

Operational review Security Paper and Print

An excellent performance in both the Currency and Security Products activities contributed to the strong divisional operating result.

Security Paper and Print	2004/2005 £m	2003/2004 £m	change £m
Sales	317.9	340.3	(22.4)
Underlying operating profit*	45.6	42.4	3.2

* Before exceptional income of £1.2m (2003/2004 : £10.0m charge) and amortisation of negative goodwill of £0.5m (2003/2004 : £0.5m).

The Currency business ended the year with a strong order book which provides good visibility for the first half year.

Demand for the latest technology in anti-counterfeit solutions is still a key driver in the market. The proliferation of colour copying, scanning and printing technologies means that we continue to develop anti-counterfeit solutions such as wide threads, holographic devices and iridescent features.

By combining its know-how of thread manufacture, expertise in papermaking and skill in design, De La Rue has produced a ground breaking new security feature to protect banknotes against the full range of modern counterfeiting techniques. Optiks™ is a high technology, high value product which combines the best of traditional paper making with new materials and techniques to create a world first in banknote design.

Optiks™ takes wide thread technology into the future. The feature is a prominent 18mm wide demetallised thread with customised images with a distinctive see through aperture. In transmission the images in the thread are clearly visible.

Security Products

The Security Products business in particular performed well. The key restructuring actions announced in November 2003, including the closure of the Peterborough and Byfleet manufacturing sites, were completed during the second half, together with the final exit and sale of the High Wycombe site.

Currency

The Currency business had another excellent year, despite reduced volumes in both banknote printing and paper, following the completion of the exceptional Iraq order in 2003/04. Banknote printing volumes were down 8 per cent (2003/2004 : increase of 14 per cent), the reduction having been significantly mitigated by the benefit of both high backlog orders, improved work mix and a high level of overspill. Banknote paper volumes were down 15 per cent (2003/2004 : increase of 38 per cent), but benefited from both improved manufacturing efficiency and increased orders for high specification paper, requiring more sophisticated banknote threads. The former Bank of England works at Debden continued to perform in line with our expectations.



This year, we launched Optiks™, a ground breaking new security thread feature with a distinctive see-through aperture.

-£4.7m +14%

Reduction initiatives this year run across all businesses in Security Paper and Print have seen a £4.7m fall in stock levels, a reduction of 11%.

The cost reduction programme initiated in Security Products in 2003/2004 has resulted in a more efficient business. This year we have seen a 14% year on year productivity improvement when measured by sales per employee.

The completion of the manufacturing rationalisation, the exit from unprofitable activities and the volume benefits of increased sales and marketing investment in authentication labels, fiscal stamps and passports all contributed to improved results.

During the year we implemented a leading edge fiscal stamp project for a customer in the Far East.

The solution adopted incorporated De La Rue's high security anti-counterfeit features with a web enabled authentication database, which can track individual fiscal stamps throughout the supply chain. We see this integrated approach as a model approach for similar revenue protection schemes throughout the world.

Inventory Reduction in Malta

Currency's Malta banknote facility has recently utilised value stream mapping tools to enable it to reduce inventory stocks and optimise product flow through the factory. Through process improvement initiatives, new measurement techniques and setting internal targets the facility has reduced buffer stocks between processes and eliminated unnecessary paper and ink stocks.

In just six months the project team has achieved reductions in stock days of over 20 per cent. At the same time the factory has importantly maintained its "on time in full" delivery targets at 100 per cent. Currency is now conducting similar exercises at its other four banknote printing facilities.



Operational review

Cash Systems

In December 2004, we announced a major reorganisation of the Cash Systems division aimed at lowering the cost base and establishing a clear focus on improved manufacturing productivity.

Cash Systems	2004/2005 £m	2003/2004 £m	change £m
Sales	302.2	302.6	(0.4)
Underlying operating profit*	9.2	8.8	0.4

* Before exceptional items of £25.8m (2003/2004 : £11.3m) and goodwill amortisation of £1.9m (2003/2004 : £2.6m).

Divisional Results

Cash Systems' full year revenues of £302.2m were ahead of last year, excluding adverse translational exchange differences of £10.7m. Underlying operating profits of £9.2m were in line with our expectations and 4.5 per cent ahead of last year's result, primarily driven by savings from the ongoing cost reduction programmes. This was achieved despite significantly adverse foreign exchange impacts, in particular relating to transaction differences between the US\$ and the Swedish Krona, of approximately £4.1m. Operating cash flow was strong and substantially ahead of last year, driven by favourable working capital management.

Strategic Business Unit Performance

Teller automation revenues continue to be the major driver of product sales and service revenues in the

division. Volumes for Teller Cash Dispensers declined throughout the mature continental European markets. However, we saw volume growth in the Teller Cash Recycler markets in both Europe and North America, despite increased competition from new entrants. The North American market, to which our products are well suited, continues to be the principal focus for growth. During the year both the USA and Canada grew in line with our expectations and, as we continue to see potential for further penetration in these markets going forward, we will increase our marketing investment.

Sorter volumes were significantly down on last year in what is becoming an increasingly competitive environment. The unit's new management team is actively working to reduce the cost base of the business, while maintaining product development, in order to capitalise particularly on growth from emerging markets such as India, Russia and Brazil. The business remains a core part of our Currency offering to Central Banks.

The OEM and Desktop Products businesses performed in line with our expectations for these mature businesses. Our focus continues to be to drive productivity improvements and lower our structural cost base in order to deliver products at competitive prices.

Following the restructuring actions outlined in the Chief Executive's Review on pages 3 to 5, Cash Systems will comprise three focused Strategic Business Units (SBU's). These will be managed as front to back businesses with direct accountability to the Chief Executive.

+8%

The cost reduction programme in Cash Systems over the last two years is now showing through in efficiency gains.

This year has seen an 8% year on year improvement when measured by sales per employee.

-£20m

Over the year a major focus has been on improving stock control.

This year we have achieved excellent results and the division has seen a fall of £20m in stock levels, a reduction of 36%.

Branch Teller Automation

Our strategy is to support and develop our strong market position as the global market leader in Teller Automation products serving the retail bank sector. Our focus will be through a greater emphasis on the key growth markets, particularly North America, together with driving further operational productivity improvements.

Cash Processing Solutions (Sorters)

The Sorters business provides cash handling solutions, including banknote sorters and software systems to help Central Banks, commercial banks and cash-in-transit companies worldwide process cash efficiently and improve customer service. We intend to focus the business where De La Rue can compete successfully and which complement the Group's Currency operations.

OEM/Desktop Products

De La Rue is a leading supplier of Original Equipment Manufacture (OEM) mechanisms and technologies to the ATM industry. The Desktop Products business provides low cost, simple-to-use cash counters targeting the banking, retail, gaming, leisure and cash-in-transit markets. Our strategy is to maximise earnings for these mature businesses by rationalising manufacturing capacity and optimising the supply chain.

Kaizen 'Blitz' in Sweden

80%+

increase in the output of the lines

Kaizen 'Blitz' is a technique used to accelerate improvements in productivity instead of the traditional incremental change process. A cross-functional team spends typically 3-5 days completely reworking a manufacturing cell. The 'Blitz' process uses value stream mapping and other 'lean' tools to break apart and completely rethink existing production processes. Our manufacturing facility in Flen, which produces teller automation products for global distribution, has run several Kaizen Blitz events this year, which have yielded significant improvements on several assembly lines. On the note transport production line, for example, the following improvements were made : space reductions of 30%, work in progress reductions of 70% and an 80% increase in the output of the line.

