basis' in FY19 whereas under IAS 18 the majority of this revenue would have been recognised in FY20 on final delivery to the customer. The operating profit impact was £6.6m on both an adjusted and IFRS basis. Excluding the impact of IFRS 15 Currency revenues would have been up 13% excluding paper† and 17% on an IFRS basis. Adjusted operating profit would have been £35.1m, lower by 13% compared to FY18.

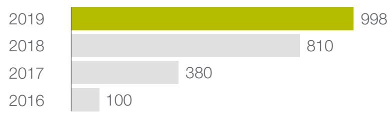
At the year end, the 12 month order book for Currency was £202m (FY18: £272m).

† Reported figures included in this release include the paper business results in FY18 as originally reported and in FY19 they include £48.2m of revenue on non-novated contracts relating to the disposal of the paper business with nil profit margin. Figures reported on the 'excluding paper' basis have been adjusted to exclude revenue from non-novated contracts in FY19. In FY18 'excluding paper' figures exclude the results of the paper business and include pro-forma Security Features sales of £35.0m, which were previously treated as internal, to present the comparative numbers in FY18 on a basis consistent with the IFRS accounting treatment applied in FY19. This is a change in presentation of FY18 results in this release compared to those previously reported in the release in May 2018.

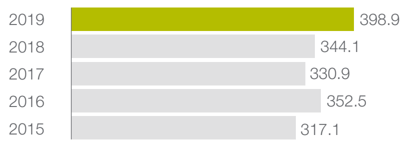
Banknote print volume
Billion of notes



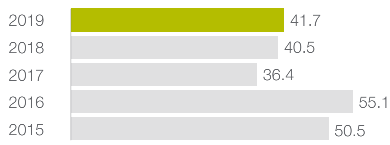
Polymer volume
Tonnes



Currency revenue
£m



Currency adjusted operating profit*
£m



Security Features

On an excluding paper[†] basis Security Features revenue grew by 38% year on year, with volumes growing 24% to 4.7m m^2 this year. We have seen early traction with Ignite® and PureImage™, the banknote features launched in May 2018, with our first customer for PureImage secured in September 2018. As typical for banknote products, security features have a long sales cycle which could take up to 24 months. Therefore, the early adoption is particularly encouraging.

Banknote Print

Banknote Print volumes increased by 3% to 7.5bn notes (FY18: 7.3bn), and revenue was up 12%. The higher volumes were supported by higher overspill demand, in particular from Venezuela.

As previously announced, the formation of the joint venture between De La Rue with the Government of Kenya was completed on 18 April 2019. De La Rue retains a 60% stake of the joint venture and will continue to manage and control the day to day operations. The move has further strengthened our ties with the country and secured our position as a regional supply hub for security printing.

Polymer

Total Polymer volumes increased in the year by 23% to 998 tonnes, 667 tonnes of which related to direct sales of polymer substrate. Including the notes on order, our Safeguard® substrate is currently, or will be, adopted by 26 note issuing authorities across 61 denominations (FY18: 24 note issuing authorities and 50 denominations).

We continue to differentiate and we have been investing in developing special materials that can be embedded into the polymer substrate, as well as design and security features that make our polymer note stand out. Illuminate™, a new design feature launched in December 2018 in the Mauritius 200 Rupee, is one of the latest innovations designed to complement our Safeguard substrate.

Transforming Debden

Debden was one of our first factories to be able to print polymer banknotes. From 2014 to 2018, the factory went through a transformation programme that included installing two new print lines and launching the Bank of England's £5 and £10 polymer banknotes.

The transformation itself was based on a culture of problem solving, with Toyota Kata – a continual improvement process – being the primary problem solving tool. Innovations at the site included the world's first single pass tactile emboss machine, as well as a laser guided device to measure tactile feature height, and an unblocking machine invented by a De La Rue engineer, that won a UK Works Management Employee Innovation award. During this period, productivity for printing on polymer increased by over 50%.

> We have a culture of innovation and problem solving that enables us to implement new products and technology.

Barry McDonnell,
Manufacturing Director, UK

Digitalising holography

Holograms are a key security feature, but most hologram forgeries are based on simulating the effect rather than re-constructing the holographic image. To address this, we can develop more complex structures, or create brighter holograms. Using digital holography, we can create multicolour and multiplexed holographic images, but this technique is widely used in the low security commercial market. There are, however, only a handful of companies expert in making 'classical' holography or advanced 'rainbow' holography, and we are the world leader in this field.

Given our expertise, we apply an advanced form of digital holography to augment our classical method, and it's the combination of these two different methods that gives us a near unique holographic origination capability and versatility.

> The majority of hologram counterfeits are based on mimicking the effect rather than re-originating the holographic image. One approach to addressing this is to develop more complex structures and to create brighter holograms.

Brian Holmes,
Chief Scientist

Review of operations continued

Identity Solutions

	Excluding Paper†			Reported		
	FY19	FY18	Change	**FY19**	FY18	Change
Revenue (£m)	**78.4**	78.9	-1%	**78.4**	82.0	-4%
Adjusted operating profit* (£m)	**12.7**	7.0	+81%	**n/a**	n/a	n/a
Adjusted operating margin*	**16.2%**	8.9%	+730bpts	**n/a**	n/a	n/a
IFRS operating profit	**n/a**	n/a	n/a	**12.2**	7.5	+63%
IFRS operating profit margin	**n/a**	n/a	n/a	**15.6%**	9.1%	+650bpts

* Excludes amortisation of acquired intangible assets of £0.5m (FY18: £0.6m). This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on page 153.

Excluding paper†, revenues were largely flat year on year, as lower volumes in the international identity business were offset by increased UK passport volumes following a spike in demand at the end of the year. Adjusted operating margin increased by 730bpts in the year, or by 260bpts excluding the £3.7m write off of the UK passport bid costs in the prior year, driven by the timing and mix of contracts within this business.

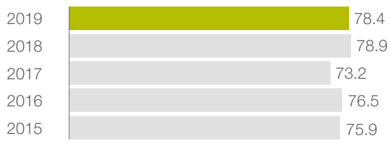
On a reported basis, revenue was 4% lower and IFRS operating profit was 63% higher than the prior year in line with the growth in adjusted operating profits.

Adjusted and IFRS operating profit also benefited from the release of a credit loss provision of £1.7m which was recorded in a previous year and as the customer paid the underlying balance in the FY19 was not required.

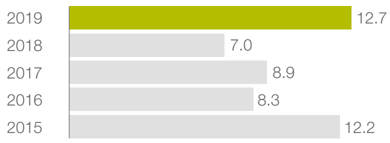
Identity Solutions revenue benefited from £0.3m recognised in the year relating to IFRS 15. This revenue has been recognised on an 'over time basis' in FY19 which is different to the previous timing of recognition under IAS 18.

In May 2019, we have agreed an exit plan for the UK passport contract and now have a clear timeline for the service transfer to the new supplier. We are currently in joint consultation with the new supplier and our employees who may be affected by the changes. This consultation process will conclude by the end of September. Operations for UK passport production will have concluded by end March 2020.

Identity Solutions revenue £m



Identity Solutions adjusted operating profit* £m



† Reported figures included in this release include the paper business results in FY18 as originally reported and in FY19 they include £48.2m of revenue on non-novated contracts relating to the disposal of the paper business with nil profit margin. Figures reported on the 'excluding paper' basis have been adjusted to exclude revenue from non-novated contracts in FY19. In FY18 'excluding paper' figures exclude the results of the paper business and include pro-forma Security Features sales of £35.0m, which were previously treated as internal, to present the comparative numbers in FY18 on a basis consistent with the IFRS accounting treatment applied in FY19. This is a change in presentation of FY18 results in this release compared to those previously reported in the release in May 2018.

Product Authentication & Traceability

	Excluding Paper†			Reported		
	FY19	FY18	Change	**FY19**	FY18	Change
Revenue (£m)	**39.3**	38.4	+2%	**39.3**	40.1	-2%
Adjusted operating profit* (£m)	**5.7**	9.4	-39%	**n/a**	n/a	n/a
Adjusted operating margin*	**14.5%**	24.5%	-1000bpts	**n/a**	n/a	n/a
IFRS operating profit	**n/a**	n/a	n/a	**3.4**	7.7	-56%
IFRS operating margin	**n/a**	n/a	n/a	**8.7%**	19.2%	-1050bpts

* Excludes exceptional items charges of £2.1m (FY18: £1.6m) and amortisation of acquired intangible assets of £0.2m (FY18: £0.1m). This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on page 153.

PA&T performed in line with our expectations. Revenue increased by 2% on increased volumes. Adjusted operating profit excluding paper† was 39% lower due to £1.2m of upfront operating expenses associated with the tax stamp projects in the UAE and the Kingdom of Saudi Arabia, as well as a £2.3m impact of the move of our PA&T production line from Gateshead to Malta in the first half of the year. We anticipate that the operating margin of this business will improve going forwards as the upfront costs are not repeated, and as the production line gets fully established and optimised.

On a reported basis, revenue declined by 2% and IFRS operating profit was 56% lower due to the loss of operated profits for the paper business and higher exceptional item charges in FY19 compared to FY18.

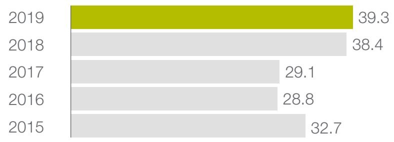
The digital tax stamp system being rolled out for the Federal Tax Authority of the UAE is now in operation and excisable tobacco products carrying the stamp and digital code are being imported into the Emirates. The system will deliver a scheme fully compliant with the World Health Organisation's FCTC.

Momentum in government revenue solutions (GRS) has gathered pace. In February 2019, we were awarded a five year contract by Her Majesty's Revenue and Customs to implement a track and trace system for all tobacco products sold in the UK to comply with the requirements of the EUTPD, a first digital only contract for PA&T. Also in support of the EUTPD we secured contracts to supply more than 3.5bn tax stamps each year to be applied on tobacco products sold in the UK, France, Austria, Sweden, Finland and Cyprus. Continuing our work to help governments secure excise revenues and meet regulatory requirements, De La Rue signed a five year contract with the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia to implement and operate a digital tax stamp solution for all tobacco products and soft drinks sold in the Kingdom.

On brand protection, DAS has performed well, winning eight new programmes. It has also released several new and enhanced products for Izon® and Traceology®.

Strong momentum in GRS, together with stable growth in brand protection, will drive our PA&T business to double revenue within the next three years.

Product Authentication & Traceability revenue £m



Product Authentication & Traceability operating profit* £m