



# Delivering Value to Shareholders

**Interim Results**  
**29 November 2005**



# Leo Quinn

Chief Executive



# Interim Results 2005/2006

## Agenda

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

# Interim Results 2005/2006

## Highlights

- Strong first half:
  - Operating margins up by 1.6 per cent to 9.4 per cent
  - Profit before tax and exceptional items\* from continuing operations up 6.3% to £30.6m
  - Headline earnings per share\* up 11.3% to 11.8p
  - Operating cash flow up 14% to £46.5m
  
- Profit before tax and exceptional items\* on reported basis up by 17.2%
  
- £67.8m capital return completed on 1 August 2005 through a special dividend.

\* before exceptional charges of £3.0m (2004/2005 £13.1m)

# Stephen King

Finance Director



# Financial Results

Half year ended 24 September 2005, £m	1 <sup>st</sup> half 2005/06	1 <sup>st</sup> half 2004/05	Change
<b>Continuing Operations</b>			
Sales	<b>290.7</b>	309.8	<b>-6.2%</b>
Underlying operating profit	<b>27.3</b>	24.1	<b>13.3%</b>
Share of profits of associated companies	<b>2.9</b>	2.9	
Interest - On net bank balances	<b>1.1</b>	1.0	
- Retirement benefit obligation	<b>(0.7)</b>	0.8	
Profit before tax and exceptional items*	<b>30.6</b>	28.8	<b>6.3%</b>
Group headline earnings per share*	<b>11.8p</b>	10.6p	<b>11.3%</b>
Dividends per share	<b>5.2p</b>	4.7p	<b>10.6%</b>
Net Cash	<b>61.6</b>	61.6	

\* before exceptional charges of £3.0m (2004/2005 £13.1m)

# Segmental Analysis - First Half 2005/2006

£m	Revenue		Operating Profit
<b>Security Paper and Print</b>			
Reported H1 2004/2005	167.8		21.2
Exchange	0.4		(0.8)
	168.2		20.4
Underlying change	(18.5)	(11.0)%	0.7
Reported H1 2005/2006	149.7		21.1
<b>Cash Systems</b>			
Reported H1 2004/2005	142.0		2.9
Exchange	2.2		(0.7)
	144.2		2.2
Underlying change	(3.2)	(2.2)%	4.0
Reported H1 2005/2006	141.0		6.2
<b>Group Total</b>	<b>290.7</b>		<b>27.3</b>

- Underlying revenue change reflects banknote volume decline
- Underlying operating profit improvement - productivity / restructuring benefits and customer favourable mix

# Associates

£m	1 <sup>st</sup> half 2005/06	1 <sup>st</sup> half 2004/05	Full Year 2004/05
Profit before tax	4.2	4.2	9.4
Tax	(1.3)	(1.3)	(3.0)
Profit after tax	2.9	2.9	6.4

- Camelot, the UK lottery operator
- Under IFRS now reported after tax
- Good sales performance – up 2.3% on previous half year, reflecting new games and sales channels
- Increase in returns to good causes up on corresponding period last year



# Group earnings per share

£m	1 <sup>st</sup> half 2005/06	1 <sup>st</sup> half 2004/05	Change
Profit before tax and exceptional items	<b>30.6</b>	26.1	17.2%
Tax charge (effective rate - 29.4%) (2004/5: 24.9%)	<b>(9.0)</b>	(6.5)	
Minority Interests	<b>(0.9)</b>	(0.8)	
<b>Underlying Earnings</b>	<b>20.7</b>	18.8	10.1%
Average number of shares (millions)	<b>174.8</b>	178.1	
Headline earnings per share	<b>11.8p</b>	10.6p	11.3%
Basic earnings per share	<b>10.6p</b>	3.6p	

- Underlying EPS improvement reflects:
  - Higher Profit Before Tax
  - Reduction in average number of shares (share consolidation)
  - Partially offset by increased effective tax rate

# First Half Exceptional Items

	£m
Reorganisation Costs - Cash Systems	(4.2)
Income from investment previously impaired	0.4
Income from disposal of investment	0.8
Exceptional pre-tax costs	(3.0)

- Cash Systems reorganisation costs relate to the restructuring announced at the interim results last year.
  - A charge of £14.3m was taken in the second half of 2004/2005 and, as expected, a charge of £4.2m was made in the first half of 2005/2006.
- Income from investments relates to a £0.4m loan repayment from the Group's associate holding in Valora and £0.8m arises from disposal of an investment.



# Cash flow

£m	1 <sup>st</sup> Half 2005/06	1 <sup>st</sup> Half 2004/5	Change
Underlying Operating Profit	27.3	21.4	27.6%
Depreciation	11.9	12.6	
Working Capital	8.8	10.9	
Exceptional items – cash expenditure	(3.2)	(4.6)	
Other items	1.7	0.5	
Cash flow from operating activities	46.5	40.8	14.0%
Interest and taxation	(0.4)	(2.9)	
Capital expenditure	(9.7)	(8.7)	
Equity dividends - Ordinary	(19.1)	(17.4)	
- Special	(67.8)	-	
Acquisitions and disposals, fixed asset sales	2.9	7.3	
Associate dividends received	4.2	2.7	
Share capital issues, exchange and other	(1.5)	(1.3)	
Net cash flow	(44.9)	20.5	
Net cash	61.6	61.6	

# Leo Quinn

Chief Executive



# Security Paper and Print

£m	At Constant FX Rates 2005/06	1 <sup>st</sup> half 2005/06	1 <sup>st</sup> half 2004/05	Full Year 2004/05
Sales	149.3	149.7	167.8	317.9
Underlying operating profit*	21.9	21.1	21.2	45.4
<i>Operating profit margin</i>	14.7%	14.1%	12.6%	14.3%

\* before exceptional income of £0.4m (2004/2005 : income of £0.4m)

- Sales down 11% - banknote volumes returning to historic levels
  - Banknote volumes down 25% (2004/2005: increase of 42%)
  - Overspill levels also lower at 21 per cent (2004/2005: 28 per cent)
  
- Operating profits maintained despite lower volumes
  - Operating profit margin improved by 1.5% points to 14.1% – more favourable customer mix primarily in paper and security threads
  - Restructuring benefits from actions previously taken
  - Productivity improvements throughout the division
  - Good volumes of authentication labels, fiscal stamps and passports

# Cash Systems

£m	At Constant FX Rates 2005/6	1 <sup>st</sup> half 2005/06	1 <sup>st</sup> half 2004/05	Full Year 2004/05
Sales	138.8	141.0	142.0	302.2
Underlying operating profit*	6.9	6.2	2.9	9.4
<i>Operating profit margin</i>	<b>5.0%</b>	<b>4.4%</b>	2.0%	3.1%

\* before exceptional items of £3.4m (2004/2005 : £13.5m)

- Sales flat year on year
  - Teller Cash Recycler volumes continue to grow offset by continued decline of mature Teller Cash Dispenser markets (particularly Europe) – Growth focus remains on North America.
  - Sorter growth focussed on geographical expansion - market environment continues to be competitive
  - OEM and Desktop Products good first half
- Operating profit margins improved by 2.4% points to 4.4%
  - Restructuring benefits from ongoing actions
  - Continued upgrading of leadership

# Progress on Strategic Actions

- Clear and accountable structure around 5 focused Strategic Business Units in place
- Upgrade of leadership through talent review process
  - Operating Board – 5 out of 8 in new roles in last 18 months
  - New leadership in place in each Cash Systems SBU
  - New country managers in 6 regions
- Productivity improvements:
  - Continuous improvement culture “My Contribution”
    - building capability across the company
  - Controls over working capital unlocked £36.2m from balance sheet in 18 months
- Disposal of Sequoia completed in March 2005



# Progress on Strategic Actions

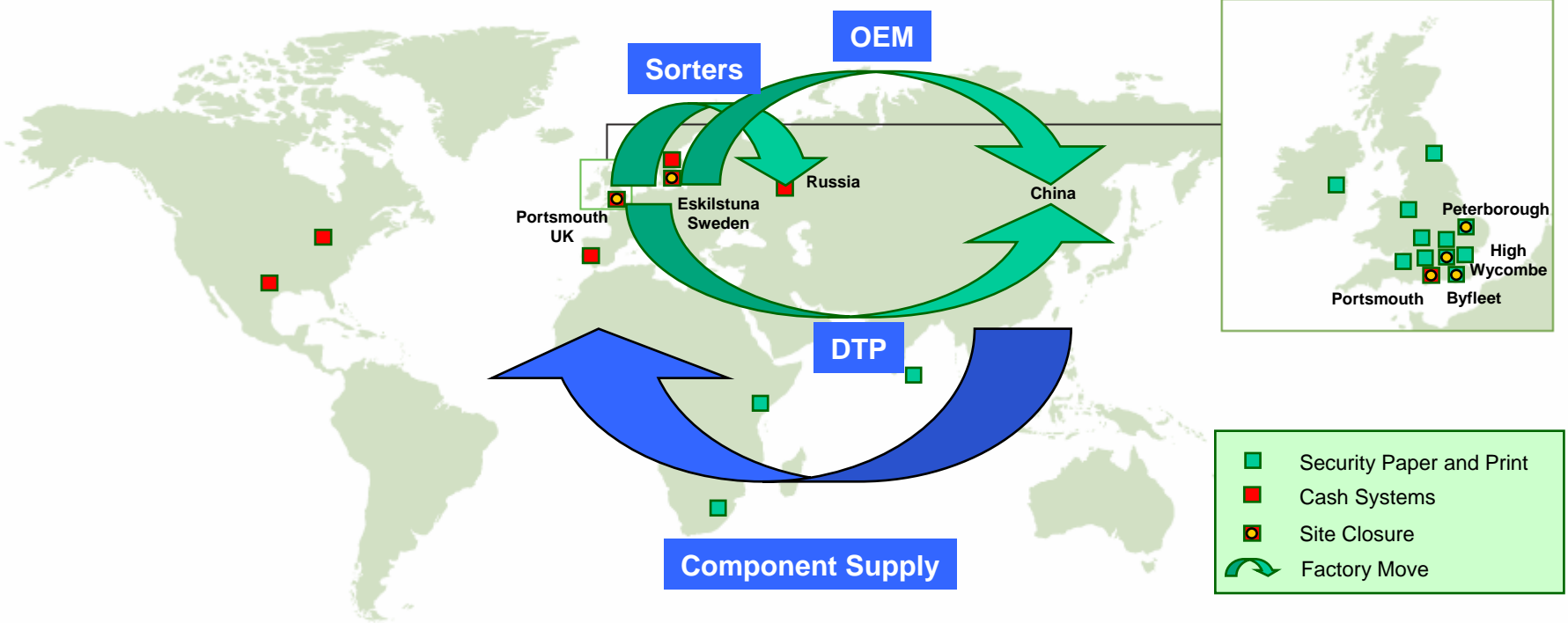
## ■ Cash Systems

- Manufacturing rationalisation progressing to plan:
  - Portsmouth to close by end 2005/2006, Eskilstuna by end first half 2006/2007
  - Associated line moves have progressed in line with plan
  - OEM outsource in China also now assembling kits
- As expected annualised £9m cost savings. Run rate as follows:
  - 2004/5 : £1.5m
  - 2005/6 : £5.0m
  - 2006/7 : £9.0m
  - Cumulative savings to date £3.5m
  - To date, 230 redundancies out of targeted headcount reduction of 480
- Arbok (Russia) and Detain (China) JV businesses bought out. Disposed of minority interest in distributor





# Manufacturing Location Consolidation

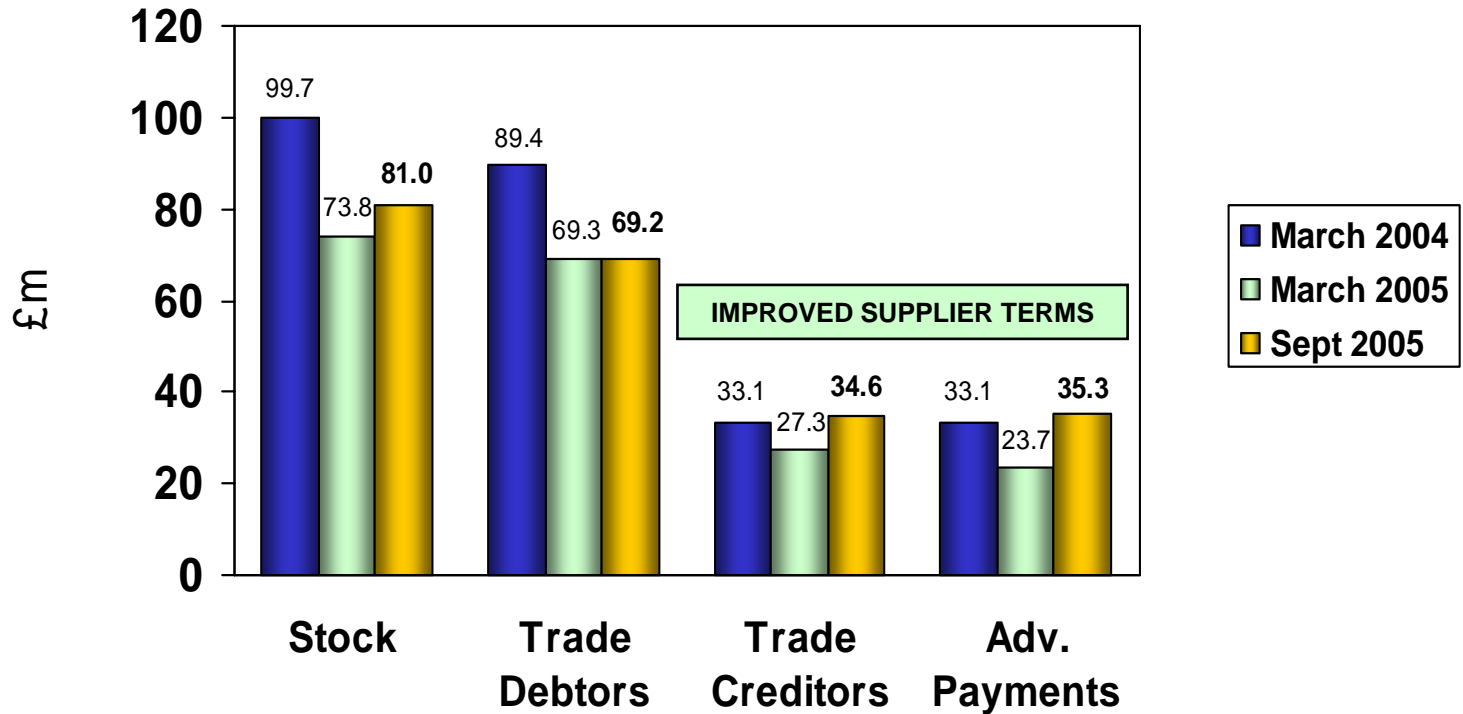


- Benefits:
  - Co-location with customers in lower cost regions
  - Foreign exchange exposure reduced
  - Lower fixed costs through fewer manufacturing locations

**LOWER COST BASE: DELIVERING THE PRODUCT AT COMPETITIVE PRICES  
CAUTIOUS APPROACH TO ENSURE CONTINUITY OF SUPPLY**

# Improved Cash Generation

## Group Working Capital

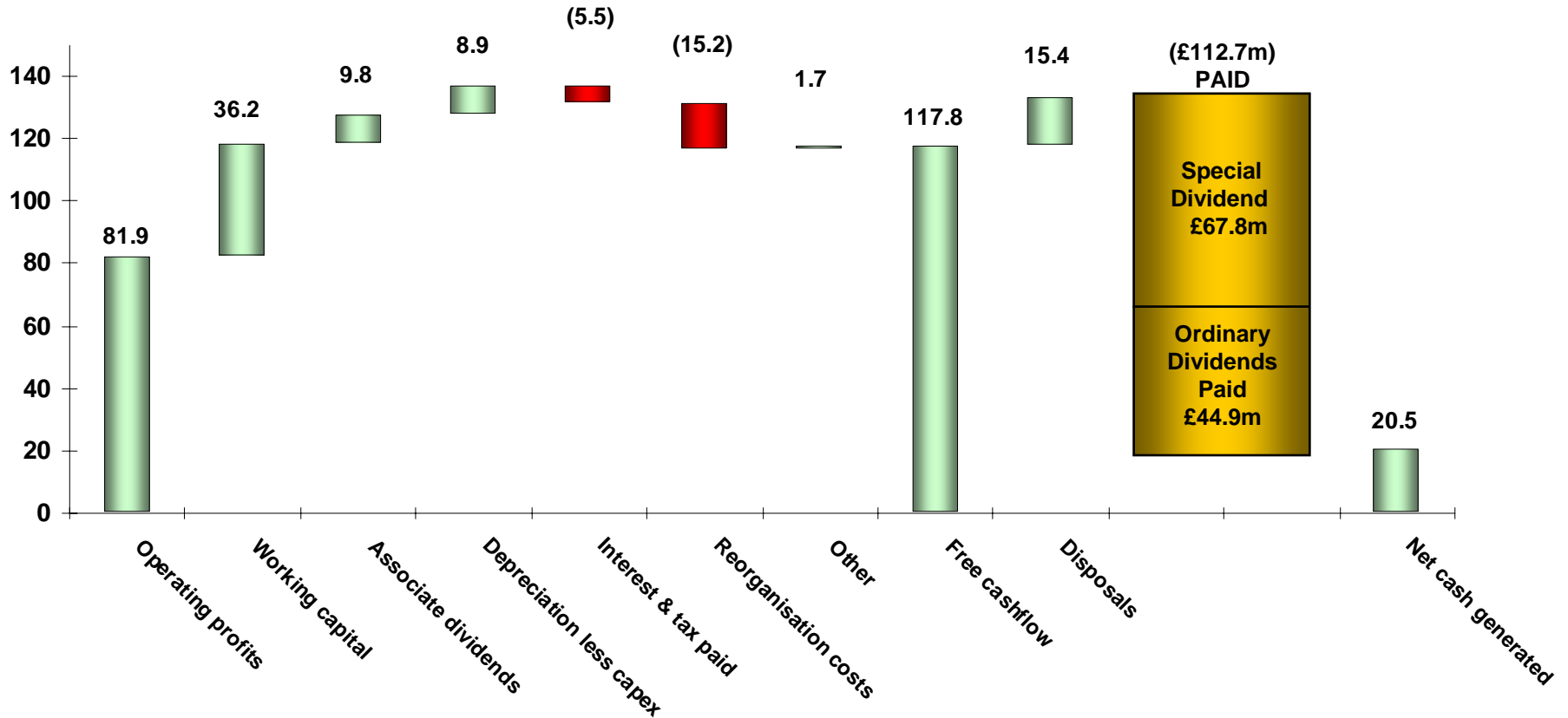


**£8.8m OF FURTHER CASH FREED UP FROM WORKING CAPITAL**

# Returns to Shareholders

£m

CASH FLOW GENERATED OVER LAST 18 MONTHS (MARCH 04 TO SEPTEMBER 05)



**FREE CASH FLOW £117.8m OVER 18 MONTHS  
RETURNED £112.7m TO SHAREHOLDERS**



# Outlook

- Strong first half
- Trading in second half in banknote printing not expected to be at last year's exceptional levels
- Good visibility in our principal markets
- Benefits from ongoing restructuring activities coming through as planned

**EXPECTATIONS FOR THE YEAR AS A WHOLE REMAIN UNCHANGED**

# Summary

- Strategy delivering value
  - Profits before tax\* up 6.3% and operating cash flow up 14%
  - £112.7m returned to shareholders to date
  
- Strengthening platform for the future
  - On track to achieve £9m annualised cost savings in 2006/07
  - Performance improvements more than offsetting volume swings
  - Continuing investment in core businesses and upgrade of leadership



# SUPPLEMENTARY SLIDES

# Interim Results 2005/2006

## Banknote and Paper Volumes

	<b>1<sup>st</sup> Half 2005/2006</b>	1 <sup>st</sup> Half 2004/2005
Banknote volumes – increase/ (decrease)*	<b>(25%)</b>	42%
Overspill – as a % of total banknote volumes*	<b>21%</b>	28%
Paper volumes – (reduction)/ increase	<b>(1%)</b>	(11%)

\*includes Bank of England volumes

# IFRS – Summary Impact 2004/2005

Year ended 26 March 2005, £m	UK GAAP	IFRS	Change
Headline PBT	66.5	65.0	(1.5)
Headline Earnings	46.3	46.2	(0.1)
Headline EPS	26.0p	25.9p	(0.1)p
Net assets at 26/03/2005	228.4	179.1	(49.3)



# International Financial Reporting Standards

Main Areas of Impact (against UK GAAP)	Headline PBT		Net Assets
	Half Year 2004/05	Full Year 2004/5	March 2005
Pensions other employee benefits (IAS 19)	0.8	1.5	} (68.6)
Other Employee benefits	0.5	0.3	
R&D (IAS 38)	0.7	1.1	6.6
Share based payments (IFRS 2)	(0.6)	(1.4)	-
Goodwill (IFRS 3)	-	-	(0.6)
Impairment of assets (IAS 36)	-	-	(2.7)
Taxation (IAS 12)	-	-	(3.0)
Equity Dividends (IAS 10)	-	-	19.0
Other	0.2	-	-
	1.6	1.5	(49.3)
Reclassification of associate tax	(1.3)	(3.0)	-
<b>Total</b>	<b>0.3</b>	<b>(1.5)</b>	<b>(49.3)</b>

- For the half year 2005/2006, main changes were in relation to pension costs (£0.7m negative) and share options (£0.7m charge)



# Foreign Exchange

Graph of SEK v USD since 1 January 2003

