De La Rue plc
Interim Report 2011

Throughout this Interim Report, 'Group' is used as a collective term to describe De La Rue plc and its subsidiary companies. 'Company' is a reference to De La Rue plc.

Overview

Governance

Financial statements

Notes to the financial statements

As the world's largest integrated commercial security printer and papermaker, De La Rue is a trusted partner of governments, central banks, issuing authorities and commercial organisations around the world.

The Group is involved in the design and production of over 150 national currencies and a wide range of security documents including passports, driving licences, authentication labels and tax stamps. In addition, the Group manufactures sophisticated, high speed cash sorting equipment.

De La Rue also offers a range of specialist services and software solutions including government identity schemes, product authentication systems and cash management processing solutions.

De La Rue employs approximately 4,000 people worldwide and is listed on the London Stock Exchange. For further information visit De La Rue's website at www.delarue.com

Key financials

Headlines

- Group's first half operating profit performance up 13% to £31.5m
- Headline EPS up 24% to 21.4p
- Interim dividend maintained at 14.1p
- Operating cash conversion** of 109%, net debt remains low at £39m
- Banknote print volumes up 12% to 2.8bn notes
- Strong Currency order book up 14% on year end
- Good progress with the delivery of the Improvement Plan

**Operating cash conversion equals operating cash flow excluding exceptional items, special pension contributions and the movement in advance payments (£2m), less capital expenditure, divided by operating profit

Revenue
2011 half year: £238.1m
2010 half year: £209.2m

Operating profit*
2011 half year: £31.5m
2010 half year: £27.8m

*Reported before an exceptional charge of £1.9m in 2011/12 and net exceptional income of £45.6m in 2010/11

Profit before tax and exceptional items
2011 half year: £29.0m
2010 half year: £23.8m

Profit before tax
2011 half year: £27.1m
2010 half year: £69.4m

Headline EPS*
2011 half year: 21.4p
2010 half year: 17.2p

Dividend per share
2011 half year: 14.1p
2010 half year: 14.1p

*Reported before an exceptional charge of £1.9m in 2011/12 and net exceptional income of £45.6m in 2010/11

Chairman and CEO comments

Nicholas Brookes, Chairman, commented:

"We have delivered a strong first half performance with banknote print volumes materially above the previous half year. Our Solutions business unit completed the successful ramp up of the UK Passport contract and sales of the large banknote sorter remain good. Our strong order book in the Currency business unit underpins our confidence in meeting our expectations for the full year."

Tim Cobbold, CEO, commented:

"The excellent progress we have made in implementing the Improvement Plan reinforces my confidence in the core strengths of the business and De La Rue's ability to meet our target of an operating profit in excess of £100m by 2013/14.

"With the Group's strong, established market position and pipeline of opportunities, I remain confident in the growth prospects for the business and the delivery of long term value to our shareholders."

Interim statement

During the first half of 2011/12 the Group delivered strong growth in revenue and operating profit as well as making good progress in implementing the first phases of the Improvement Plan, which was announced in May 2011. The Plan is on track and we remain confident that the Group will deliver its targets by 2013/14.

Delivering the improvement plan

The Improvement Plan has a target to return the business to an operating profit in excess of £100m by 2013/14 through a combination of revenue growth and a £30m reduction in operating costs.

The structure of the Group has been simplified into two business units, Currency and Solutions (though reporting of the performance of the three constituent operations within Solutions has been continued to allow comparisons with previous periods).

The new functional organisation, which will allow the Improvement Plan to be implemented effectively, has been successfully established and comprises:

- Currency – responsible for Currency customer focused sales and marketing activities
- Solutions – comprising sales and marketing for Cash Processing Solutions, Security Products and Identity Systems activities
- Strategy and Business Development – responsible for new business, material science R&D and innovation
- Supply Chain – responsible for manufacturing, quality, procurement and planning

The new organisation allows much greater focus on both revenue growth and cost reduction.

Revenue growth

- The first wave of country plans has been prepared on a One De La Rue basis and show that there is considerable potential to accelerate the growth of the business. For these countries the plans are now being actively implemented with early signs of progress
- The Group launched a new polymer substrate, Flexycoin™, during the period and quickly secured the first order. This is an exciting extension to the Group's product portfolio which has attracted significant interest from a number of potential customers
- Within the Cash Processing Solutions business a new advanced single note inspection machine incorporating the latest technology has been developed with the first orders expected shortly
- Early in November the Board committed to a significant investment in a world class and industry leading R&D technology centre to be established in Overton at a cost of approximately £3m. This centre of excellence will provide our scientists with the facilities to accelerate the rate of innovation that underpins the Group's growth prospects and margins

Cost reduction

- A fundamental reassessment of the Group's approach to manufacturing is taking place to sharpen the performance on quality, waste and workplace management. The benefits of these have already been recognised by customers and are starting to contribute to the Group's financial performance
- A technical partnership has been signed with Komori Corporation, a respected Japanese manufacturer of printing equipment, in order to access state of the art print machine technologies
- A central procurement team has been established within the Supply Chain organisation and this team has, through consolidating the supply base and placing a greater focus on all constituents of cost, already identified savings of c£10m
- A new central quality team is focused on defining process standards and on ensuring the adequacy of quality control plans
- A review of the Group's manufacturing facilities was completed in August. Plans have been announced to relocate the Dunstable operation to Gateshead and to relocate the Basingstoke based Holographics activities to Westhoughton. The consultation and planning process is well advanced and the transfers are expected to be completed within 18 months, generating c£6m of savings per annum

In the first half, the Improvement Plan has delivered approximately £3m of savings predominantly derived from better procurement and enhanced manufacturing processes.

Financial results

Revenue was up 14 per cent to £238.1m in the first half (2010/11: £209.2m). Group operating profit before exceptional items was £31.5m (2010/11: £27.8m) representing an increase of 13 per cent. The Group's operating profit margin before exceptional items remained broadly unchanged at 13.2 per cent (2010/11: 13.3 per cent).

Profit before tax and exceptional items increased 22 per cent to £29.0m (2010/11: £23.8m). Headline earnings per share increased by 24 per cent to 21.4p (2010/11: 17.2p). Profit before tax was £27.1m compared with £69.4m in 2010/11 which included a profit of £52.9m following the sale of the Group's investment in Camelot, the UK national lottery operator.

An interim dividend of 14.1p has been declared for the half year ended 24 September 2011 (2010/11: 14.1p). This will be payable on 11 January 2012 to shareholders on the register on 9 December 2011.

Cash inflow from operating activities in the first half was £33.2m, with a strong operating cash conversion of 109%. After capital expenditure and financing activities, net debt has increased by £8.0m since March 2011 to £39.2m.

Operating reviews

Following the reorganisation, the Group's operations are reported in two business units – Currency and Solutions. To assist with historical comparatives, the Solutions business unit has been sub divided into Cash Processing Solutions, Security Products and Identity Systems. These operating units have been disclosed as separate reportable segments as they are the components that the Board and senior management monitor regularly in making decisions about operating matters such as allocating resources to the businesses and assessing performance.

Interim statement continued

Currency

	2011 Half year	2010 Half year	Change
Banknote print volume (bn notes)	**2.8**	2.5	12%
Banknote paper output ('000 tonnes)	**5.3**	5.7	(7%)

	2011 Half year £m	2010 Half year £m	Change
Revenue	**145.7**	132.7	10%
Operating profit before exceptional items	**22.9**	21.5	7%

Banknote print volumes at 2.8bn notes (2010/11: 2.5bn) were 12 per cent above the prior year reflecting the improved opening order book profile and good order intake in the period. Paper volumes at 5,300 tonnes, were down 400 tonnes (7 per cent) compared with the corresponding period. The 2010/11 volume however, included the supply of c1,800 tonnes to a major customer to which further supplies were suspended following the paper production issues in July 2010.

Revenue rose by 10 per cent to £145.7m (2010/11: £132.7m) reflecting the increased banknote print volumes. Operating profit at £22.9m (2010/11: £21.5m) was up 7 per cent, the result of the higher volumes partly offset by increased raw material costs of approximately £6m caused by the significant worldwide increase in cotton prices. Consequently operating margins were 15.7 per cent (2010/11: 16.2 per cent) however, excluding the impact of cotton prices, margins would have been up by 3.6 percentage points. The operating profit impact of foreign exchange in the period was minimal.

At the period end the 12 month order book, excluding currently suspended orders, was up 14% at £176m (2010/11 year end: £155m) and the level of enquiries received also remains high.

Based on current orders, production plans and shipment schedules full year banknote print volumes are expected to be c6.5 billion notes, c10 per cent higher than 2010/11, and paper volumes c12,000 tonnes up c20 per cent.

Solutions

	2011 Half year £m	2010 Half year £m	Change
Revenue:			
Cash Processing Solutions	**30.1**	27.2	11%
Security Products	**31.6**	32.6	(3%)
Identity Systems	**34.4**	20.1	71%
Total Solutions	**96.1**	79.9	20%
Operating profit before exceptional items:			
Cash Processing Solutions	**0.8**	0.0	
Security Products	**3.8**	5.3	(28%)
Identity Systems	**4.0**	1.0	300%
Total Solutions	**8.6**	6.3	37%

Cash Processing Solutions

Following the recent restructuring programme the performance in CPS continues to improve. The increased revenue reflects good sales of the large DLR 7000 banknote sorter with progress being made across all market sectors and geographies leading to a further improvement in the product order book at the end of the half year. Service revenues were maintained and remain an important source of income from the installed base. Operating margins have benefited from the recent restructuring of the business and the improved economies of scale flowing from the higher volumes.

Security Products

Security Products has again had a challenging period with reduced revenue and profits resulting from a combination of lower call offs for brand licensing products and continued reduced Holographic component sales.

Identity Systems

The UK Passport contract has transitioned from the implementation phase in the prior year to full production and service in the current year. The increased revenue and profit levels predominantly reflect the successful ramp up to full scale production volumes in the period.

The International part of the business performed broadly in line with expectations continuing to implement a wide range of projects.

Solutions Order Book

At the period end, the Solutions 12 month order book was up 6% at £66m (2010/11 year end: £62m). These figures include committed orders but exclude regular call off orders which are variable in nature and not yet specifically confirmed.

Interest

The Group's net interest charge was £1.9m (2010/11: £1.7m), which, notwithstanding the strong operating cash flow, reflects a modest increase in the level of debt through the period. The IAS19 related finance cost, which represents the difference between the interest on pension liabilities and the expected return on assets, has reduced to £0.6m (2010/11: £2.3m) as a result of the additional £35m special contribution made in 2010/11 following the sale of the Group's investment in Camelot.

Exceptional items

The results for the first half include £1.9m of exceptional operating charges relating to the initial costs of implementing the Improvement Plan. As the Improvement Plan gains momentum further exceptional charges are expected to be incurred, up to a currently estimated maximum of £25m, over the period to March 2014. Exceptional charges for the full year to March 2012 are expected to be c£20m.

The £7.3m exceptional operating charges reported at the 2010/11 half year represented £23.3m of costs relating to the paper production quality issues, offset by a £16.0m exceptional operating profit on the closure of the defined benefit pension scheme. In 2010/11 the Group also reported a profit of £52.9m on the sale of the Group's investment in Camelot.

UK pension scheme

The valuation of the UK pension scheme under IAS19 indicates a scheme pre tax deficit at 24 September 2011 of £117.5m, an increase of £17.0m since the year end despite the ongoing special contributions of £7.5m paid during the period. This increase reflects the lower value of investment assets following the decline in stock markets.

2010 paper production issues

Discussions remain ongoing with the principal customer concerned and the authorities, and therefore there remains uncertainty as to the ultimate outcome of these issues, including their financial impact (described more fully in note 10).

People

During the recent challenging period for the business the Group's employees, many of whom are long serving and highly experienced, have remained dedicated and committed for which the Board is grateful. The Board also recognises their central role in the delivery of the Improvement Plan.

Outlook

The strong order book in the Currency business unit underpins the Board's confidence in meeting its expectations for the full year.

The excellent progress the Group has made in implementing the Improvement Plan reinforces the Board's confidence in the core strengths of the business and De La Rue's ability to meet its target of an operating profit in excess of £100m by 2013/14.

Nicholas Brookes
Chairman
22 November 2011

Directors' report

Principal risks and uncertainties

Throughout its global operations De La Rue faces various risks, both internal and external, which could have a material impact on the Group's performance. The Group manages the risks inherent in its operations in order to mitigate exposure to all forms of risks, where practical, and to transfer risk to insurers, where cost effective.

The Group analyses the risks that it faces under the following broad headings: Specific risks (Technological revolution, Loss of a key site), General Risk (Economic conditions, Laws and regulations), Operational risks (Loss of key customer, Counterfeiting, Reputational damage, Security) and Financial risks (Currency risk, Credit risk, Liquidity risk, Interest rate risk, Commodity price risk).

As described in the 2011 Annual Report, the principal risks include loss of a key site, contract issues, product security, pension funding, environmental breach, foreign exchange, health and safety failure, failure to manage change, breach of competition regulations, geo political instability, information security and actions of its employees and third parties. These risks, along with the risk management systems and processes used to manage them remain unchanged since the Annual Report was published.

The principal risks and uncertainties faced by the Group for the remaining six months of the year and the risk management systems and processes used to manage them are unchanged from those described further in the 2011 Annual Report, a copy of which is available at www.delarue.com or on request from the Company's registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 16 to 19 of the 2011 Annual Report. The accounting policies used in the preparation of the financial position are described in pages 57 to 62 of the 2011 Annual Report. In addition, pages 7 to 23 and pages 71 to 75 of the 2011 Annual Report include the Group's objectives, policies and processes for financial risk management, details of its financial instruments and hedging activities and its exposure to credit risk, liquidity risk and commodity pricing risk. The financial position of the Group, its cash flow and liquidity position are set out in the Condensed Interim Financial Statements below.

As described on page 25 of the Annual Report, the Group meets its funding requirements through cash generated from operations and a revolving credit facility which expires in September 2013. The Group's forecasts and projections, which cover a period of more than twelve months, taking into account reasonably possible changes in normal trading performance, show that the Group should be able to operate within its currently available facilities. The Group has sufficient financial resources together with assets that are expected to generate cash flow in the normal course of business. As a consequence and notwithstanding the net liability position being reported in the consolidated interim balance sheet which has arisen from the increase in the value of the deficit in the retirement benefit obligations or the uncertainty as to the outcome of the paper production issues noted above, the Directors have a reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Condensed Interim Financial Statements.

A copy of the 2011 Annual Report is available at www.delarue.com or on request from the Company's registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS.

Responsibility Statement of the Directors in respect of the Interim Statement

We confirm that to the best of our knowledge:

- the Condensed Interim Financial Statement has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;
- the Interim Management Statement includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Condensed Interim Financial Statement; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions to those described in the last set of Annual Financial Statements.

The Board

The Board of Directors that served during the six months to 24 September 2011 and their respective responsibilities can be found on pages 32 and 33 of the De La Rue plc Annual Report 2011.

For and on behalf of the Board.

Nicholas Brookes
Chairman
22 November 2011

Independent Review Report to De La Rue plc

Introduction
We have been engaged by the company to review the condensed set of financial statements in the Interim Statement for the six months ended 24 September 2011 which comprises – Group condensed consolidated interim income statement, the Group condensed consolidated interim balance sheet, the Group condensed consolidated interim statement of cash flows, the Group condensed consolidated interim statement of comprehensive income, the Group condensed consolidated interim statement of changes in equity and the notes to the condensed consolidated interim financial statements. We have read the other information contained in the Interim Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The Interim Statement is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Statement in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this Interim Statement has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Interim Statement based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Statement for the six months ended 24 September 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

A J Sykes
For and on behalf of KPMG Audit Plc
Chartered Accountants
London

22 November 2011

Group Condensed Consolidated Interim Income Statement – unaudited

For the half year ended 24 September 2011

	Notes	**2011 Half year £m**	2010 Half year £m	2011 Full year £m
Revenue	2	**238.1**	209.2	463.9
Operating expenses – ordinary		**(206.6)**	(181.4)	(423.5)
Operating expenses – exceptional	3	**(1.9)**	(7.3)	(15.6)
Total operating expenses		**(208.5)**	(188.7)	(439.1)
Operating profit		**29.6**	20.5	24.8
Comprising:				
Operating profit before exceptional items	2	**31.5**	27.8	40.4
Exceptional items	2	**(1.9)**	(7.3)	(15.6)
Profit on sale of associated undertaking	3	**–**	52.9	55.1
Profit before interest and taxation		**29.6**	73.4	79.9
Interest income		**0.1**	0.6	0.9
Interest expense		**(2.0)**	(2.3)	(4.7)
Retirement benefit obligation finance income		**19.9**	17.2	35.7
Retirement benefit obligation finance cost		**(20.5)**	(19.5)	(39.0)
Net finance expense		**(2.5)**	(4.0)	(7.1)
Profit before taxation		**27.1**	69.4	72.8
Comprising:				
Profit before tax and exceptional items		**29.0**	23.8	33.3
Exceptional items		**(1.9)**	45.6	39.5
Taxation – UK	4	**(4.3)**	(0.2)	0.2
– Overseas	4	**(2.6)**	(2.8)	(5.6)
Total taxation		**(6.9)**	(3.0)	(5.4)
Comprising:				
Tax on profit before tax and exceptional items		**(7.4)**	(6.5)	(9.0)
Tax on exceptional items		**0.5**	3.5	3.6
Profit for the period		**20.2**	66.4	67.4
Comprising:				
Profit for the period before exceptional items		**21.6**	17.3	24.3
(Loss)/profit for the period on exceptional items		**(1.4)**	49.1	43.1
Profit attributable to equity shareholders of the Company		**19.8**	66.1	66.9
Profit attributable to non-controlling interests		**0.4**	0.3	0.5
		20.2	66.4	67.4
Basic earnings per ordinary share	5	**19.9p**	66.8p	67.6p
Diluted earnings per ordinary share	5	**19.8p**	66.5p	67.2p
Headline earnings per ordinary share	5	**21.4p**	17.2p	24.0p

The directors declared a dividend of 14.1p per share for the half year ended 24 September 2011 which will utilise £14.0m of shareholders' funds. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 March 2012.

Group Condensed Consolidated Interim Statement of Comprehensive Income – unaudited

For the half year ended 24 September 2011

	2011 Half year £m	2010 Half year £m	2011 Full year £m
Profit for the financial period	**20.2**	66.4	67.4
Other comprehensive income			
Foreign currency translation difference for foreign operations	**(0.8)**	(3.5)	(1.3)
Actuarial losses on retirement benefit obligations	**(24.5)**	(41.0)	(31.0)
Effective portion of changes in fair value of cash flow hedges, net of amounts recycled to the income statement	**(0.1)**	7.4	6.8
Income tax on income and expenses recognised directly in equity	**4.0**	8.2	5.3
Other comprehensive income for the period, net of tax	**(21.4)**	(28.9)	(20.2)
Comprehensive income for the period	**(1.2)**	37.5	47.2
Comprehensive income for the period attributable to:			
Equity shareholders of the Company	**(1.6)**	37.2	46.7
Non controlling interests	**0.4**	0.3	0.5
	(1.2)	37.5	47.2

Group Condensed Consolidated Interim Balance Sheet – unaudited

At 24 September 2011

	Notes	2011 Half year £m	2010 Half year £m	2011 Full year £m
Assets				
Non current assets				
Property, plant and equipment		**159.6**	171.4	162.0
Intangible assets		**23.8**	20.8	23.3
Investments in associates and joint ventures		**0.1**	0.1	0.1
Deferred tax assets		**31.1**	42.2	27.8
Derivative financial instruments		**0.2**	1.0	0.3
		214.8	235.5	213.5
Current assets				
Inventories		**81.4**	65.5	67.5
Trade and other receivables		**78.4**	74.9	89.7
Current tax assets		**3.5**	2.9	6.7
Derivative financial instruments		**16.3**	17.2	15.5
Cash and cash equivalents		**18.1**	27.3	32.6
		197.7	187.8	212.0
Total assets		**412.5**	423.3	425.5
Liabilities				
Current Liabilities				
Borrowings		**(57.3)**	(31.8)	(63.8)
Trade and other payables		**(171.7)**	(161.9)	(164.4)
Current tax liabilities		**(34.2)**	(35.6)	(33.1)
Derivative financial instruments		**(13.0)**	(16.1)	(13.5)
Provisions for other liabilities		**(26.3)**	(32.6)	(27.0)
		(302.5)	(278.0)	(301.8)
Non-current liabilities				
Borrowings		**–**	(0.8)	–
Retirement benefit obligations	8	**(120.0)**	(119.5)	(102.9)
Deferred tax liabilities		**(0.8)**	(0.7)	(1.0)
Derivative financial instruments		**(0.2)**	(1.5)	(0.6)
Other non current liabilities		**–**	(3.0)	(2.4)
		(121.0)	(125.5)	(106.9)
Total liabilities		**(423.5)**	(403.5)	(408.7)
Net (liabilities)/assets		**(11.0)**	19.8	16.8
Equity				
Ordinary share capital		**45.6**	45.5	45.6
Share premium account		**29.4**	28.6	29.1
Capital redemption reserve		**5.9**	5.9	5.9
Hedge reserve		**0.9**	1.4	1.0
Cumulative translation adjustment		**1.7**	0.3	2.5
Other reserves		**(83.8)**	(83.8)	(83.8)
Retained earnings		**(14.6)**	18.6	13.0
Total equity attributable to shareholders of the Company		**(14.9)**	16.5	13.3
Non controlling interests		**3.9**	3.3	3.5
Total equity		**(11.0)**	19.8	16.8

Group Condensed Consolidated Interim Statement of Cash Flows – unaudited

For the half year ended 24 September 2011

	Notes	**2011 Half year £m**	2010 Half year £m	2011 Full year £m
Cash flows from operating activities				
Profit before tax		**27.1**	69.4	72.8
Adjustments for:				
Finance income and expense		**2.5**	4.0	7.1
Depreciation and amortisation		**11.9**	11.1	24.4
Increase in inventories		**(13.8)**	(13.7)	(7.9)
Decrease/(increase) in trade and other receivables		**11.0**	8.7	(11.6)
Increase/(decrease) in trade and other payables		**10.1**	(7.6)	(9.9)
Decrease in reorganisation provisions		**(2.1)**	(1.1)	(1.4)
Special pension fund contribution		**(7.5)**	(35.0)	(42.5)
Loss on disposal of property, plant and equipment		**–**	0.8	1.4
Profit on disposal of associate		**–**	(52.9)	(55.1)
Other non cash movements		**(3.7)**	(0.3)	2.4
Cash generated from operations		**35.5**	(16.6)	(20.3)
Tax (paid)/received		**(2.3)**	2.1	4.8
Net cash flows from operating activities		**33.2**	(14.5)	(15.5)
Cash flows from investing activities				
Disposal of subsidiary undertaking – discontinued		**–**	(0.5)	–
Net proceeds from sale of investment in associate		**–**	73.2	75.4
Purchases of property, plant and equipment (PPE) and software intangibles		**(11.3)**	(21.8)	(30.7)
Development assets capitalised		**(0.8)**	(1.1)	(4.3)
Proceeds from sale of PPE		**0.4**	0.2	0.3
Net cash flows from investing activities		**(11.7)**	50.0	40.7
Net cash inflow before financing activities		**21.5**	35.5	25.2
Cash flows from financing activities				
Proceeds from issue of share capital		**0.3**	0.2	0.8
Proceeds/(repayments) from borrowing		**0.8**	(18.4)	6.0
Finance lease principal payments		**–**	(0.1)	(0.2)
Interest received		**0.1**	0.6	0.9
Interest paid		**(2.0)**	(2.0)	(4.5)
Dividends paid to shareholders		**(28.0)**	(27.9)	(41.9)
Dividends paid to non controlling interests		**–**	(0.2)	(0.2)
Net cash flows from financing activities		**(28.8)**	(47.8)	(39.1)
Net decrease in cash and cash equivalents in the period		**(7.3)**	(12.3)	(13.9)
Cash and cash equivalents at the beginning of the year		**23.4**	37.8	37.8
Exchange rate effects		**–**	(0.5)	(0.5)
Cash and cash equivalents at the end of the period	7	**16.1**	25.0	23.4
Cash and cash equivalents consist of:				
Cash at bank and in hand		**18.0**	22.5	31.9
Short term bank deposits		**0.1**	4.8	0.7
Bank overdrafts		**(2.0)**	(2.3)	(9.2)
	7	**16.1**	25.0	23.4

Group Condensed Consolidated Interim Statement of Changes in Equity – unaudited

For the half year ended 24 September 2011

	Attributable to equity shareholders							Non controlling interest	Total equity
	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Cumulative translation adjustment £m	Other reserve £m	Retained earnings £m	£m	£m
Balance at 27 March 2010	45.5	28.4	5.9	(3.9)	3.8	(83.8)	10.4	3.2	9.5
Comprehensive income for the period	–	–	–	5.3	(3.5)	–	35.4	0.3	37.5
Share capital issued	–	0.2	–	–	–	–	–	–	0.2
Employee share scheme: – value of services provided	–	–	–	–	–	–	0.7	–	0.7
Dividends paid	–	–	–	–	–	–	(27.9)	(0.2)	(28.1)
Balance at 25 September 2010	45.5	28.6	5.9	1.4	0.3	(83.8)	18.6	3.3	19.8
Comprehensive income for the period	–	–	–	(0.4)	2.2	–	7.7	0.2	9.7
Share capital issued	0.1	0.5	–	–	–	–	–	–	0.6
Employee share scheme: – value of services provided	–	–	–	–	–	–	1.2	–	1.2
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(0.5)	–	(0.5)
Dividends paid	–	–	–	–	–	–	(14.0)	–	(14.0)
Balance at 26 March 2011	45.6	29.1	5.9	1.0	2.5	(83.8)	13.0	3.5	16.8
Comprehensive income for the period	–	–	–	(0.1)	(0.8)	–	(0.7)	0.4	(1.2)
Share capital issued	–	0.3	–	–	–	–	–	–	0.3
Employee share scheme: – value of services provided	–	–	–	–	–	–	1.0	–	1.0
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	0.1	–	0.1
Dividends paid	–	–	–	–	–	–	(28.0)	–	(28.0)
Balance at 24 September 2011	**45.6**	**29.4**	**5.9**	**0.9**	**1.7**	**(83.8)**	**(14.6)**	**3.9**	**(11.0)**

Notes to the Condensed Consolidated Interim Financial Statements – unaudited

1 Basis of preparation and accounting policies

This statement is the condensed consolidated financial information of the Company and its subsidiaries (together referred to as the 'Group') and the Group's interests in associates and jointly controlled entities as at and for the half year ended 24 September 2011. It has been prepared in accordance with the requirements of IAS34 Interim Financial Reporting as adopted by the European Union.

The condensed consolidated interim financial statements have been prepared as at 24 September 2011, being the last Saturday in September. The comparatives for 2010/11 financial year are for the half year ended 25 September 2010 and the full year ended 26 March 2011.

The condensed consolidated financial statements do not constitute financial statements as defined in section 434 of the Companies Act 2006 and do not include all of the information and disclosures required for the full annual financial statements. They should be read in conjunction with the Annual Report 2011 which is available on request from the Company's registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS or at www.delarue.com

The condensed consolidated financial statements were approved by the Board of Directors on 21 November 2011.

The comparative figures for the financial period ended 26 March 2011 are not the company's statutory accounts for that financial period. Those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The auditors reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The half yearly results for the current and comparative periods are unaudited. The auditors have carried out a review of the Interim Statement 2011/12 and their report is set out on page 6.

These condensed financial statements have been prepared using the same accounting policies as used in the preparation of the Group's annual financial statements for the year ended 26 March 2011, which were prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

During the period the Group has adopted a number of revised and amended standards and interpretations, none of which has had a material impact on the Group's net cash flows, financial position, total comprehensive income or earnings per share.

2 Segmental analysis

The Group's international operations are managed on a divisional basis that reflects the different characteristics of each operation. Internal reporting is on a divisional "line of business" basis including a functional reporting split to allow focus on specific areas of interest. The Currency and Solutions business units each has its own Executive Committee member who reports directly to the Chief Executive. The Solutions business unit can be further analysed into its operating business units of Cash Processing Solutions, Security Products and Identity Systems. These operating units have been disclosed as reportable segments because they are the components that the Board monitors regularly in making decisions about operating matters such as allocating resources to businesses and assessing performance. The principal financial information reviewed by the Board, which is the Group's Chief Operating Decision Maker, is revenue and operating profit before exceptional items, measured on an IFRS basis. The Group's segments are:

- Currency – provides banknote paper, printed banknotes and banknote security features
- Solutions
  - Cash Processing Solutions – primarily focused on the production of large banknote sorters for central banks, complementing the Currency business
  - Security Products – produces security documents, including authentication labels, brand licensing products, government documents, cheques and postage stamps
  - Identity Systems – involved in the provision of passport, ePassport, national ID and eID, driving licence and voter registration schemes

2 Segmental analysis continued

Analysis by operating segment	2011 Half year £m	2010 Half year £m	2011 Full year £m
Revenue by operating segment			
Currency	**145.7**	132.7	289.0
Solutions			
– Cash Processing Solutions	**30.1**	27.2	57.4
– Security Products	**31.6**	32.6	63.3
– Identity Systems	**34.4**	20.1	62.8
Eliminations	**(3.7)**	(3.4)	(8.6)
	238.1	209.2	463.9
Operating profit by operating segment			
Currency	**22.9**	21.5	28.5
Solutions			
– Cash Processing Solutions	**0.8**	0.0	0.5
– Security Products	**3.8**	5.3	9.0
– Identity Systems	**4.0**	1.0	2.4
Operating profit before exceptional items	**31.5**	27.8	40.4
Exceptional items – Currency	**–**	(23.3)	(29.0)
Exceptional items – unallocated	**(1.9)**	16.0	13.4
Operating profit	**29.6**	20.5	24.8
Profit on sale of associated undertaking	**–**	52.9	55.1
Net finance expense	**(2.5)**	(4.0)	(7.1)
Profit before taxation	**27.1**	69.4	72.8

3 Exceptional items

	2011 Half year £m	2010 Half year £m	2011 Full year £m
Improvement plan	**(1.9)**	–	–
Curtailment gain on closure of defined benefit pension scheme	**–**	16.0	16.0
One off costs relating to paper production quality issues	**–**	(23.3)	(29.0)
Corporate costs	**–**	–	(2.6)
Exceptional items in operating profit	**(1.9)**	(7.3)	(15.6)
Profit on sale of associated undertaking	**–**	52.9	55.1
Total exceptional items	**(1.9)**	45.6	39.5
Exceptional items – tax	**0.5**	3.5	3.6

Exceptional costs of £1.9m were incurred in the period in relation to the implementation of the Improvement Plan previously announced in May 2011.

Exceptional costs in the prior year relate to the following:

- A curtailment gain following the closure of the defined benefit pension scheme to further accruals from 2013
- The exceptional charge relating to the paper production quality issues incurred in the year ended 26 March 2011 of £29.0m included production and rectification costs of £19.9m, a £0.9m impairment of receivables, legal costs of £3.5m and other costs of £4.7m mainly relating to losses on derivatives related to sales and purchases contracts rendered ineffective by the cancellation of shipments. The issue is more fully described in note 10: Contingent liabilities
- Corporate costs in relation to the engagement of legal and professional advisors following a takeover approach for the Group

The profit arising on the sale of an associated undertaking is in respect of the sale of the Group's share in Camelot, the UK national lottery operator, which was completed on 8 July 2010.

Tax credits relating to exceptional items arising in the period were £0.5m (Half Year 2010/11: £0.9m, Full Year 2010/11: £1.1m). There were no prior year exceptional items for tax in the period (Half Year 2010/11: £2.6m prior year credit, Full Year 2010/11: £2.5m prior year credit).

4 Taxation

A tax charge of 25.6% (six months to 25 September 2010: 27.3%; year to 26 March 2011 27.0%) has been provided based on the estimated effective rate of tax for the year arising on the profits before exceptional items giving rise to tax for the period of £7.4m. This is offset by tax credits of £0.5m on exceptional items as described in note 3.

Notes to the Condensed Consolidated Interim Financial Statements – unaudited continued

5 Earnings per share

	2011 Half year pence per share	2010 Half year pence per share	2011 Full year pence per share
Basic earnings per share	**19.9**	66.8	67.6
Diluted earnings per share	**19.8**	66.5	67.2
Headline earnings per share	**21.4**	17.2	24.0

Earnings per share are based on the profit for the period attributable to ordinary shareholders as shown in the Group condensed consolidated income statement. The weighted average number of ordinary shares used in the calculations is 99,240,668 (2010/11: 98,965,509) for basic earnings per share and 100,159,769 (2010/11: 99,437,495) for diluted earnings per share after adjusting for dilutive share options.

The Directors are of the opinion that the publication of the headline earnings per share is useful as it gives an indication of underlying business performance.

Reconciliations of the earnings used in the calculations are set out below.

	2011 Half year £m	2010 Half year £m	2011 Full year £m
Earnings for basic earnings per share	**19.8**	66.1	66.9
Exceptional items	**1.9**	(45.6)	(39.5)
Tax on exceptional items	**(0.5)**	(3.5)	(3.6)
Earnings for headline earnings per share	**21.2**	17.0	23.8

6 Equity dividends

	2011 Half year £m	2010 Half year £m	2011 Full year £m
Final dividend for the year ended 26 March 2011of 28.2p paid on 4 August 2011	**28.0**	–	–
Interim dividend for the period ended 25 September 2010 of 14.1p paid on 12 January 2011	**–**	–	14.0
Final dividend for the year ended 27 March 2010 of 28.2p paid on 5 August 2010	**–**	27.9	27.9
	28.0	27.9	41.9

An interim dividend of 14.1p has been declared for the half year ended 24 September 2011. In accordance with IFRS the interim dividend has not been accrued in these condensed consolidated in interim financial statements.

7 Notes to the group condensed consolidated interim statement of cash flows

	2011 Half year £m	2010 Half year £m	2011 Full year £m
Analysis of net debt			
Cash at bank and in hand	**18.0**	22.5	31.9
Short term bank deposits	**0.1**	4.8	0.7
Bank overdrafts	**(2.0)**	(2.3)	(9.2)
Cash and cash equivalents	**16.1**	25.0	23.4
Other debt due within one year	**(55.3)**	(29.5)	(54.6)
Borrowings due after one year	**–**	(0.8)	–
Net debt at end of period	**(39.2)**	(5.3)	(31.2)

8 Retirement benefit obligations

The Group has pension plans covering the majority of employees and these plans are devised in accordance with local conditions and practices in the country concerned. The assets of the Group's plans are generally held in separately administered trusts or are insured.

	2011 Half year £m	2010 Half year £m	2011 Full year £m
UK retirement benefit obligations	**(117.5)**	(117.2)	(100.5)
Overseas retirement benefit obligations	**(2.5)**	(2.3)	(2.4)
Retirement benefit obligations	**(120.0)**	(119.5)	(102.9)
Deferred tax	**30.0**	32.2	27.7
Net retirement benefit obligations	**(90.0)**	(87.3)	(75.2)

The majority of the Group's retirement benefit obligations are in the UK:

	UK £m	UK £m	UK £m
At 27 March 2011/28 March 2010	**(100.5)**	(124.8)	(124.8)
Current service cost included in operating profit	**(3.0)**	(4.0)	(7.6)
Curtailments	**–**	16.0	16.0
Net finance cost	**(0.6)**	(2.3)	(3.2)
Actuarial gains and losses arising over the year	**(24.5)**	(41.0)	(31.1)
Cash contributions and benefits paid	**11.1**	38.9	50.2
At 24 September 2011/25 September 2010/26 March 2011	**(117.5)**	(117.2)	(100.5)

	2011 Half year £m	2010 Half year £m	2011 Full year £m
Amounts recognised in the consolidated balance sheet:			
Fair value of plan assets	**635.0**	616.2	638.5
Present value of funded obligations	**(745.5)**	(726.5)	(732.0)
Funded defined benefit pension plans	**(110.5)**	(110.3)	(93.5)
Present value of unfunded obligations	**(7.0)**	(6.9)	(7.0)
Net liability	**(117.5)**	(117.2)	(100.5)
Amounts recognised in the consolidated income statement:			
Included in employee benefits expense:			
Current service cost	**(3.0)**	(4.0)	(7.6)
Curtailments	**–**	–	16.0
Included in net finance cost:			
Expected return on plan assets	**19.9**	17.2	35.7
Interest cost	**(20.5)**	(19.5)	(38.9)
	(0.6)	(2.3)	(3.2)
Total recognised in the consolidated income statement	**(3.6)**	(6.3)	5.2
Actual return on plan assets	**0.7**	22.5	46.4

	2011 Half year UK %	2010 Half year UK %	2011 Full year UK %
Principal actuarial assumptions:			
Future salary increases	**0.00**	0.00	0.00
Future pension increases – past service	**3.50**	3.40	3.80
Future pension increases – future service	**3.10**	3.20	3.50
Discount rate	**5.20**	5.20	5.60
Inflation rate	**3.10**	3.20	3.60
Expected return on plan assets	**6.60**	6.55	6.60

The expected rate of return on plan assets has been determined following advice from the plans' independent actuary and is based on the expected return on each asset class together with consideration of the long term asset strategy.

The mortality assumptions used to assess the defined benefit obligation for the UK plan are based on tables issued by the Continuous Mortality Investigation Bureau. At 24 September 2011, 25 September 2010 and 26 March 2011 mortality assumptions were based on the PxA92 birth year tables multiplied by a rating of 125% and allowance for medium cohort mortality improvements in future, with a 0.5% mortality improvement underpin. The resulting life expectancy for a 65 year old pensioner is 20.6 years.

Notes to the Condensed Consolidated Interim Financial Statements – unaudited continued

9 Related party transactions

During the year the Group traded with Fidink (33.3% owned).

The Group's trading activities with Fidink in the period comprise £9.1m for the purchase of ink and other consumables. At the balance sheet date there was a creditor balance of £1.9m with this company.

10 Contingent liabilities

De La Rue has extensive international operations and is subject to various legal and regulatory regimes, including those covering taxation matters. While the outcome of litigation and other disputes can never be predicted with certainty, having regard to legal advice received and the insurance arrangements of the Company and its subsidiaries, the Directors believe that adequate provision has been made to cover these matters.

In July 2010 the Board commissioned an investigation by external lawyers into issues that had been brought to its attention internally. The investigation, which was completed in October 2010, found nothing of substance to support the matters raised other than in respect of some paper production issues where it was found that a small number of the many detailed specification parameters of some paper had fallen marginally short of specification. It was also established that certain paper specification test certificates had been deliberately falsified. The Board reported the findings of the investigation to the appropriate authorities, who are considering the matter, and is implementing a number of measures arising from the findings of the investigation.

Provision, as described in note 3: Exceptional items, has been made for the costs associated with the paper production issues identified at this stage including production and rectification costs, impairment of trade receivables and other costs relating to the investigation of these matters.

Provision has not been made for the potential cost of resolutions or for potential fines from regulatory authorities. The nature and extent of these resolutions is the subject of ongoing discussions, the outcome of which cannot be estimated reliably at present. The timing, response and outcome of the consideration by the authorities of the reported findings of the investigation is also uncertain and the financial consequences, if any, cannot be estimated reliably at present.

11 Capital commitments

	2011 Half year £m	2010 Half year £m	2011 Full year £m
The following commitments existed at the balance sheet date:			
Contracted but not provided for in the accounts	**4.1**	11.5	4.0

12 De La Rue financial calendar: 2011/12

Ex dividend date for interim dividend	7 December 2011
Record date for interim dividend	9 December 2011
Payment of interim dividend	11 January 2012
Financial year end	31 March 2012

DeLaRue

De La Rue plc
De La Rue House
Jays Close
Viables
Basingstoke
Hampshire
RG22 4BS

T +44 (0)1256 605000
F +44 (0)1256 605004
www.delarue.com