De La Rue plc

Strong Fundamentals
2011 Results
24 May 2011

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2011 Results

AGENDA

• Group Headlines
• Financial Results
• De La Rue and its Markets
• Improvement Plan
• Outlook
Group Headlines

**Revenue**
- 2007: £402m
- 2008: £467m
- 2009: £502m
- 2010: £561m
- 2011: £464m

**Operating Profit**
- 2007: £61m
- 2008: £79m
- 2009: £97m
- 2010: £109m
- 2011: £40m

**UK Passport Launch and Camelot sale**
- EPS: (5%)
- DPS: HELD

**Improvement Plan**
- Operating Profit >£100m within 3 years
- Build on fundamental strengths
- Address opportunities

**Headline Earnings and Dividend per share**
- 2007: £33p/share, £19p/share
- 2008: £42p/share, £21p/share
- 2009: £41p/share, £42p/share
- 2010: £67p/share, £42p/share
- 2011: £42p/share, £24p/share
Financial Results

Colin Child
Group Finance Director
# 2010/11 Financial Results

## Key Figures

<table>
<thead>
<tr>
<th></th>
<th>2011 £m</th>
<th>2010 £m</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>463.9</td>
<td>561.1</td>
<td>(17%)</td>
</tr>
<tr>
<td>Operating profit*</td>
<td>40.4</td>
<td>109.2</td>
<td>(63%)</td>
</tr>
<tr>
<td>Exceptional items</td>
<td>39.5</td>
<td>(7.5)</td>
<td></td>
</tr>
<tr>
<td>Finance expense</td>
<td>(7.1)</td>
<td>(11.4)</td>
<td></td>
</tr>
<tr>
<td>Income from associates</td>
<td>-</td>
<td>6.3</td>
<td></td>
</tr>
<tr>
<td>Profit before tax</td>
<td>72.8</td>
<td>96.6</td>
<td>(25%)</td>
</tr>
<tr>
<td>Headline earnings per share</td>
<td>24.0p</td>
<td>76.2p</td>
<td>(69%)</td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>67.6p</td>
<td>71.0p</td>
<td>(5%)</td>
</tr>
<tr>
<td>Dividend</td>
<td>42.3p</td>
<td>42.3p</td>
<td>-</td>
</tr>
</tbody>
</table>

## Volume

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Print (notes)</td>
<td>5.9bn</td>
<td>7.8bn</td>
<td>(24%)</td>
</tr>
<tr>
<td>Paper (tonnes)</td>
<td>9,900</td>
<td>15,500</td>
<td>(36%)</td>
</tr>
</tbody>
</table>

* Before exceptional items
## 2010 → 2011: Revenue

### Business Units*

<table>
<thead>
<tr>
<th>Business Units</th>
<th>2010 £m</th>
<th>2011 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>410</td>
<td>288</td>
</tr>
<tr>
<td>Cash Processing Solutions</td>
<td>57</td>
<td>58</td>
</tr>
<tr>
<td>Security Products</td>
<td>62</td>
<td>55</td>
</tr>
<tr>
<td>Identity Systems</td>
<td>32</td>
<td>63</td>
</tr>
</tbody>
</table>

*After eliminations

### Revenue Comparison

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>402</td>
</tr>
<tr>
<td>2008</td>
<td>467</td>
</tr>
<tr>
<td>2009</td>
<td>502</td>
</tr>
<tr>
<td>2010</td>
<td>561</td>
</tr>
<tr>
<td>2011</td>
<td>464</td>
</tr>
</tbody>
</table>

(17%) 

![Graph showing revenue comparison from 2007 to 2011](image)
2010 → 2011: Operating Profit*

<table>
<thead>
<tr>
<th>Business Units</th>
<th>2010 £m</th>
<th>2011 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>95</td>
<td>28</td>
</tr>
<tr>
<td>Cash Processing Solutions</td>
<td>(3)</td>
<td>1</td>
</tr>
<tr>
<td>Security Products</td>
<td>15</td>
<td>9</td>
</tr>
<tr>
<td>Identity Systems</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

*(Before exceptional items)*

![Bar chart showing profit changes from 2010 to 2011 for different business units.]*
## Exceptional Items

<table>
<thead>
<tr>
<th>Description</th>
<th>2011 £m</th>
<th>2010 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtailment gain on closure of pension scheme</td>
<td>16.0</td>
<td>-</td>
</tr>
<tr>
<td>Paper production quality issues</td>
<td>(29.0)</td>
<td>-</td>
</tr>
<tr>
<td>Corporate costs</td>
<td>(2.6)</td>
<td>-</td>
</tr>
<tr>
<td>Gain on sale of Camelot investment</td>
<td>55.1</td>
<td>-</td>
</tr>
<tr>
<td>CPS reorganisation</td>
<td>-</td>
<td>(4.8)</td>
</tr>
<tr>
<td>Legacy overseas indirect tax</td>
<td>-</td>
<td>(2.7)</td>
</tr>
<tr>
<td><strong>Total exceptional items</strong></td>
<td>39.5</td>
<td>(7.5)</td>
</tr>
</tbody>
</table>
## Operating Cash Flow

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating profit before exceptional items</strong></td>
<td>40.4</td>
<td>109.2</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>24.4</td>
<td>23.0</td>
</tr>
<tr>
<td><strong>Working Capital</strong></td>
<td>(29.4)</td>
<td>11.0</td>
</tr>
<tr>
<td><strong>Pension fund Contribution</strong></td>
<td>(7.5)</td>
<td>(17.0)</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>(13.2)</td>
<td>(10.1)</td>
</tr>
<tr>
<td><strong>Operating cash flow before special pension contribution</strong></td>
<td>14.7</td>
<td>116.1</td>
</tr>
<tr>
<td><strong>One off special pension fund contribution</strong></td>
<td>(35.0)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td>(20.3)</td>
<td>116.1</td>
</tr>
</tbody>
</table>
# Net Debt

<table>
<thead>
<tr>
<th></th>
<th>2011 £m</th>
<th>2010 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening net debt</td>
<td>(11.0)</td>
<td>(33.1)</td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td>(20.3)</td>
<td>116.1</td>
</tr>
<tr>
<td>Tax and interest</td>
<td>1.2</td>
<td>(24.3)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(30.7)</td>
<td>(33.1)</td>
</tr>
<tr>
<td>Sale of investment in Camelot / Associate income</td>
<td>75.4</td>
<td>6.3</td>
</tr>
<tr>
<td>Dividends</td>
<td>(42.1)</td>
<td>(40.6)</td>
</tr>
<tr>
<td>Other</td>
<td>(3.7)</td>
<td>(2.3)</td>
</tr>
<tr>
<td>Closing net debt</td>
<td>(31.2)</td>
<td>(11.0)</td>
</tr>
</tbody>
</table>
De La Rue and its Markets

Tim Cobbold
Chief Executive
De La Rue and its Markets

- **Currency**
  - Banknote paper, security features
  - Design, origination and printing of banknotes

- **Cash Processing Solutions**
  - High speed sorting machines
  - Service: maintenance and spares
  - Cash management solutions

- **Security Products**
  - Design, origination and printing of secure products
  - Tax stamp and authentication solutions

- **Identity Systems**
  - Design, origination and printing of identity documents
  - Personalisation solutions
## Importance of Currency

### Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Currency</th>
<th>Cash Processing Solutions</th>
<th>Security Products</th>
<th>Identity Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>402</td>
<td>61</td>
<td>561</td>
<td>464</td>
</tr>
<tr>
<td>2008</td>
<td>467</td>
<td>79</td>
<td>502</td>
<td>464</td>
</tr>
<tr>
<td>2009</td>
<td>502</td>
<td>97</td>
<td>561</td>
<td>464</td>
</tr>
<tr>
<td>2010</td>
<td>561</td>
<td>109</td>
<td>464</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>464</td>
<td>40</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Revenue Growth** (17%)

### Operating Profit

<table>
<thead>
<tr>
<th>Year</th>
<th>Currency</th>
<th>Cash Processing Solutions</th>
<th>Security Products</th>
<th>Identity Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>61</td>
<td>15</td>
<td>79</td>
<td>40</td>
</tr>
<tr>
<td>2008</td>
<td>79</td>
<td>17</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>97</td>
<td>19</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>109</td>
<td>19</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Operating Profit Growth** (63%) (10pts)

### Operating Margin

<table>
<thead>
<tr>
<th>Year</th>
<th>Currency</th>
<th>Cash Processing Solutions</th>
<th>Security Products</th>
<th>Identity Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>15%</td>
<td>15%</td>
<td>61</td>
<td>40</td>
</tr>
<tr>
<td>2008</td>
<td>17%</td>
<td>17%</td>
<td>79</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>19%</td>
<td>19%</td>
<td>97</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>19%</td>
<td>19%</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>9%</td>
<td></td>
<td>40</td>
<td></td>
</tr>
</tbody>
</table>

**Operating Margin Growth** (10pts)

### Business Units

<table>
<thead>
<tr>
<th>Business Units</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>2,469</td>
</tr>
<tr>
<td>Cash Processing Solutions</td>
<td>698</td>
</tr>
<tr>
<td>Security Products</td>
<td>563</td>
</tr>
<tr>
<td>Identity Systems</td>
<td>267</td>
</tr>
</tbody>
</table>

### Number of Manufacturing Sites

<table>
<thead>
<tr>
<th>Business Units</th>
<th>Number of sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>7</td>
</tr>
<tr>
<td>Cash Processing Solutions</td>
<td>2</td>
</tr>
<tr>
<td>Security Products</td>
<td>6</td>
</tr>
<tr>
<td>Identity Systems</td>
<td>3</td>
</tr>
</tbody>
</table>
Currency Market - Overview

Banknotes: c150bn banknotes

- Engraved portrait
- Intaglio print
- Hologram
- Watermark
- Serial number
- See-Through
- Thread
- Micro text

Indicative cost profiles

- Paper
  - Security Features
  - Cotton
  - Labour

- Others
  - Security Features
  - Labour
  - Ink
  - Paper

Paper: c150k tonnes

- State paper mills or State print works
- Overspill
- Commercial print market
- Commercial paper market

Source: Estimates De La Rue
Currency Market - Dynamics

Global Banknote Issuance

Market Segment Growth

Paper Demand and Capacity

Overspill Print Market

Source: Estimates De La Rue
De La Rue involved in c150 national currencies over last 5 years
• Long standing customer relationships
• Differentiate through design and technology
• Significant benefit from vertical integration
• High barriers to entry

Source: Estimates De La Rue
Leading Technology

Cornerstone®
Optiks™
Tilt®
Multitext™

Edgestone™

Flexycoin™

StarChrome®

Gemini™

Source: De La Rue
Order Intake and Order Book

Print Order Intake (indexed to Sept 08)
6 month rolling average

Currency Year End Order Book

Source: Estimates De La Rue
Cash Processing Solutions

Revenue

Large Sorters

Installed Base

Toshiba
De La Rue
G&D

Rest of the World
Americas
Rest of Europe
UK & IR

by Geography

Other
Distributor
Commercial Banks
Central Banks

by Customer

Shipments

Toshiba
De La Rue
G&D

Market Growth Drivers

- Growth in note issuance
- Move to automation
- Renewal
- Central bank outsourcing
- Centralisation of operations

Niche market - Steady growth - Number 2 position

Source: Estimates De La Rue
Security Products

Market Growth Drivers

- Growing importance of indirect taxation
- Identity and financial fraud
- Revenue protection
- Anti-counterfeiting

Competitor Landscape

<table>
<thead>
<tr>
<th>Competitive Segment</th>
<th>Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>State print works</td>
<td>Hungarian State Print Works, PWPW</td>
</tr>
<tr>
<td>Security printers</td>
<td>De La Rue, Enschede, G&amp;D, Walsall Security Print</td>
</tr>
<tr>
<td>Commercial printers</td>
<td>Kalamazoo, Madras, Paragon</td>
</tr>
<tr>
<td>New entrants, mainly around Track &amp; Trace</td>
<td>Authentix, Sicpa</td>
</tr>
</tbody>
</table>

Revenue Split

- Other
- Internal Components
- Financial Cards
- Government Revenue
- Brand Licensing

by Product

- Americas
- Rest of Europe
- UK & Ireland

Rest of World

by Geography

Growth opportunities - Solution development - Diverse product range

Source: Estimates De La Rue
Identity Systems

Market growth drivers

- Cross border security
- National Identity tracking and security
- Economic pressure on social services and managing entitlements
- Technology – shift to “e”

Competitor Landscape

<table>
<thead>
<tr>
<th>Competitive Segment</th>
<th>Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documents Producers</td>
<td>De La Rue, G&amp;D, Oberthur</td>
</tr>
<tr>
<td>Point Solutions Providers</td>
<td>Cogent, L1, Vernizon</td>
</tr>
<tr>
<td>ID System Integrators</td>
<td>De La Rue, Gemalto, G&amp;D, Sagem</td>
</tr>
<tr>
<td>Large IT Integrators</td>
<td>IBM, Siemens, Thales</td>
</tr>
</tbody>
</table>

Revenue Split

- Driving Licence
- ID card
- Passport
- Rest of the World
- Americas
- Rest of Europe

Growth opportunities - Solution driven - Diverse technology
Locations and Spread

Sales and Manufacturing Sites

Sales by Geography

- UK and Ireland: 19%
- Rest of Europe: 13%
- Americas: 16%
- Rest of the World: 52%

Source: Estimates De La Rue
Improvement Plan

Tim Cobbold
Chief Executive
Fundamental Strengths

- Brand and reputation
- Long standing customer relationships
- Strong integrated competitive position
- Record of innovation
- High margin, cash generative model
- Good presence in niche markets
- Exposure to fast growing developing markets
Significant Opportunities

• Focus, focus, focus
• Deepen and broaden “One De La Rue”
• Enhance customer relationships
• Improve sales and marketing effectiveness
• Exploit technological capability
• Develop total supply chain

Improvement Plan
• Build on fundamental strengths
• Address opportunities
**Improvement Plan**

**Target: Operating Profit >£100m within 3 years**

**Customer Focus**
- Country and regional sales plans

**Innovation**
- Product innovation
- New business models and partnerships

**Professionalism**
- Standardise processes
- Talent and reward

**Operational Excellence**
- Procurement
- Process improvement
- Facility optimisation

**Initiatives**
- Top line growth
- Margin protection
- Market share

**Outcomes**
- Top line growth
- Market share
- Competitive positioning

**Revenue Growth**
- Best practice
- Lower “cost”
- Engagement

**Cost Reduction**
- Low “cost”
- Quality
- Margin
Simplify Structure; Reshape Organisation

Revenue

- Cash Processing Solutions £58m
- Security Products £55m
- Identity Systems £63m
- Currency Solutions £176m
- Currency £288m

Customer Focus

Innovation

Professionalism

Operational Excellence
Revenue Growth Initiatives

• **Country Plans**
  – One De La Rue basis
  – Develop plans and align capabilities
  – Pilot completed
  – Phased roll-out

• **Product Innovation**
  – Provide focus
  – Standardise processes
  – Evaluate and accelerate opportunities
  – Leverage existing portfolio of well established technology
Cost Reduction Initiatives – Progress to date (1/2)

• Procurement

   Phasing:
   
   - Phase I: £4m savings negotiated – addressable cost of £29m
   - Phase II: Addressable cost of £77m
   - Phase III: Addressable cost of £75m
   - Phase IV: Review of strategic suppliers

• Process Improvement

   Phasing:
   
   - Focus: Spoil (Waste) reduction, quality improvement, “make-ready” reduction
   - Specific project in Overton
   - Establish continuous improvement methodology

Source: Estimates De La Rue
Cost Reduction Initiatives – Progress to date (2/2)

• Facility Optimisation

  – Phase I: Site reviews; Facilities identified; Consolidation strategy defined
  – Phase II: Implementation

• Standardise Processes

  – Phase I: Review of IT systems; Feasibility review
  – Phase II: Process definition
  – Phase III: Implementation
Generating Value for Shareholders

Target
- Revenue – Return to historic 4% growth trend
- Cost Reduction – c£30m pa broadly even over 3 years
- Operating profit in excess of £100m within 3 years

Investment
- Exceptional costs of c£25m
- Specific capital expenditure of c£20m
- Predominantly in the first two years

Prudent and Pragmatic Basis - Confidence in Delivery
Conclusion and Outlook

Current trading in line with expectations
- Stabilised order intake – recovery in banknote print volume
- Business currently well loaded
  - First half solid – order coverage good
  - Second half order focus – pipeline good

Confidence in Improvement Plan
- Strong fundamentals
- “Self-help” initiatives
- Contributing to current year