



# Delivering Value to Shareholders

**Preliminary Results**  
**22 May 2007**



DeLaRue



# Leo Quinn

## Chief Executive



DeLaRue



# Preliminary Results 2006/2007

## Agenda

- Highlights
- Financials
- Update on operations and strategy
- Summary and outlook
- Q&A


# Financial headlines

Group Revenue £687.5m  12.6%

Profit Before Tax (before exceptionals) £102.4m  34.4%

Earnings Per Share 43.9p  39.8%

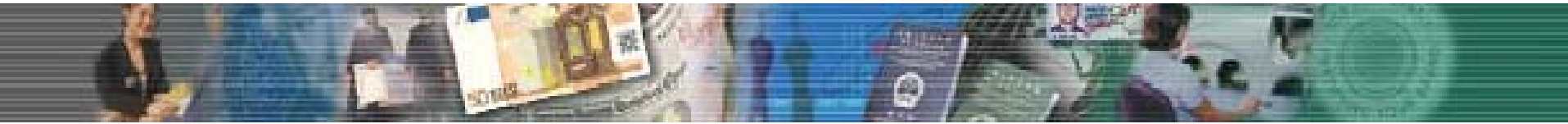
Dividends Per Share 19.1p  12.4%

Cash flow (conversion rate 160%) £144.5m  35.4%

# Creating Shareholder Value

- Share buy back
  - 2006/2007 acquired 4.9m shares at a cost of £29.2m
  - Total since commencement of programme in December 2005 6.5m at a cost of £37.0m
  
- Special dividend of £75m and corresponding share consolidation announced today
  - Equivalent to 46.5p per share
  - Subject to shareholder approval at an EGM which will immediately follow AGM on 26 July 2007
  
- Ordinary dividend increase of 12.4% (3 year CAGR of 10.4%)

TOTAL SHAREHOLDER RETURNS OF £187M IN LAST THREE YEARS  
ANNOUNCED FURTHER RETURNS (ORDINARY AND SPECIAL DIVIDEND) OF £96.2M



# Stephen King

## Finance Director



DeLaRue



# Financial Results

<b>Year to 31 March 2007, £m</b>	<b>2006/07</b>	<b>2005/06</b>	<b>Change</b>
Revenue	<b>687.5</b>	<b>610.8</b>	<b>12.6%</b>
Operating profit	<b>90.4</b>	<b>69.4</b>	<b>30.3%</b>
Share of profits of associated companies	<b>6.6</b>	<b>6.8</b>	
Interest	<b>5.4</b>	<b>0.0</b>	
Profit before tax and exceptional items	<b>102.4</b>	<b>76.2</b>	<b>34.4%</b>
Exceptional charges	<b>-</b>	<b>(2.5)</b>	
Group headline earnings per share (pence)	<b>43.9p</b>	<b>31.4p</b>	<b>39.8%</b>
Basic earnings per share (pence)	<b>43.9p</b>	<b>30.2p</b>	<b>45.4%</b>
Dividends per share (pence)	<b>19.1p</b>	<b>17.0p</b>	<b>12.4%</b>
Operating Cash flow	<b>144.5</b>	<b>106.7</b>	<b>35.4%</b>
Net Cash	<b>137.3</b>	<b>91.6</b>	

# Segmental Analysis

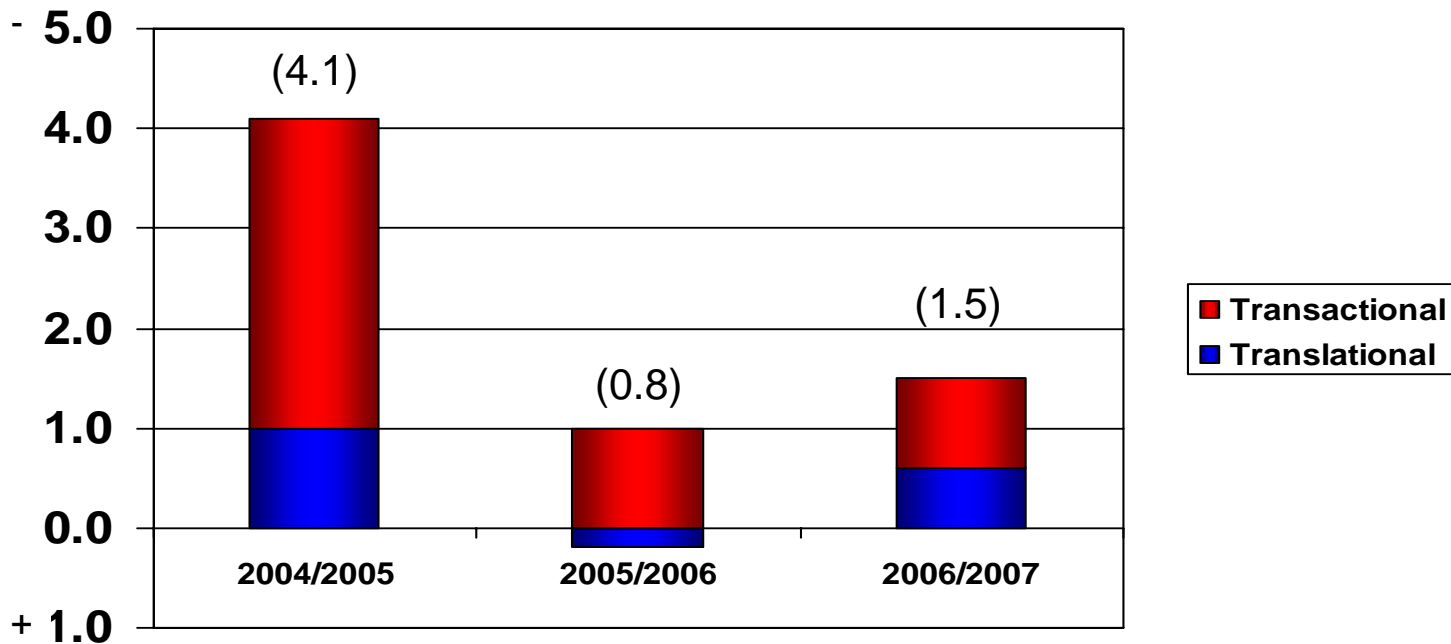
	Sales £m	Operating Profit £m	Margins %
<b>Security Paper and Print</b>			
Reported 2005/2006	318.4	51.0	16.0%
Exchange			
- Transaction		(2.4)	
- Translation	(2.0)	(0.3)	
Underlying change	38.1	13.4	
Reported 2006/2007	<b>354.5</b>	<b>61.7</b>	<b>17.4%</b>
<b>Cash Systems</b>			
Reported 2005/2006	<b>292.4</b>	<b>18.4</b>	6.3%
Exchange			
- Transaction		(0.9)	
- Translation	(7.0)	(0.6)	
Underlying change	47.6	11.8	
Reported 2006/2007	<b>333.0</b>	<b>28.7</b>	<b>8.6%</b>



# Cash Systems – Exchange Differences

£m

## TOTAL EXCHANGE LOSSES



US \$ Average	1.84	1.79	1.89
US \$ : SEK Average Rate	7.26	7.65	7.19
US\$: SEK % change in Ave rate	-7%	+5%	-6%

# Associates

£m	2006/2007	2005/2006
Profit before tax	9.7	9.9
Tax	(3.1)	(3.1)
Profit after tax	6.6	6.8

- De La Rue has a 20% shareholding in Camelot – UK’s National Lottery
- Held licence for 14 years – current licence expires in 2009
- Bids for third lottery licence (2009-2019) submitted on 9 February 2007
  - Two bidders (Camelot and India State Lottery player)
  - Announcement of winner in Summer 2007

# Interest

£m	2006/2007	2005/2006
Net Interest Income	3.6	1.8
IAS 19 Interest	1.8	(1.8)
	5.4	-

- IAS 19 related finance credit of £1.8m included here compared to a charge of £1.8m in 2005/2006. This reflects:
  - Difference between expected return on assets and interest on liabilities
  - Increase in asset values between March 2005 and March 2006

# Profit Before Tax

	2006/2007 £m	2005/2006 £m	Change %
Operating profit before exceptional items	90.4	69.4	30.3%
Associates (after tax)	6.6	6.8	
Interest	3.6	1.8	
Interest – IAS 19	1.8	(1.8)	
Profit before tax and exceptional items	102.4	76.2	34.4%
Exceptional Items	-	(2.5)	
<b>Profit before tax</b>	<b>102.4</b>	<b>73.7</b>	<b>38.9%</b>

# Earnings per share

£m	2006/07	2005/06	Change
Profit before tax and exceptional items	102.4	76.2	34.4%
Tax charge (effective rate : 29.9%) (2005/2006: 29.4%)	(30.6)	(22.4)	
Minority Interests	(1.6)	(0.9)	
<b>Underlying Earnings</b>	<b>70.2</b>	<b>52.9</b>	<b>32.7%</b>
Average number of shares (millions)	160.0	168.6	
Headline earnings per share	43.9	31.4p	39.8%
Basic earnings per share	43.9	30.2p	45.4%

- EPS improvement reflects:

- Higher Profit Before Tax
- Reduced number of shares due to share consolidation and buy-back programme

# Cash flow

£m	2006/2007	2005/2006
Underlying Operating Profit	90.4	69.4
Depreciation	26.9	27.0
Working Capital	26.8	14.5
Exceptional items - cash expenditure	(3.8)	(7.2)
Other items	4.2	3.0
Cash flow from operating activities	144.5	106.7
Interest and taxation	(24.0)	(7.8)
Capital expenditure	(29.7)	(19.6)
Equity dividends – Ordinary	(28.3)	(27.5)
– Special	-	(68.3)
Share buy back	(29.2)	(7.8)
Acquisitions and disposals, fixed asset sales	1.7	2.8
Associate dividends received	6.2	8.1
Share capital issues, exchange and other	4.5	(1.5)
Net cash flow	45.7	(14.9)
Net cash	137.3	91.6

# UK Pension Scheme

## Triennial Valuation

- Triennial valuation at April 2006 now completed in conjunction with Trustees
- On-going funding valuation : Deficit of £56m
- Primary driver of deficit has been worsening mortality rates
  - In last 3 years £73m of the deficit has arisen from changes in mortality
- Agreed plan to fund deficit over 6 years through additional contributions of circa £10m p.a. (£7m after tax)
- Trustees comfortable with funding and continued strategy of return of surplus cash flow to shareholders through special dividends and share buy backs

# UK Pension Scheme Review

## Employee Consultation

- Consultation with employee groups concluded and major structural changes agreed going forward:
  - Increase in Normal Retirement Age from 62 to 65
  - Increase in member contributions of 1 per cent (phased in over 12 months)
  - Impact of all future changes in mortality to be borne by employee membership through changes in accrual rates
  
- Benefits
  - Reduced liability through increased retirement age
  - Reduced annual cost through additional member contributions
  - Reduced exposure to future liability increase through member financed mortality changes
  
- Going forward mortality exposure significantly reduced for active members from now until retirement

**CHANGES TO BE IMPLEMENTED ON 1 JUNE 2007**





# Leo Quinn

## Chief Executive



DeLaRue





# Executing the Strategy

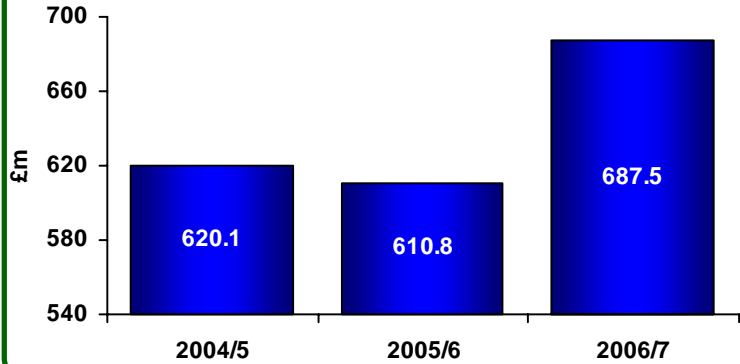
- Modest top line growth
- Profit improvement through cost reduction and productivity improvement
- Increase cash generation
- Improve returns to shareholders



# De La Rue Group Strategy – Positive Results

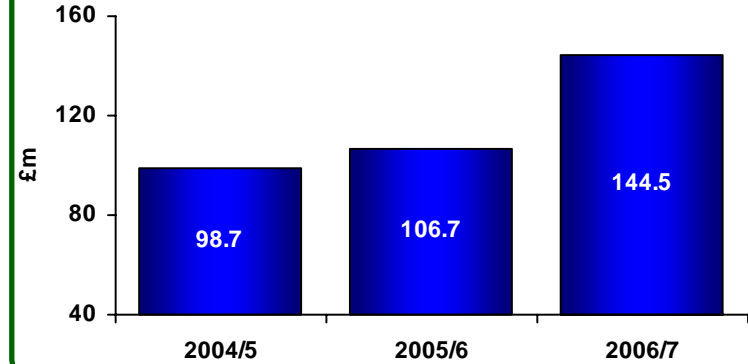
## REVENUE

Group Revenue – Top line growth



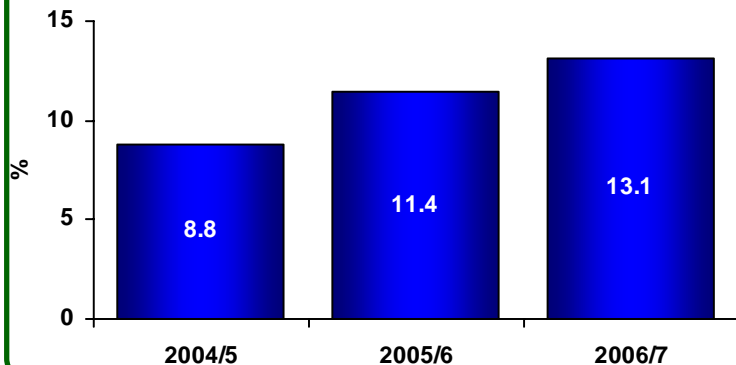
## CASHFLOW

Operating Cash flow – 46 per cent improvement



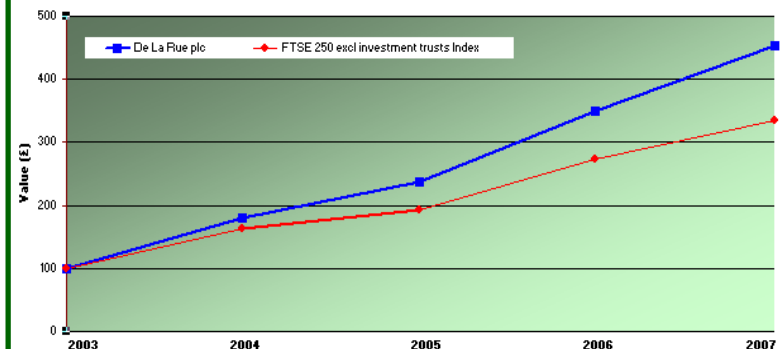
## MARGINS

Group Margins – Consistent delivery of improvements



## TSR

Total Shareholder Return – Progressive reward



# Security Paper and Print

## RESULTS

£m	2006/2007	2005/2006
Sales	354.5	318.4
- Year on year increase/(decrease)	11.3%	0.2%
Operating Profit*	61.7	51.0
Operating Profit Margin	17.4%	16.0%

\*before exceptional charges of £nil (2005/2006 : income of £0.9m)

## INNOVATION

- Queens Award for Starchrome™
- Strong adoption of newly introduced features (eg Optiks™, Cornerstone™)
- First ePassport contracts secured



## PRODUCTIVITY

- Sustained capex reflecting investment in new plant and machinery
- Focus on:
  - Increasing line speeds
  - Faster make ready changeover

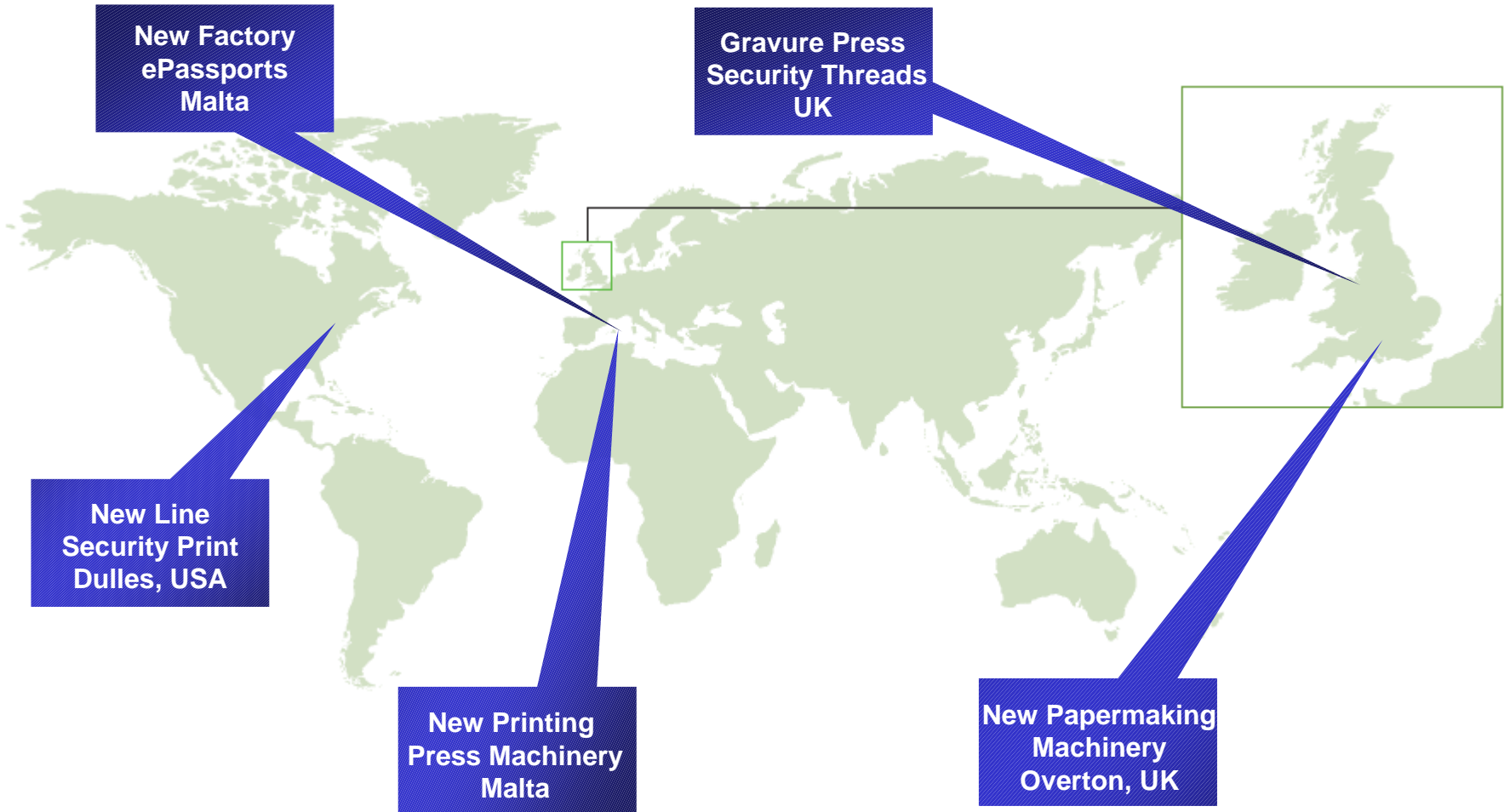
## OUTLOOK

- Strong order book
- Currency to run throughout 2007/2008 at the high levels of capacity experienced in the second half of 2006/2007
- Industry working at close to full capacity

EXCELLENT YEAR – SOLID PLATFORM FOR 2007/2008

# Security Paper and Print

## Major Items of Capex Investment

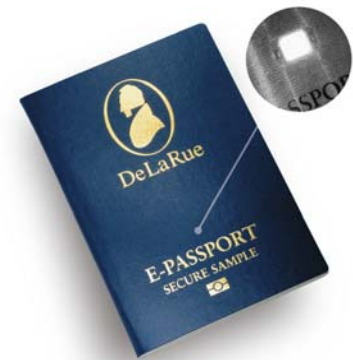


**CAPITAL EXPENDITURE OF £45.6M OVER LAST THREE YEARS IN THE DIVISION**

# Security Paper and Print

## Overview

- Banknote paper and print
  - Banknote volumes up 19.5%
  - Ave. contribution per 1000 banknotes down 12.6%
  - High level of overspill at 26% (2005/2006 : 17%)
    - H2 double the comparative period last year
  - Paper volumes up 3.6%
  
- Strong demand for authentication labels
  
- Identity Systems growth in
  - Passport and ePassport segments
  - Non smart identity cards





# Cash Systems

## FINANCIALS

£m	2006/2007	2005/2006
Sales	333.0	292.4
- Year on year increase/(decrease)	13.9%	(3.2)%
Operating Profit*	28.7	18.4
Operating Profit Margin	8.6%	6.3%

\*before exceptional charges of £nil (2005/2006 : £3.4m)

## INNOVATION

- Product launches in 2006/2007:
  - VERTERA™
  - EV86 Series
  - QuickChange™ (USA and Europe)
  - Kalebra™

## PRODUCTIVITY

- **First full year of restructuring benefits**
- **Supply chain outsourcing to China completed (5 partners)**
- **Optimising procurement practices eg PCBs**
- **Service productivity - common systems and processes**

## OUTLOOK

- Strong order book
- Cash Systems will continue to benefit from the supply chain improvements completed last year which should help us address the increasingly competitive environment in the US market.

**STRONG SALES GROWTH AND MARGIN IMPROVEMENT**

# Cash Systems

## Overview

- Strong growth in Teller Automation
  - Largest growth market North America
  - Increased competition
- Improved year in Sorters - growth through focused geographical expansion
  - Double digit volume growth in large and medium sorters
- OEM/ Desktop Products
  - Completed supply chain outsourcing
  - Strong volume growth, some price erosion

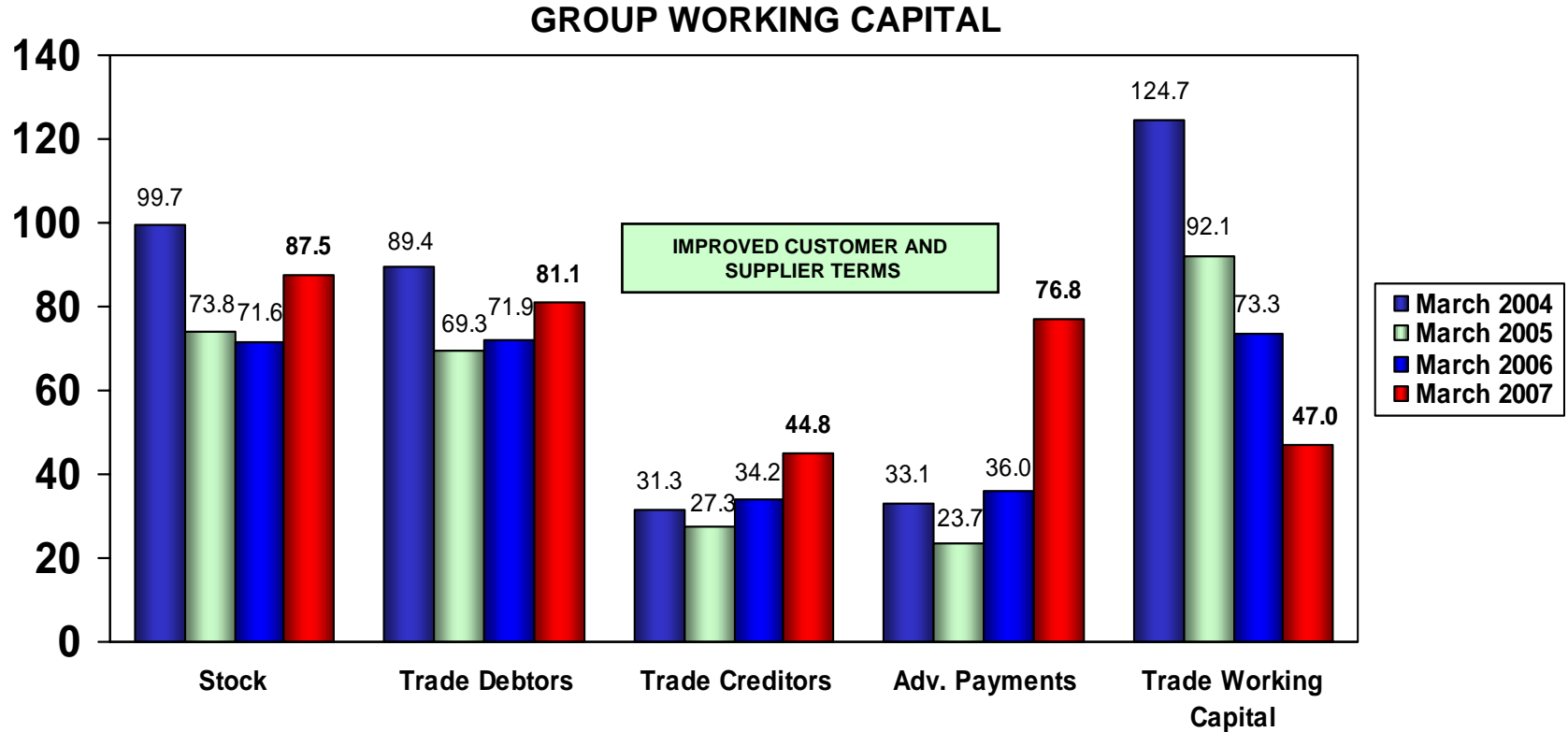




# Progress on Strategic Actions

## Improved Working Capital

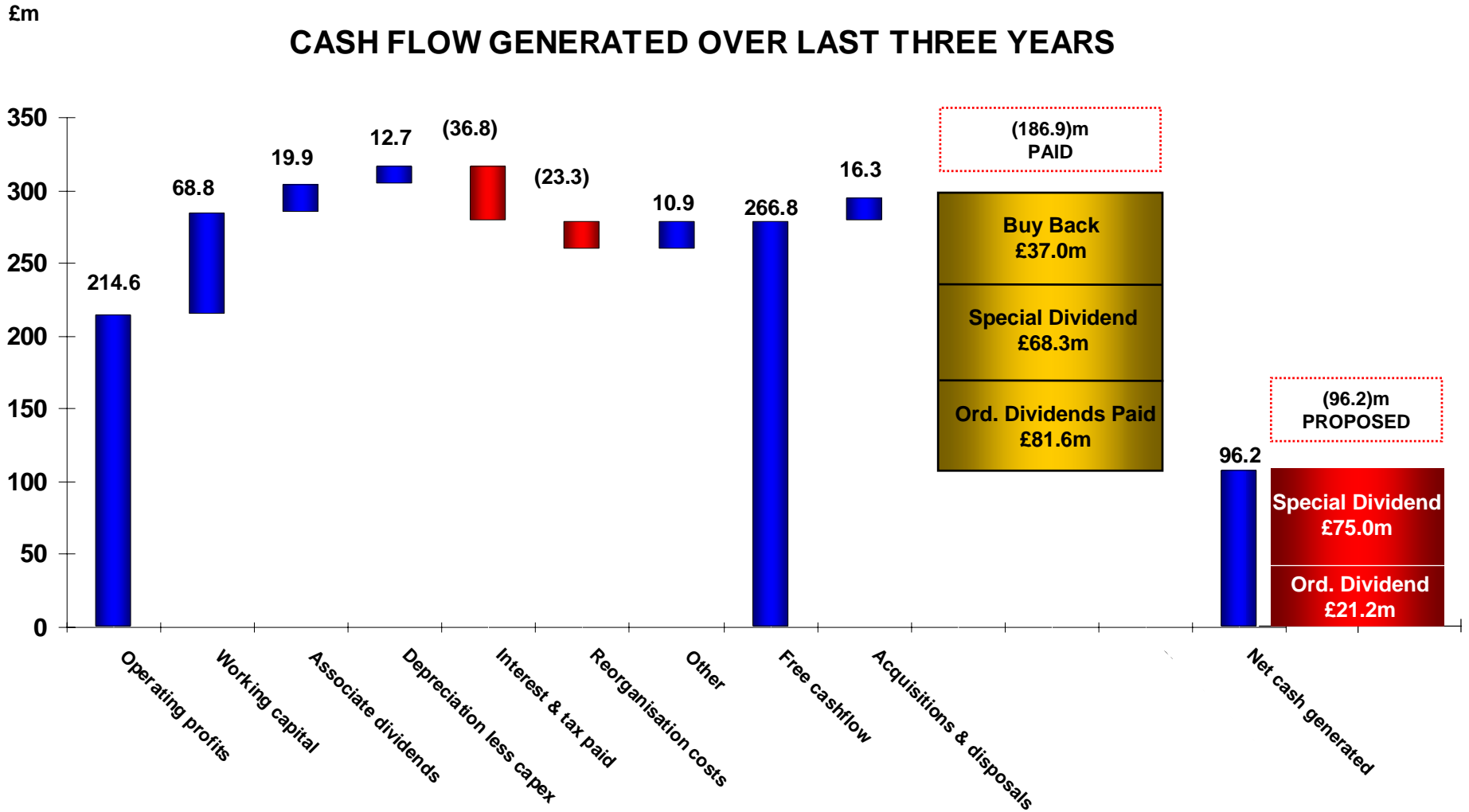
£m



**TRADE WORKING CAPITAL REDUCED BY 62 PER CENT SINCE MARCH 2004**

# Summary

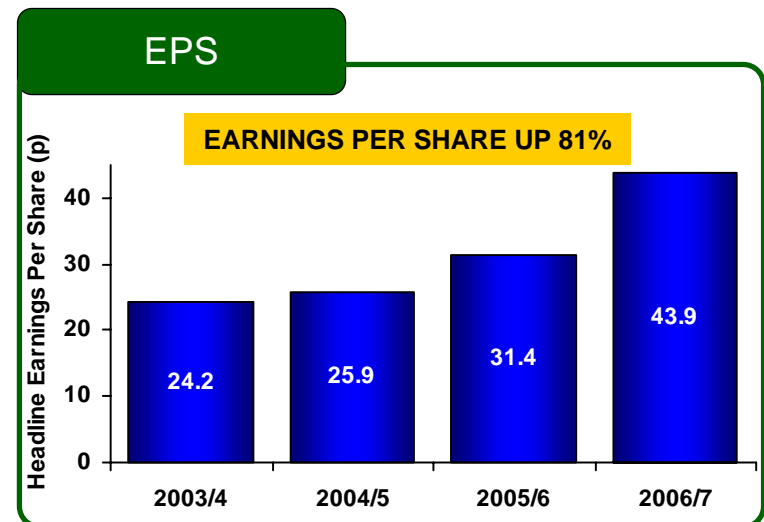
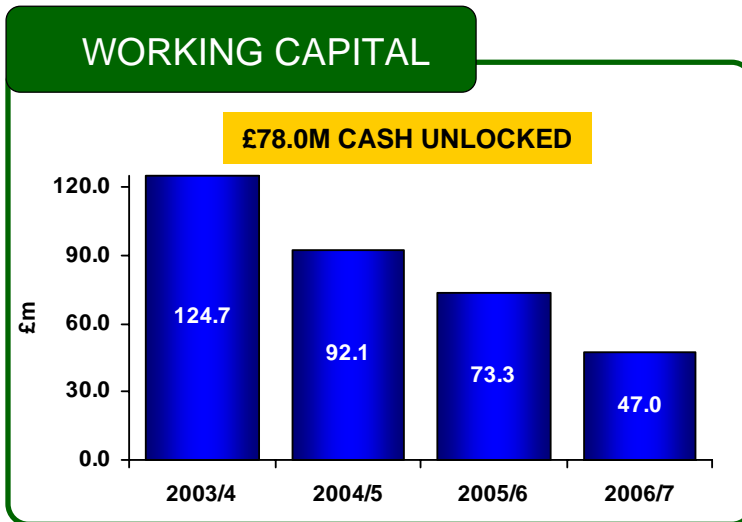
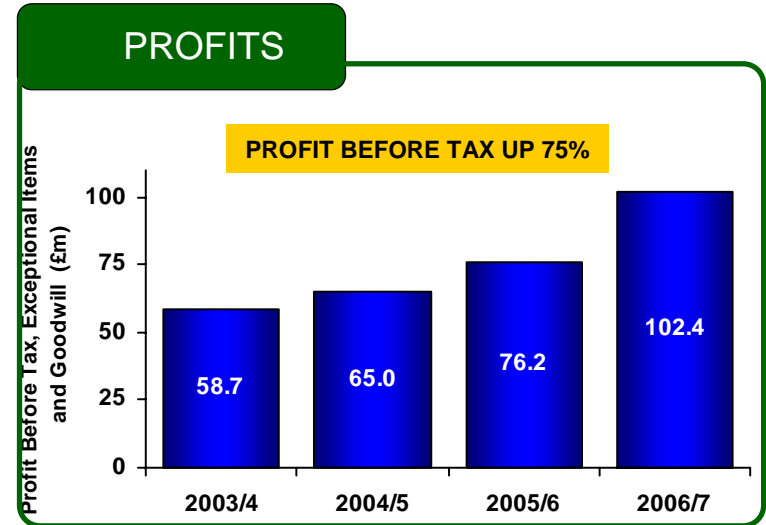
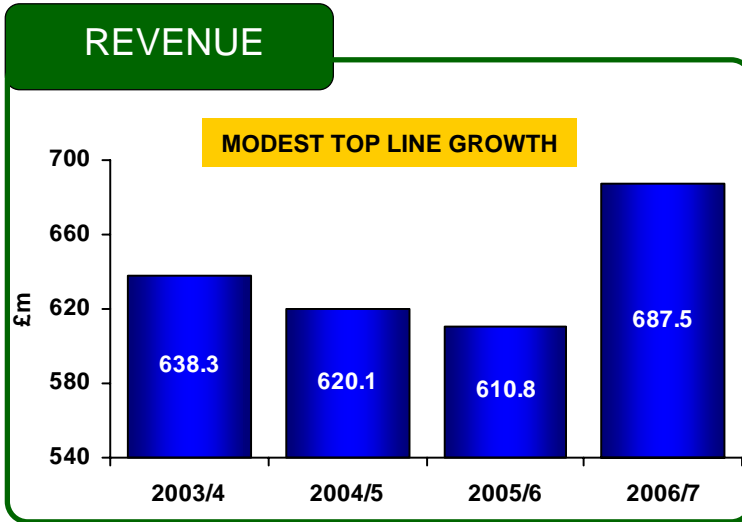
## Returns to Shareholders



**RETURNED/RETURNING 100% OF FREE CASH FLOW IN THREE YEARS**

# Summary

## Achievements Since 2003/2004





# Summary

We aim to drive sustainable value

Last 3 years' record:

- Year-on-year productivity = 22.4% CAGR in operating profit
- Conversion to cash = 124%
- Return surplus cash to shareholders = c. 100% of free cash flow

DELIVERING VALUE TO SHAREHOLDERS

# Outlook

- Strong order backlog in both operating divisions
  
- Cash Systems
  - Continued benefit from the supply chain improvements completed last year which should help us address the increasingly competitive environment in the US market
  
- Strong order book in Currency expected to result in the business running throughout 2007/2008 at the high levels of capacity experienced in the second half of 2006/2007

A SOLID PLATFORM FOR 2007/2008



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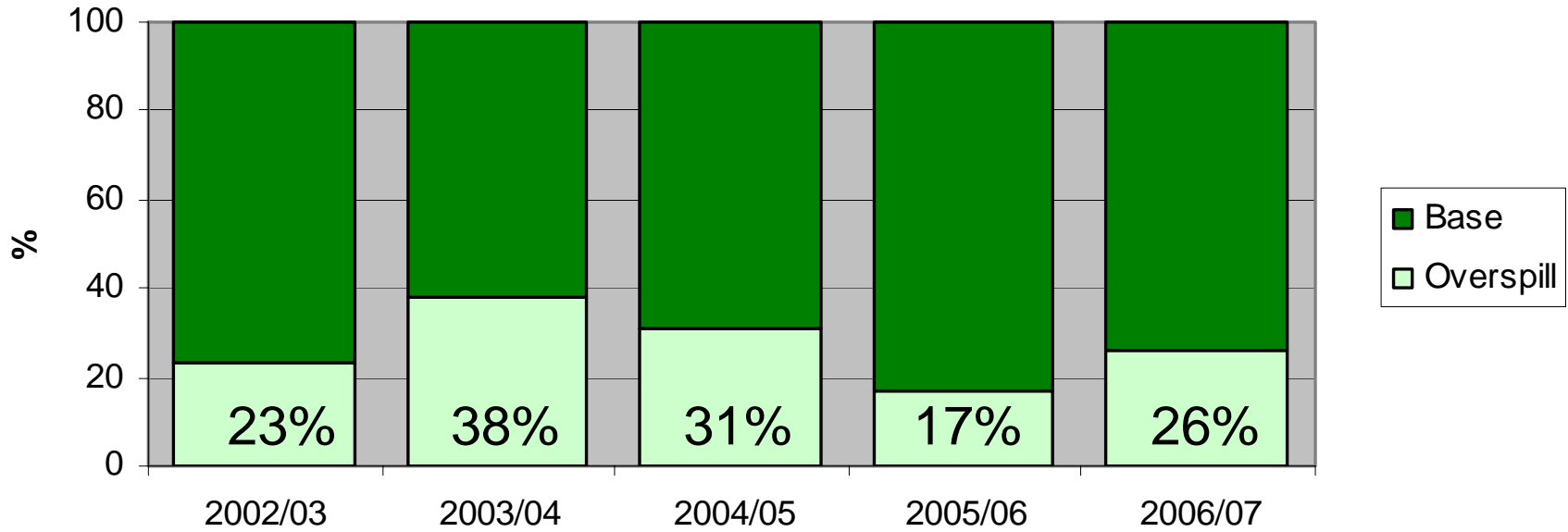


## **SUPPLEMENTARY SLIDES**



# Currency Overspill / Base

Banknotes Base / Overspill Percentage of Sales

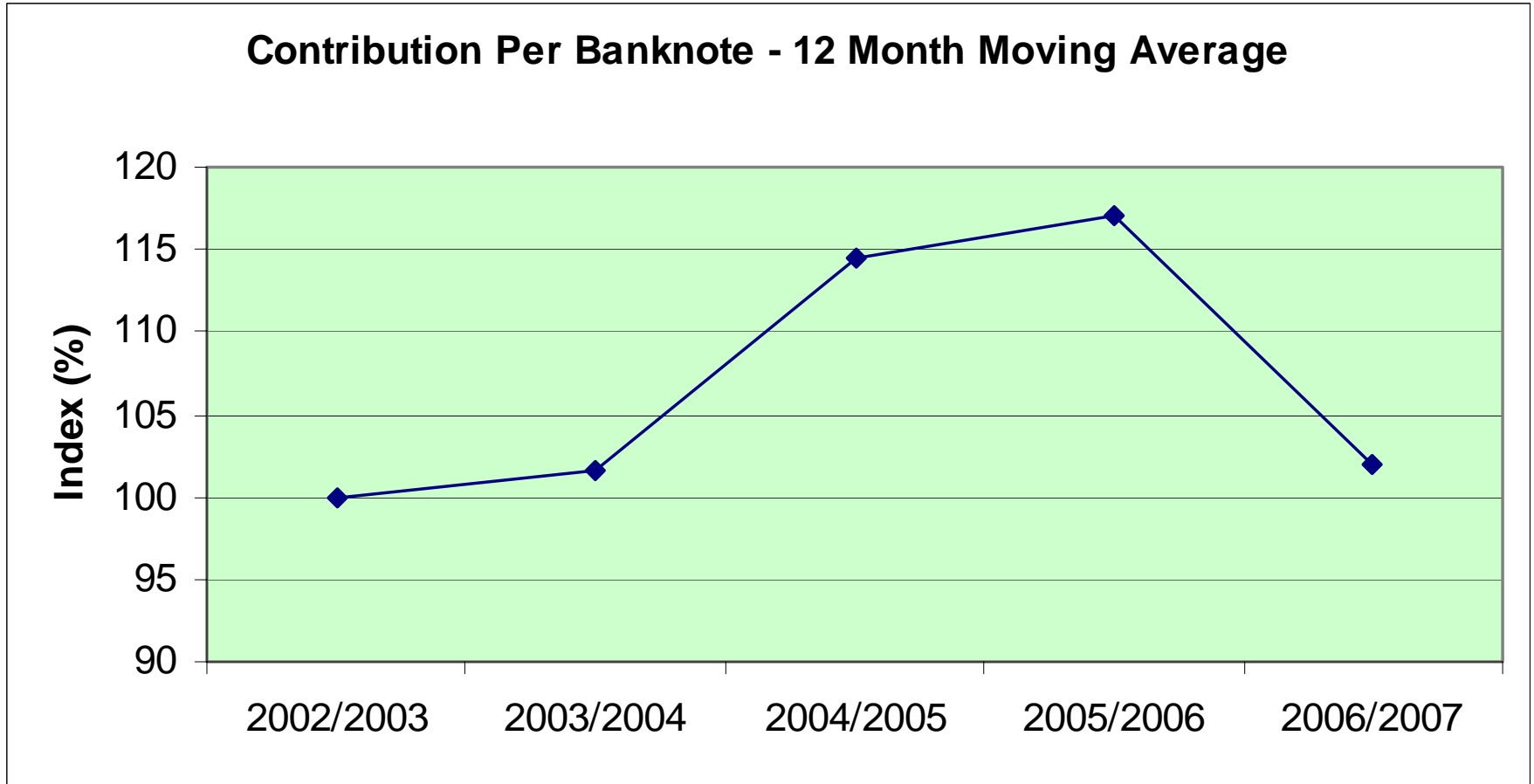


(Includes Debden activities)





# Currency Banknote Contribution



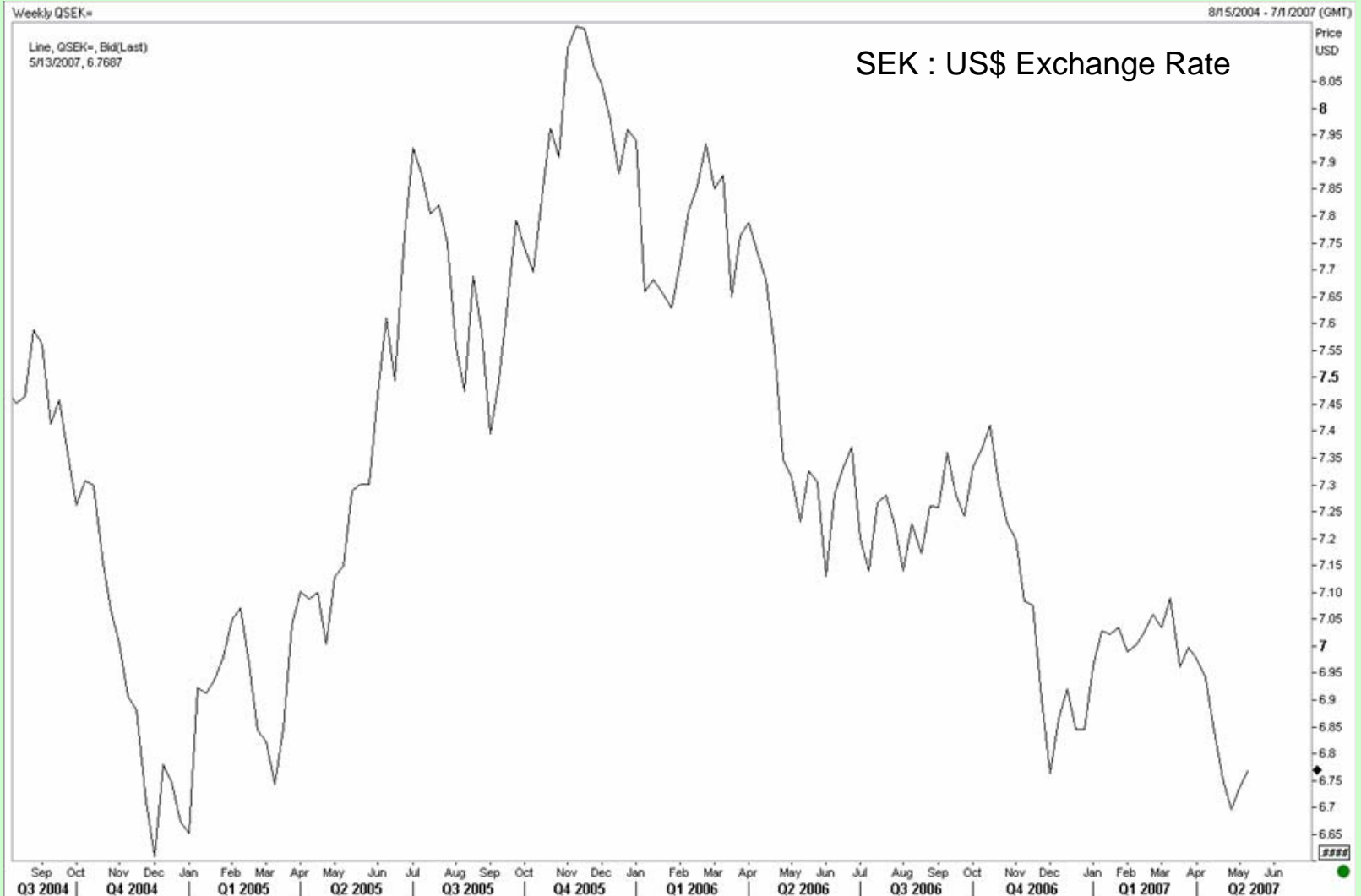
# Preliminary Results 2006/2007

## Currency Volumes

	2006/2007	2005/2006
Underlying banknote volumes – increase/(decrease)	<b>19.5%</b>	<b>(11.4)%</b>
Overspill – as a % of total banknote volumes	<b>26%</b>	<b>17%</b>
Paper volumes – (reduction)/increase	<b>3.6%</b>	<b>4.6%</b>



# Exchange Rate



Source: Reuters

# Pensions – IAS 19 Valuation

## Key Assumption For UK Defined Benefit Scheme

	2006/2007	2005/2006
Interest Rate (AA bond rate)	5.3	4.9
Salary Growth	4.0	3.9
Inflation	3.1	2.9
Assets	£525m	£510m
Liabilities	£629m	£625m
(Deficit) - gross	(£104m)	(£115m)
- after tax	(£73m)	(£81m)

- Inflation and salary growth stable over period
- Decrease in discount rates has had impact on scheme liabilities
- Latest mortality tables adopted