

Deliver Value to Shareholders

**Interim Results
2 December 2004**



DeLaRue

Nicholas Brookes

Chairman



DeLaRue



Interim Results 2004/2005

Agenda

- Financials
- Outlook
- Strategy Review
- Summary
- Q&A

Leo Quinn

Chief Executive



DeLaRue



Interim Results 2004/2005

Overview of results

- Strong first half results, significantly ahead of last half year
 - Revenue up 9.7%
 - Profit before tax* up 30%
 - Earnings per share* up 25%
 - Operating cash flow £39.5m

- Increase in the Interim dividend of 6.8% to 4.7p per share

* before exceptional charges of £13.1m (2003/2004 £17.9m) and goodwill amortisation of £0.7m (2003/2004 £1.7m)

Stephen King

Finance Director



DeLaRue





Interim Results 2004/2005

Financial Summary

	1st Half 2004/05 £m	1st Half 2003/04 £m	Change
Sales	318.3	290.1	9.7%
Operating profit*	20.6	14.3	44%
Share of profits of associated companies	4.2	5.6	(25)%
Interest	1.0	(0.1)	
Profit before tax, exceptional items and goodwill amortisation*	25.8	19.8	30.3%
Earnings per share*	10.1p	8.1p	24.7%
Dividend per share	4.7p	4.4p	6.8%
Net cash	61.6	13.9	343%

* before exceptional charges of £13.1m (2003/2004 £17.9m) and goodwill amortisation of £0.7m (2003/2004 £1.7m)

Interim Results 2004/2005

Security Paper and Print

	1st Half 2004/2005 £m	1st Half 2003/2004 £m
Sales	167.8	130.0
Operating Profit*	20.9	13.8

* before exceptional income of £0.4m (2003/2004 : £(0.8)m) and goodwill amortisation credit of £0.3m (2003/2004 : £0.2m)

- Currency - excellent first half performance
- Banknotes - high opening order book benefited first half
- Iraq banknote order was significantly a second half 2003/2004 benefit
- Banknote paper - reduced volumes due to no repeat of Iraq paper order
- Security Products - Microsoft volumes now fully operational –significantly up on last year
 - Restructuring almost complete
- Good visibility to full year in all activities

Interim Results 2004/2005

Cash Systems

	1st Half 2004/2005 £m	1st Half 2003/2004 £m
Sales	142.0	142.2
Operating Profit*	2.4	2.2

*before exceptional items of £13.5m (2003/2004 : £1.9m) and goodwill amortisation of £1.0m (2003/2004 : £1.6m)

- First half trading in line with plan - remains significantly second half weighted
- Adverse foreign exchange profit impact £3.0m compared with first half 2003/04
- Overall, top line continues to reflect low growth, outside North America, but cost reduction and productivity benefits expected to make a positive impact on margins

Interim Results 2004/2005

Sequoia Voting Systems

	1st Half 2004/2005 £m	1st Half 2003/2004 £m
Sales	8.5	17.9
Operating Loss*	(2.7)	(1.7)

* before exceptional items of £nil (2003/2004 : £12.6m) and goodwill amortisation of £nil (2003/2004 : £0.3m)

- Successful implementation of touch screen voting in US Presidential election
- Significantly reduced sales volumes, in line with expectations in lead up to election
- Tight cost control limiting operating losses - better than originally anticipated
- Exit of the business announced today through sale or rationalisation

Interim Results 2004/2005

Associates

	1st Half 2004/2005 £m	1st Half 2003/2004 £m
Profit before interest and tax	4.2	5.6

- Main associate company is Camelot, the UK lottery operator
- Good sales performance – up 5% on previous half year, reflecting new games and sales channels
- Marketing expenditure exceptionally low in previous half year, in preparation for second half launch of new games - now returned to normal phasing

Interim Results 2004/2005

Earnings per share

	1st Half 2004/2005 £m	1 st Half 2003/2004 £m
Profit before tax, goodwill amortisation and exceptional items	25.8	19.8
Tax charge	(7.1)	(5.1)
Minority interests	(0.8)	(0.3)
Underlying earnings	17.9	14.4
Average number of shares (millions)	178.1	176.8
Underlying EPS	10.1p	8.1p
Basic EPS (per FRS 14)	2.8p	(2.2)p

Interim Results 2004/2005

Cash flow

	1 st Half 2004/2005 £m	1 st Half 2003/2004 £m
Underlying operating profit	20.6	14.3
Depreciation	12.6	12.4
Working capital - stock / debtors / creditors	10.7	(14.2)
- customer advance payments	0.5	34.0
Exceptional items - cash expenditure	(4.6)	(11.5)
Other items	(0.3)	-
Cash flow from operating activities	39.5	35.0
Interest and taxation	(3.2)	(0.6)
Capital expenditure	(8.7)	(13.1)
Equity dividends paid	(17.4)	(16.2)
Acquisitions & disposals, fixed asset sales	6.9	(4.4)
Associate dividends received	2.7	3.5
Share capital issued, exchange and other	0.7	1.5
Net cash flow	20.5	5.7
Net cash	61.6	13.9

Interim Results 2004/2005

First half exceptional Items

	Cash	Non Cash	Total
	£m	£m	£m
Reorganisation Costs - Cash Systems	2.0	-	2.0
Income from investments previously impaired	(0.4)		(0.4)
Portuguese ATM business goodwill impairment	-	11.5	11.5
Exceptional pre-tax costs	1.6	11.5	13.1

- Strategic review outcome outlined separately
- First actions completed and charged in half year;
 - Cash Systems' charge relates to cessation of trials/ support to large retail stores
 - Portuguese ATM business (Papelaco) goodwill impairment arising from anticipated loss of significant portion of service revenue in 2005/2006 following recent tender
- Additional charge in second half relating to remaining strategic actions - outlined separately

- Given the strong first half and good visibility in our principal markets, the Board remains confident of the full year outlook for the Group.

Leo Quinn

Chief Executive



DeLaRue



Deliver Value to Shareholders



- Context
- Assessment
- Actions
- Costs and benefits



Context

De La Rue has some formidable strengths

- A powerful brand
- Customer relationships and global reach
- Leadership positions in core markets
- Experienced and knowledgeable employees
- Strong balance sheet

A GOOD BUSINESS WITH POTENTIAL TO DO BETTER



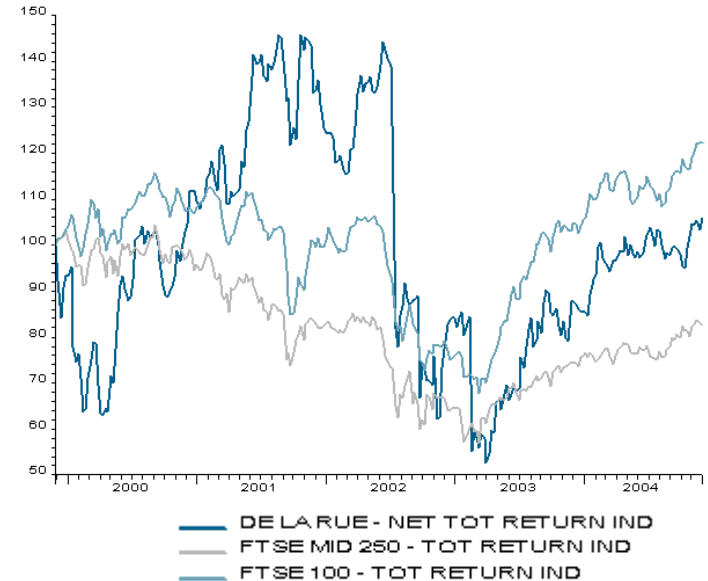
Context

5 year history of inconsistent shareholder returns

- Pursuit of ‘forced’ growth through acquisition with lack of execution/ integration
- Earnings and share price volatile
- Resulting in £46m goodwill write offs, £67m cash restructuring costs

However...

- Total shareholder returns outperformed FTSE 100
- £123m in dividends, £38m share buy back (2002/2003)



CAPACITY FOR A HIGHER LEVEL OF SHAREHOLDER RETURN



Assessment

Top nine businesses in portfolio generate 85% of Group revenue and 95% of profit..... leaving a tail of sub-optimal businesses

The Portfolio

Currency	Currency Paper Currency Print Security Threads	}	Security Paper and Print
Security Products	Security Paper (passports, auth. labels, fiscal stamps) Security Print De La Rue Smurfit (JV) <u>Holographics</u> South African Cheque Printing US Driving Licences ID Cards		
Cash Systems	Teller Automation OEM mechanisms Sorters Desktop Products <u>ATMs (Papelaco)</u>	}	Cash Systems
Voting Systems	Sequoia	}	Voting

PORTFOLIO HAS CAPACITY TO GENERATE SIGNIFICANT CASH



Assessment

Strong Currency and improving Security Products businesses

- Customer focused
- Strongly vertically integrated
- Clear and accountable structure
- Successful integration of Bank of England print works acquisition
- Closure of Peterborough and Byfleet sites

GOOD BUSINESSES WITH ONGOING SCOPE FOR PRODUCTIVITY IMPROVEMENT

Assessment

...contrasts with Cash Systems

- Lack of customer focus
- High cost base
- Overly complex matrix structure
- Poor acquisition record
- Excess manufacturing capacity and inefficient supply chain

SIMPLIFY AND FOCUS ON EXECUTION



Assessment

Summary

- A solid foundation
- Too much money has been spent badly
- Capacity to spin off significant cash
- Business needs to focus on execution

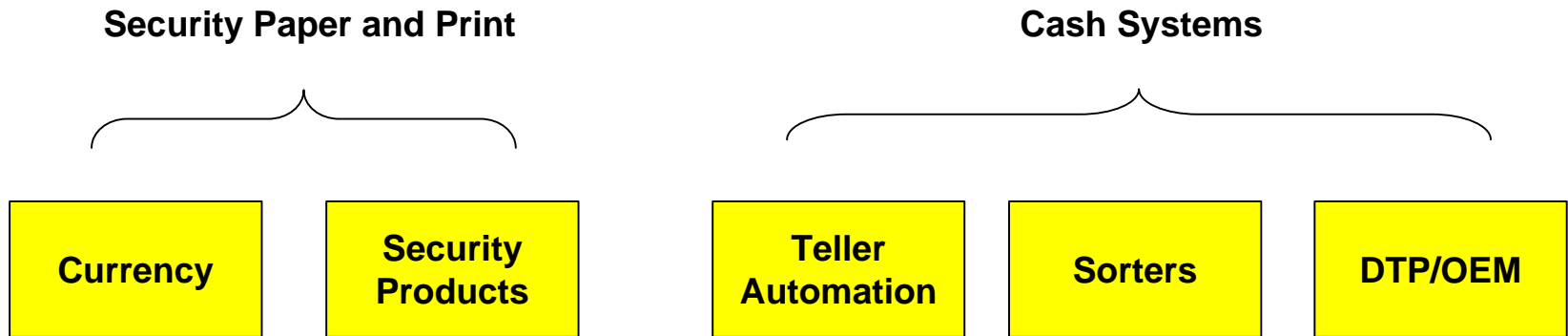
Actions

- Simplify the Group structure
- Focus on driving the core business harder
 - Develop growth opportunities within core
- Drive productivity improvement
- Lower the cost base
- Eliminate losses

IMPROVE SHAREHOLDER VALUE

Actions

Simplify the Group structure



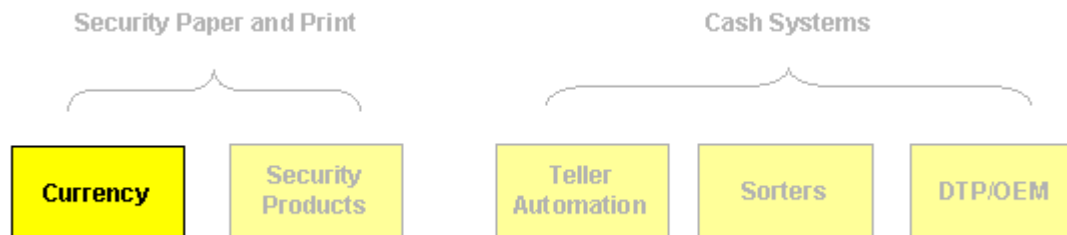
- **Managed as five businesses with direct accountability to CEO**
- **Strategy built around each business**
- **New leadership in place for each Cash Systems' business**

SIMPLIFY, FOCUS AND ACCOUNTABILITY

Actions - Currency

Focus on driving the core business

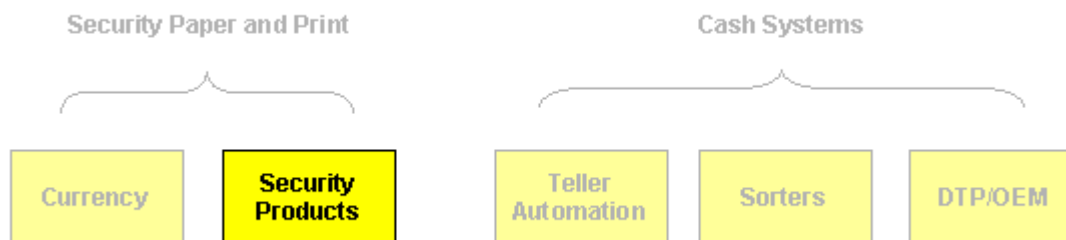
- Optimise earnings
 - Maintain leadership
 - Brand strength
 - Customer relationship
 - Invest in anti counterfeit technology and IP
 - Extract ongoing productivity gains
 - Drive continued cash generation



Actions – Security Products

Focus on driving the core business

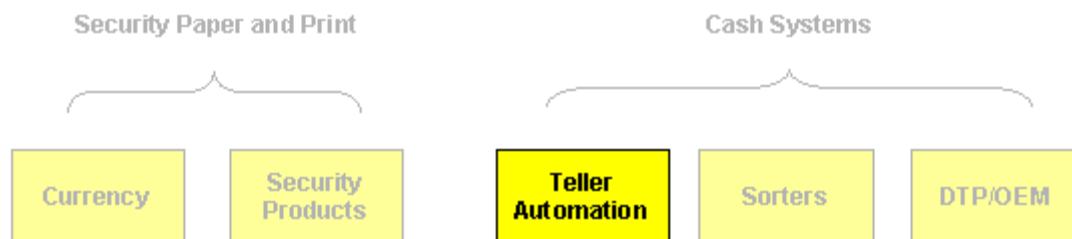
- Continue to improve quality of earnings
 - Extract benefits from recent restructuring
 - factory closures
 - exit from low margin products and contracts
 - Leverage technology from Currency IP
 - Focus on retaining and broadening customer base
 - Develop opportunities for growth in target markets
 - fiscal stamps
 - passports
 - authentication labels



Actions – Teller Automation

Focus on driving the core business

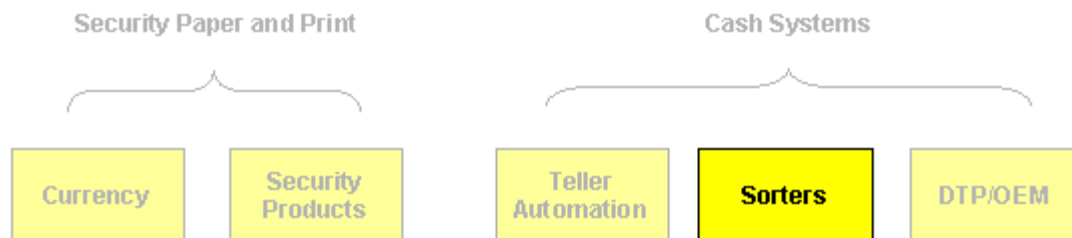
- Support and build on strong position
 - Expand strong competitive position in global niche market
 - Maintain product superiority but upgrade sales force
 - Growth dependent on:
 - Focus on North American market
 - European market is mature
 - Reduce cost base to lower breakeven point to counter volatility from large one off capital sales
 - Focus on growing replacement / service recurring revenue



Actions - Sorters

Focus on driving the core business

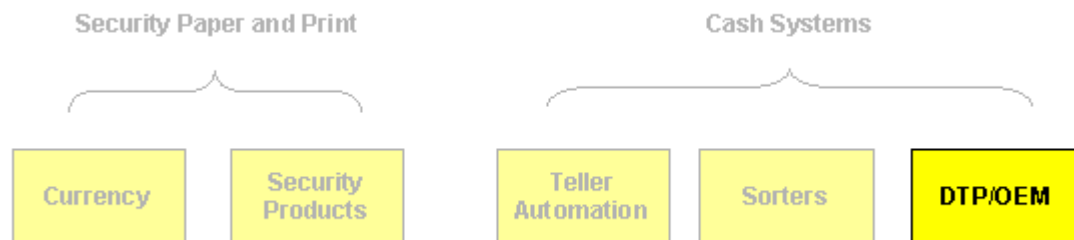
- Revitalise the business
 - Appointed dedicated management to implement strategy
 - Penetrate Currency customer base
 - Develop opportunities arising from move to outsourcing by central banks to cash in transit companies
 - Grow replacement / service recurring revenue in selective territories
 - Rationalise manufacturing capacity and optimise the supply chain



Actions – OEM Mechanisms and Desktop Products

Focus on driving the core business

- Optimise earnings
 - Continue to service high value OEM customers
 - Build on existing Desktop Products distribution network
 - Maintain investment to develop product range
 - Rationalise manufacturing capacity and optimise the supply chain



Actions

Rest of portfolio

- All other businesses run for value or disposed



Actions

Drive productivity improvement

- Invigorate management and employee population throughout the Group:
 - My Contribution established as the brand for continuous improvement
 - Productivity teams and performance measurement matrix established
 - Manufacturing
 - Supply chain and inventory
 - Procurement
 - Service
 - Controls over working capital and capex emphasised

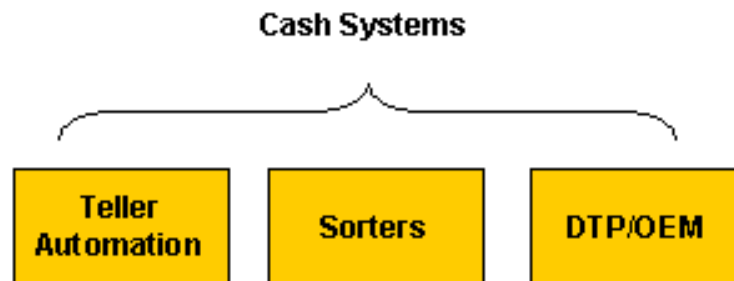


EARLY WINS IDENTIFIED

Actions

Lower the cost base

- Cash Systems' cost reduction programme
 - Remove a layer of management
 - Approx. 350 redundancies
 - Cessation of trials / support to large retail store customers
 - Phased exit from Portsmouth manufacturing site by 2006
 - Restructure Portuguese ATM business





Actions

Sequoia Voting Systems

- Eliminate Sequoia losses by financial year end
 - Achieved either through sale or significant downsizing of its activities
 - Estimated cost £6m
 - (including deferred consideration of £2m)
 - Current year losses substantially eliminated in 2005/2006



Costs and benefits

Cash restructuring costs summary

	Charged H1 2004/5	Charged H2 2004/5	Total	Annualised Benefits
Cash Systems				
Restructuring activities (Retail – 50 redundancies)	2.0	-	2.0	
Restructuring activities (further 300 redundancies)	-	15.5	15.5	
	2.0	15.5	17.5	8.0
Sequoia Voting Systems				
Reorganisation costs	-	4.0	4.0	
Deferred consideration		2.0	2.0	
Income from investments previously impaired	(0.4)	-	(0.4)	
Exceptional pre-tax costs	1.6	21.5	23.1	

- Cash Systems restructuring costs of £17.5m (includes £14.0m of severance costs) giving annualised cost reduction of £8m
- Elimination of future losses in Sequoia and Portuguese ATM business for 2005/2006
- Cash costs to be incurred over next 18 months (part of P&L cost may also be charged in 2005/2006)

Summary

- Simplify the Group structure
- Focus on driving the core business harder
 - Develop growth opportunities within core
- Drive productivity improvement
- Lower the cost base
- Eliminate losses

IMPROVE SHAREHOLDER VALUE

Deliver value to shareholders

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

PRIORITY TO DELIVER ON RESTRUCTURING ACTIONS