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# ❖ The Global Contrarian ❖

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October 28, 2009

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## De La Rue plc

(BUY)

**Price (10/27/09):** £8.96

**52-Wk. Range:** £14.73 – £7.75

**Outstanding shares, 3/09:** 97.8 million

**Market Cap.:** £876 million (\$1,429 million)<sup>1</sup>

**Ticker:** DLAR LN<sup>2</sup>

**Est. Div.:** £0.41

**Yield:** 4.5%

<sup>1</sup> One British Pound (£) is equivalent to \$1.63.

<sup>2</sup> De La Rue plc trades on the London Stock Exchange.

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**Investment Thesis**

De La Rue plc has made money each and every year of the past one-and-a-half centuries. It might be said to be a money machine. As a separate matter, it is also quite profitable. To clarify the difference, which is semantic, De La Rue prints currency for central banks and government agencies around the world. There might be no other publicly traded companies comparable to De La Rue, which believes it has at least a 60% share of currency production among those nations that do not print their own. Aside from being an intriguing investment, De La Rue is also an intellectually interesting answer to the question: if one could actually print money as a business, how profitable would that be? Compared with other companies that produce paper or engage in printing, one would find De La Rue to exhibit far superior profitability characteristics, both as to revenue progression and cyclicity (sales for the year ended March 2009, for instance, rose by 7.5%), net profit margins and returns on equity.

As is usually the case in instances of above average profitability, there is a somewhat high barrier to entry in this industry. There are few businesses for which security and reputation would be more critical in securing new contracts than that of printing currency (as well as other De La Rue products such as passports, driver's licenses and other identity documents). There are also the more conventional competitive factors such as technological capabilities and specialized capital equipment, and the limited number of specialized ink, paper, and printing press suppliers available to banknote producers.

De La Rue also embodies an interesting structural element in its growth in that some 85% of its 160 public sector banknote customers are developing nations. Accordingly, the company's growth, which in any case has limited sensitivity to economic cyclicity, should vary more closely with the rate of those nations' economic expansion than with the economies of the western industrialized nations. De La Rue is also a natural inflation beneficiary, since an important variable in the company's unit growth is the expansion of

the monetary base of its customers, which includes the ordinary inflation component of changes in GDP.

There is also an event basis for the recommendation of De La Rue, which has just completed a significant transformation. Beginning in 2004, the company determined to divest lower-margin and low-growth products, such as the printing of personal checks, unless they had a direct or supporting business relationship to the core security printing and document/identity authentication activities. The progress of this program is evidenced by the near doubling of the net profit margin between the fiscal year (March) 2004 and 2008, from 6.6% to 11.5%. This process reached a dramatic culmination in November 2008, upon the company's sale of most of its Cash Systems division. This division, which sold and serviced automated teller machines (ATMs), represented over 45% of De La Rue's fiscal 2008 revenues.

The sale price was £360 million and, coordinated with some modest borrowing, funded a £460 million return of cash to shareholders via a special dividend. The resultant De La Rue exhibits higher profit margins, more rapid growth and a higher return on equity. On a restated pro-forma basis, the revenue growth rate over the past four years is on the order of 10% per annum, versus the historically reported 4%, and the net profit margin for the year ended this past March expanded by over 3% points from the prior year. Therefore, the new De La Rue is inherently a higher-valuation-multiple business. Paradoxically, despite this salubrious development, the shares are no higher – adjusted for the cash payout last November – than their trading range throughout most of 2007 and 2008. This may well be a function of timing and invisibility, given that the transaction occurred and the annual report was issued during the worst financial market panic in over 75 years. On the other hand, it is perhaps reflective of the high quality of the company that its shares did not decline much from the 2007/2008 trading range.

Be that as it may be, the De La Rue shares now trade at less than 12x the income earned last year – this for a company that earned a 33% return on equity (from continuing operations) in fiscal 2008. The figure for 2009 is so high (over 300% on ending equity) as to be meaningless, due to the share retirement having almost eliminated the book equity. However, the return on *assets* is a meaningful figure and, at about 15%, is superior to the return on *equity* of the typical company. The balance sheet is of very high quality, despite the absence of book equity and, therefore, a high debt/equity ratio: the modest amount of long-term debt is equivalent to less than one year's net income.

At the current valuation, it is difficult to suggest other than a salutary future investment return, irrespective of the pattern that emerges. In the simplest scenario, the return would be the sum of the 4.5% dividend yield and the normalized earnings growth, assuming a constant P/E ratio. Even if there were no earnings leverage from expanding revenues upon a partially fixed cost structure, earnings growth would be about 10% per annum if the past four years are representative. That figure would not very far from the historical GDP growth rates of emerging markets of roughly 6% plus a few percentage points for inflation. Of course, operating leverage does exist, but at the least one should expect a suitable double-digit annualized return simply from normal business results and the dividend.

One might also anticipate a revaluation. On a historical basis, between 2004 and 2007, before De La Rue divested its Cash Systems division, and was a lower-margin, lower-growth enterprise, the shares traded at average annual P/E multiples of between 15x and 19x. A reversion to historical valuation multiples would add at least 50% or more to the price in addition to the impact of earnings growth and the dividend yield.

There is also the possibility that the low share price will itself be a valuation catalyst. The management has clearly shown itself sensitive to shareholder value. Its business is self-funding and highly cash generative. This would permit the company to engage in similar anti-dilutive investments such as it concluded late last year. In one iteration, De La Rue

could take on a fair amount of debt to repurchase shares. If, just as an illustrative example of our own making, the company were to tender for 50% of its shares at a 20% premium to the current price, it might, net of interest expense, raise its per-share earnings by 15% to 20%. Interest coverage would be well over 2x. At that juncture, as a low-leverage, publicly traded quasi-LBO, the following secondary return profile would emerge. If all net income were to be applied to debt reduction, debt elimination would take some 10 years. During that time frame, even if operating earnings were to experience no expansion whatever, earnings growth would approximate 6.5% merely via gradual elimination of interest expense. A more realistic scenario must assume some normal level of sales and operating income expansion. With a 10% rate of operating income growth, earnings growth would be 22%. This is little other than what private equity firms practice: the use of leverage to enhance equity returns.

There is no indication that De La Rue plans such an undertaking. The company might merely apply the balance of its cash flow (it last year set a dividend policy that would result in about a 55% to 60% payout ratio) to the repurchase of its shares, in which case its expected earnings growth would be enhanced by an additional 3% to 4% points annually. The purpose of such an exercise is merely to demonstrate an objective financial measurement of the company's undervaluation. In such circumstances, financial self interest, whether from an internal or external source, often provides a catalyst for value recognition. Accordingly, the shares of De La Rue are recommended for purchase.

### Company History

The UK-based origins of De La Rue trace back to 1821, when Thomas De La Rue parlayed his experience as a newspaper printer on the English Channel island of Guernsey into the establishment of a printing and stationery operation in London. In 1831, Mr. De La Rue was granted a patent to produce the world's first modern playing cards. Further innovations followed in the 1840's and 1850's, when founder Thomas De La Rue's son, Warren, invented the world's first envelope folding machine and introduced the first surface-printed and perforated postage stamps. In 1862, the company began producing paper currency when British crown colony agents transferred their banknote printing contracts from De La Rue's now-extinct rival, Perkins, Bacon & Company, to De La Rue for several British colonies, including Mauritius, the Bahamas, St. Lucia, and Trinidad.

In 1896, Thomas De La Rue converted from a family partnership into a private company, the family's stake in which was partly monetized in a 1921 public offering of common shares. The year 1930 marked the company's undertaking of the first production of currency notes for the nation of China. While De La Rue's factories in London were destroyed during the German Blitz of 1940, the company recovered from that setback and went on to see its shares listed on the London Stock Exchange in 1947. That listing was followed by changes in the company's name, from Thomas De La Rue to The De La Rue Company Limited in 1958, and then to De La Rue plc in 1991. Subsequent acquisitions and joint ventures expanded the company's banknote printing operations. In the late 1960's, De La Rue sold its playing cards business and introduced the world's first automatic teller machines (ATMs).

### Business Segments

Against the backdrop of this storied history, in fiscal 2009 De La Rue derived 68% of its revenues and 84% of EBITDA from **Currency Printing** operations (see Exhibit 1). Because this division accounted for 72% of the company's total capital expenditures, less

than EBITDA contribution, it accounted for 88% of De La Rue's operating free cash flow (EBITDA minus capital expenditures). The Currency Printing division is the largest such commercial enterprise in the world and is involved in the production of over 150 national currencies, each of which, of course, requires multiple denominations. Most of its customers are emerging market nations, which lack the technological expertise and scale economies of De La Rue. For a colorful example, with only several months' notice, in 1994, De La Rue was able to design, produce and deliver 2 billion bank notes to the Central Bank of Iraq, which filled the equivalent of 27 Boeing 747 aircraft.

Technological expertise is related not only to banknote design and printing, including improvements such as stiffening the corners of notes so as to reduce the number of notes rejected by high-speed sorting machines, but also to the anti-counterfeit and fraud security features of banknotes, which is constantly evolving. These include cylinder mould watermarks, security threads, and a wide range of printed features and optically variable devices such as holograms. The company also provides associated services related to anti-counterfeit consulting, counterfeit analysis and training, currency management, and design and origination.

From a security perspective, currency remains far more secure than credit based exchange. During 2007, the Bank of England removed from circulation 290,000 counterfeit banknotes with a face value of £5.8 million. In 2006, the US Department of the Treasury estimated that between \$70 million and \$200 million in counterfeit US banknotes were in circulation worldwide, equivalent to between 1 and 2.5 counterfeit bills for every 10,000 banknotes in circulation. In contrast, the European Security Transport Association estimates that 11% of adults in eight European countries – equivalent to some 22.8 million individuals – have been the victims of credit card identity theft.

The obvious source of unit growth for De La Rue is the incremental cash issuance by central banks, which is a function of GDP growth and changes in the use of cash as a means of payment. However, this is a net figure, the other major variable being the rate at

which notes are retired. This can be affected by the frequency of new note design launches, changes in denomination structure, developments in counterfeiting, and growth in automated cash handling by retail banks, which requires less-soiled notes. The natural lifespan of paper currency, if judged by that of the U.S. dollar bill, is less than two years. The company indicates that despite the continuing development of alternative payment systems, the value of cash in circulation as a proportion of GDP remains extremely stable, even in the developed economies.

**Exhibit 1 De La Rue plc: Segment Contribution and Profitability, FY 2009**

(Fiscal year ended March 31, 2009)

**Segment Operating Contribution**

	<b>Revenues</b>	<b>EBIT</b>	<b>EBITDA</b>	<b>CAPX</b>	<b>EBITDA - CAPX</b>
Security Paper & Print					
Currency	68%	86%	84%	72%	88%
Security Print	14%	11%	12%	7%	14%
Identity Systems	6%	2%	3%	1%	3%
Total Security Paper & Print	87%	100%	98%	80%	105%
Cash Processing Solutions	13%	0%	2%	20%	-5%
Total from Continuing Ops.	100%	100%	100%	100%	100%

**Segment Operating Margin**

	<b>EBIT</b>	<b>EBITDA</b>
Security Paper & Print		
Currency	24%	28%
Security Print	16%	20%
Identity Systems	8%	10%
Total Security Paper & Print	21%	26%
Cash Processing Solutions	1%	3%
Total from Continuing Ops.	17%	22%

Source: De La Rue plc.

**Security Printing** operations accounted for 14% and 12%, respectively, of the company's revenues and EBITDA during its most recent fiscal year. Security Printing operations include the production of many of the same technologies and techniques used in currency production, such as holographics, security papers, and security printing to a range of other documents and labels subject to counterfeiting or fraud, such as tax stamps (on liquor

bottles and cigarette packs), authentication labels for retail products, and bank checks, among others.

The **Identity Systems** segment accounted for 6% and 3%, respectively, of De La Rue's total revenues and EBITDA. Three operations contribute to the Identity Systems segment's overall revenue base: the production of, and support systems for, passports (55% of total revenues); the manufacture of secure identification cards (34% of total revenues); and the printing of driver's licenses, including the new New York State driver's license (the remaining 11% of total revenues). Although this is the smallest and least profitable of the De La Rue business segments, it is a highly fragmented market that is still evolving, requiring the integration of production techniques, new technologies and coordination with government information systems. Few companies can provide a complete product solution. The desire by governments around the world to modernize their national identification systems, strengthen national security, better control and deliver public services, etc., is creating a shift to identity cards and passports with not only improved visible security features but embedded data capabilities as well, such as chips with radio frequency functionality. The annual growth rate of the global identity systems market recently exceeded 10%.

The **Cash Processing Solutions** segment, which succeeded the 2008 divestiture of De La Rue's Cash Systems, generated 13% and 2%, respectively, of the company's fiscal 2009 revenues and EBITDA. Because the remaining operations of the Cash Processing Solutions segment accounted for 20% of De La Rue's total capital expenditures during fiscal 2009, that segment would have generated negative cash flow on a stand-alone basis. The segment's operating and EBITDA margins during that year approximated 1% and 3%, respectively. Services provided by the Cash Processing Solutions segment include high-volume banknote sorting for banks and central banks, the transportation of circulating banknotes, and the destruction of older banknotes.

De La Rue's operations are globally diversified (see Exhibit 2). Revenues generated within the UK and Ireland, as well as the balance of Europe, accounted for 12% and 16%, of total revenues. Customers in the Americas – such as the driver's license customers of the Identity Systems segment – were the source of another 13% of De La Rue's sales, with 59% balance of sales generated by other customers worldwide.

**Exhibit 2 De La Rue plc: Financial Contribution by Geographic Region, FY 2009**

(Fiscal year ended March 31, 2009; British pounds in millions)

<b>Region</b>	<b>Revenues</b>
UK/Ireland	£62
Rest of Europe	£81
Americas	£64
Rest of World	£296
<b>Total</b>	<b>£502</b>

<b>Region</b>	<b>Revenues</b>
UK/Ireland	12%
Rest of Europe	16%
Americas	13%
Rest of World	59%
<b>Total</b>	<b>100%</b>

Source: De La Rue plc.

**Profitability Characteristics**

The September 2008 divestiture of De La Rue's Cash Systems unit only amplified the company's already creditable profit margins and growth. Inclusive of the contribution from the former Cash Systems unit, De La Rue had reported annual revenue growth of somewhat over 4% between 2004 and 2008, and operating margins that rose sequentially from 8.0% to 15.2%. Exclusive of Cash Systems, the revenue growth rate would have been on the order of 10%, and operating margins would have expanded from the 12% to 17% range; for fiscal 2009, they reached 19.1%.

**Exhibit 3 Historical Operations: Including Cash Systems**

£, mill	Annlz'd	2008	2007	2006	2005	2004
Net sales	4.3%	754	688	611	620	638
Op inc	22.5%	115	90	69	55	51
Op margin		15.2%	13.1%	11.3%	8.9%	8.0%
Net margin		11.5%	10.3%	9.0%	7.1%	6.6%

**Continuing Operations: Excluding Cash Systems**

£, mill	Annlz'd	2009	2008	2007	2006	2005
Net sales	10.6%	502	467	402	358	336
Op inc	22.2%	96	79	61	47	43
Op margin		19.1%	16.9%	15.2%	13.1%	12.8%
Net margin		14.7%	13.3%	12.4%	10.9%	10.7%
Shares, mill.		97.8	161	160	168	178
Dividend/sh		0.41	0.21	0.19	0.17	0.15

The company had already been engaged in a multi-year share repurchase program, given its lack of need for external funding for operating activities.

A disaggregation of the company's return on equity into its profitability, asset efficiency, and financial leverage components – a technique commonly referred to as DuPont analysis – indicates that De La Rue has maintained or improved its margins and asset turns, while increasing leverage in order to improve its return on equity (ROE). In particular, the company's ROE increased from 17% in fiscal 2005 to the mid-30%'s as of fiscal 2007 and fiscal 2008, before reaching 57% in fiscal 2009.

This last figure is somewhat misleading, since it is based on average equity during the period that culminated in a major distribution to shareholders and a share consolidation of 35%. This reduced the book equity from £213 million at March 2008 to merely £18 million at March 2009. By that measure, return on ending shareholders equity would have exceeded 300%; given that intangible assets also happen to be £18 million, there is no tangible equity at all. This simply means that as earnings, net of dividends, are retained, shareholders' equity will rise again and the ROE will gradually decline to a more representative level. Alternatively, should the company apply free cash flow to continued share repurchases, book equity will ultimately become a negative figure.

**Exhibit 4 De La Rue plc: ROE Disaggregation**

(Fiscal years ending March 31)

Fiscal Year	<u>Net Income</u> Revenues	* <u>Revenues</u> Avg. Assets	* <u>Avg. Assets</u> Avg. Equity	= <u>Net Income</u> Avg. Equity
2005	11%	63%	238%	17%
2006	11%	54%	425%	25%
2007	13%	59%	452%	34%
2008	14%	82%	301%	35%
2009	13%	97%	438%	57%

**Industry Review**

De La Rue dominates its largest product segment as the world's leading producer of currency banknotes. Perkins, Bacon & Company, Ltd., De La Rue's principal rival in the production of currency and postage stamps during the first century of the company's existence, voluntarily liquidated in 1935. By the mid-1990's, it had been estimated that De La Rue retained a 60% share of currency production among those countries whose governments did not print their own currency. Furthermore, it has recently been estimated that 15% of the world's currency banknotes are produced by private-sector entities, underscoring De La Rue's significant global penetration expansion opportunities.

De La Rue's competitors in the field of currency production and secured printing consist principally of private companies, such as American Banknote Corporation, now part of ABnote Group, and publicly and privately held financial communication firms, such as Bowne & Co. (BNE) and Merrill Corporation. Privately held Crane & Co. – not to be confused with industrial machinery manufacturer, Crane Company (CR) – manufactures the paper used in the production of most US paper currency. The Valuation Analysis section of this report counts, among De La Rue's valuation comparables, companies engaged in specialty printing and check production services. That said, it is difficult to identify another publicly traded firm engaged in De La Rue's unique line of highly sensitive secured printing services, the customers of which include central banks and government agencies worldwide.

Because many of De La Rue's global competitors are private companies, it is difficult to quantify the company's market share. However, an August 23, 1992 *New York Times* article compared De La Rue's \$646 million in US dollar-equivalent revenues during fiscal 1992 to United States Banknote Corporation's \$161 million in revenues during calendar 1991. (United States Banknote Corporation changed its name to American Banknote Corporation in 1995 and subsequently re-formed as ABnote Group.) The foregoing comparison suggests that De La Rue was then four times the size of its US-based banknote rival. One can reasonably conclude from these observations that De La Rue has no publicly traded rivals of note. Furthermore, its private-sector competitors lag De La Rue in terms of their share of global banknote production.

The volume of currency produced by banknote printers is generally correlated with local Gross Domestic Product (GDP), the relationship between money supply and GDP, and the incidence of the retirement of existing banknotes. De La Rue has observed that the global advent of cashless payment systems has had only minimal effect on demand for new banknotes. By way of example, between 1990 and 1999, Finland, a country that had been growing increasingly less dependent on cash as a medium of commercial transactions, observed an *increase* in the amount of cash, as a percentage of national GDP, from 1.8% to approximately 2.1%.

Moreover, the global proliferation of ATM's has facilitated the use of banknotes as a medium of executing commercial exchange, in that their ready availability and convenience has permitted more frequent withdrawals of small sums from banks. It has also improved an important variable for bank note volume trends. Aside from changes in underlying GDP as a determinant of currency volumes, the rate of note retirement is critical as well. The growth in automated cash processing by retail banks requires, for avoidance of mechanical error, a cleaner note policy, which increases the rate of note retirement. Between fiscal 2006 and fiscal 2009, the volume of the company's printed banknotes and paper tonnage output increased at annualized rates of 13.5% and 7.7%.

During that same time period, De La Rue's two-year-rolling currency order book, as measured in number of weeks, expanded at a 16.6% annual rate.

Ordinarily, one might wish to compare the investment prospect at hand with generally if not specifically similar businesses, in this case perhaps specialty printing companies such as Conveo, Inc. (CVO); Deluxe Corporation (DLX), which produces about one-half of all the checks in the U.S.; R.R. Donnelley & Sons (RRD); and Standard Register Company (SR), which produces a very varied portfolio of products, including checks, money orders, official checks, drug prescriptions, birth certificates, and college transcripts.

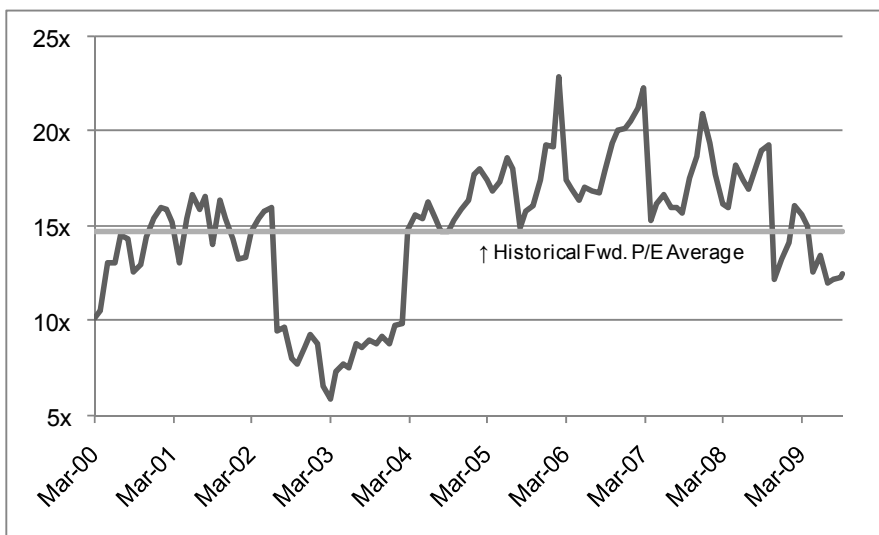
However, the divergence in operating statistics makes readily apparent that these other businesses are not valid comparisons. They reported year-over-year revenue declines of 9%-24% during the first six months of 2009, as well as either operating losses or income declines in the 30%-60% range, while citing the effects of cyclical declines in the demand for commercial printing. Commercial printing, then, is a decidedly different business than printing money.

### **Valuation Analysis**

Perhaps it is sufficient to observe that De La Rue, with the dominant position in a quasi-global franchise with high barriers to entry, relatively non-cyclical and near-double-digit revenue growth, high returns on equity and a 4.5% dividend yield, trades at a trailing P/E multiple of less than 12x. The achievement of an above average double-digit return should be easily achievable as earnings advance over time. That the historical average *forward* P/E ratio is about 15x, with the trading range typically between 15x and 20x, holds forth the reasonable possibility of an additional 50% incremental return merely via a reversion to the mean. Moreover, the historical valuation history applied to the company when, prior to its sale of the Cash Systems division, it exhibited a lower growth rate and lower profit margins.

One could also engage in a private market valuation analysis in order to gauge the value of the company from a more objective financial basis. Given that De La Rue management has already seen fit to monetize a lower-return, non-core business and return a large portion of capital to shareholders, it is not unreasonable that the low valuation of the shares would invite further anti-dilutive actions. Merely as an illustrative exercise, one could model the effect of a further share buyback program.

**Exhibit 5 De La Rue plc: Historical Forward-Twelve-Month P/E Range**



Source: Thomson One.

Let us say that De La Rue were to make a tender offer for 50% of its shares at a 20% premium to the recent price. That would cost £526 million. To estimate the financing costs, the highest cost debt currently on the balance sheet pays 2.50%. Clearly it must be higher. If the company could borrow such an amount at 7.5%, company-total interest expense would be about £43 million per annum, and interest coverage based upon last year’s £105 million of earnings before interest expense would still be 2.4x. Income, net of the 30% tax rate would be reduced to £43. Set against a new share count of 48.9 million, per share earnings would be £0.89. This may be compared with last year’s earnings of £0.57. That figure, however, is illusory in that it is based on the average weighted share count of 132 million shares, whereas the post-consolidation share count is 97.8 million.

Therefore, the comparative earnings figure for the March 2009 year would be £0.76. All else equal, this sample share repurchase program would enhance per-share earnings by 18%.

However, that would merely be step one. Upon execution, the company would continue to have capital allocation decisions to make. If it merely decided thereafter to repurchase debt, then future earnings would be enhanced to the degree that interest expense were sequentially reduced. To simplify the deleveraging example, we will assume that all net income were applied to debt reduction (i.e., no allocation to dividend payments). As a base scenario, simply to judge the magnitude of the impact of such debt reduction, the unrealistic assumption can be made that revenues and operating income are static during the period of debt reduction. If so, it would require about 10 years to repay the debt, and earnings per share would rise by 6.5% per annum.

To vary the assumptions, if the historical revenue growth rate of 10% were to apply, but there were no operating economies or leverage whatever, so that operating earnings expanded by only a 10% rate, then the debt would be eliminated in about 7 years, with per-share earnings growth of 22%. If a more realistic, normalized estimate of operating income expansion were to apply, the net income growth would clearly be of a high order.

### **Summary**

It is rare to come upon a franchise-like business of the quality of a De La Rue, with an unlevered balance sheet and a relatively predictable and strong revenue growth rate at a P/E ratio of less than 12x trailing earnings. The company's profitability and balance sheet characteristics give it substantial strategic flexibility to capitalize upon its undervalued shares, should it wish to do other than simply pursue its ordinary business avenues. In the absence of such, it would remain difficult to conceive of other than a remunerative double-digit annualized return from these shares merely through the company's natural earnings

progression and the dividend yield. However, the accumulation of two years of free cash flow, after dividend payments, would be sufficient to retire its debt, which would raise the question of how to allocate the following year's earnings. Irrespective of those choices, time favors the De La Rue shareholder, and purchase is recommended.

## Exhibit 6 De La Rue plc: Annual Income Statement

(British pounds in millions, except per-share amounts; years ending March 31)

	Annual Results		Half-Year Results	
	FY 2008	FY 2009	HY 07/08	HY 08/09
<b>Continuing operations</b>				
<b>Revenue</b>	£467	£502	£214	£245
Operating expenses	(388)	(406)	(179)	(201)
<b>Operating profit before exceptional items</b>	79	97	35	44
Exceptional items – operating	0	(9)	0	0
<b>Operating profit</b>	79	88	35	44
Share of profits of associated co's after tax	7	9	3	5
Profit on the disposal of a business	1	0	0	0
Profit on the disposal of investments	2	0	0	0
Exceptional items – non-operating	0	0	0	(3)
<b>Profit before interest and taxation</b>	89	97	38	46
Interest income	4	8	3	4
Interest expense	(2)	(6)	(1)	(2)
Retirement benefit obligation finance income	34	33	17	17
Retirement benefit obligation finance cost	(33)	(35)	(17)	(18)
<b>Profit before taxation</b>	91	96	40	47
Taxation				
– UK	(18)	(22)	(8)	(11)
– Overseas	(7)	(7)	(3)	(4)
<b>Profit for the year from cont. ops.</b>	67	68	29	33
<b>Discontinued operations</b>				
Profit for the year from discontinued ops.	22	297	7	298
<b>Profit for the year</b>	88	364	36	331
Profit attributable to minority shareholders	(0)	(1)	0	0
<b>Net Profit for the year</b>	£88	£363	£36	£332

### Earnings per share attributable to the Company's equity holders

#### From continuing operations

Basic	£0.44	£0.52	£0.19	£0.22
Diluted	£0.43	£0.51	£0.18	£0.22

#### From discontinued operations

Basic	£0.14	£2.27	£0.04	£1.99
Diluted	£0.14	£2.25	£0.04	£1.96

#### On profit for the year

Basic	£0.58	£2.78	£0.23	£2.21
Diluted	£0.57	£2.75	£0.23	£2.18

#### Shares Outstanding

Basic	152.5	130.7	154.8	150.0
Diluted	155.3	132.0	158.0	151.9

Margin Analysis	FY 2008	FY 2009	HY 07/08	HY 08/09
EBITDA	24%	23%	24%	23%
Operating Income	17%	19%	17%	18%
Pre-Tax Income	20%	19%	19%	19%
Net Income	19%	72%	17%	135%
Tax Rate	27%	30%	28%	30%

Source: De La Rue plc.

## Exhibit 7 De La Rue plc: Balance Sheet

(British pounds in millions, except per-share amounts; years ending March 31)

ASSETS	Annual Results		Half-Year Results	
	FY 2008	FY 2009	9/27/2007	9/27/2008
<b>Non-current assets</b>				
Property, plant and equipment	£143	£148	£140	£135
Intangible assets	33	18	32	19
Investments in associates and joint ventures	23	21	21	23
Available for sale financial assets	0	0	0	0
Deferred tax assets	26	29	38	15
Other receivables	1	0	0	1
Derivative financial instruments	0	12	0	1
	<u>226</u>	<u>229</u>	<u>232</u>	<u>194</u>
<b>Current assets</b>				
Inventories	95	65	100	61
Trade and other receivables	114	83	119	104
Current tax assets	0	0	0	0
Derivative financial instruments	19	23	5	8
Cash and cash equivalents	120	59	66	435
	<u>349</u>	<u>230</u>	<u>290</u>	<u>608</u>
<b>Total assets</b>	<u>£575</u>	<u>£459</u>	<u>£522</u>	<u>£802</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Borrowings	£9	£40	£12	£28
Trade and other payables	(245)	(159)	(242)	(171)
Current tax liabilities	(32)	(40)	(27)	(51)
Derivative financial instruments	(16)	(28)	(3)	(9)
Provisions for other liabilities and charges	(23)	(33)	(17)	(18)
	<u>(325)</u>	<u>(299)</u>	<u>(300)</u>	<u>(277)</u>
<b>Non-current liabilities</b>				
Borrowings	(5)	(52)	(11)	(4)
Retirement benefit obligations	(25)	(70)	(75)	(18)
Deferred tax liabilities	(1)	0	(4)	0
Derivative financial instruments	(2)	(14)	(0)	(1)
Other non-current liabilities	(2)	(3)	(3)	(0)
	<u>(35)</u>	<u>(139)</u>	<u>(93)</u>	<u>(23)</u>
<b>Total liabilities</b>	<u>£359</u>	<u>£438</u>	<u>£393</u>	<u>£300</u>
<b>Net assets</b>	£216	£21	£129	£501
<b>EQUITY</b>				
Share capital	45	45	45	45
Share premium account	23	27	22	23
Capital redemption reserve	6	6	6	6
Hedge reserve	1	(9)	2	(1)
Cumulative translation adjustment	13	4	1	(1)
Other reserves	(84)	(84)	(84)	(84)
Retained earnings	210	29	134	511
<b>Total equity attributable to shareholders</b>	<u>213</u>	<u>18</u>	<u>124</u>	<u>499</u>
<b>Minority interests</b>	<u>2</u>	<u>3</u>	<u>5</u>	<u>3</u>
<b>Total equity</b>	<u>£216</u>	<u>£21</u>	<u>£129</u>	<u>£501</u>
<b>Summary Balance Sheet Data</b>	<u>FY 2008</u>	<u>FY 2009</u>	<u>9/27/2007</u>	<u>9/27/2008</u>
Debt	£14	£92	£23	£32
Equity	216	21	129	501
Debt/Capitalization	6%	82%	15%	6%
<b>Net Debt</b>	<b>(106.7)</b>	<b>33.1</b>	<b>(43.3)</b>	<b>(402.6)</b>

Source: De La Rue plc.

**Exhibit 8 De La Rue plc: Annual Cash Flow Statement**  
(British pounds in millions, except per-share amounts; years ending March 31)

	<u>Annual Results</u>		<u>Half-Year Results</u>	
	<u>FY 2008</u>	<u>FY 2009</u>	<u>HY 07/08</u>	<u>HY 08/09</u>
<b>Cash flows from operating activities</b>				
Profit before tax	£91	£96	£40	£47
Adjustments for:				
Finance income and expense	(2)	0	(2)	(1)
Depreciation and amortization	22	21	13	10
Increase in inventory	(4)	(0)	(7)	1
Increase in trade and other receivables	(13)	(30)	(26)	(18)
Increase in trade and other payables	13	18	15	1
Increase/(decrease) in reorg. provisions	(1)	4	(0)	(0)
Special pension fund contributions	(12)	(27)	(5)	(20)
Profit on the disposal of a business	(1)	0	0	0
Profit on the disposal of investments	(2)	0	0	0
(Profit)/loss on disposal of PP&E	1	(0)	(0)	0
Share of income from associates after tax	(7)	(9)	(3)	(5)
Other non-cash movements	2	(4)	5	(2)
<b>Cash generated from continuing operations</b>	<u>87</u>	<u>69</u>	<u>30</u>	<u>13</u>
<b>Cash generated from disc. operations</b>	37	(2)	1	(10)
Tax paid – continuing operations	(15)	(21)	(5)	(10)
Tax paid – discontinued operations	(13)	(10)	(6)	(4)
<b>Net cash flows from operating activities</b>	<u>£97</u>	<u>£37</u>	<u>£19</u>	<u>-£11</u>
<b>Cash flows from investing activities</b>				
Disposal of subsidiary undertakings	£2	£334	£0	£340
Investment in associates	(10)	0	(10)	0
Proceeds from sale of investment	2	0	0	0
Purchases of PP&E/Intangibles – cont. ops.	(19)	(29)	7	(12)
Purchases of PP&E/Intangibles – disc. ops.	(3)	(1)	(2)	(1)
Development assets capitalized - cont. ops.	(0)	(3)	(2)	(3)
Development assets capitalized - disc. ops.	(5)	(1)	(2)	(1)
Proceeds from sale of PP&E	1	1	0	0
Interest received	4	8	3	3
Interest paid	(1)	(4)	(1)	(1)
Dividends received from associates	8	10	5	4
<b>Net cash flows from investing activities</b>	<u>-£21</u>	<u>£314</u>	<u>-£16</u>	<u>£329</u>
<b>Net cash inflow before financing activities</b>	<u>£75</u>	<u>£350</u>	<u>£4</u>	<u>£317</u>
<b>Cash flows from financing activities</b>				
Proceeds from issue of share capital	£5	£7	£3	£3
Own share purchase	(4)	0	(4)	0
Return of cash	0	(119)	0	0
Proceeds from borrowings	2	78	2	24
Finance lease principal payments	(5)	(4)	(3)	(2)
Dividends paid to shareholders	(105)	(377)	(96)	(22)
Dividends paid to minority interests	(0)	(1)	0	0
<b>Net cash flows from financing activities</b>	<u>(107)</u>	<u>(416)</u>	<u>(97)</u>	<u>2</u>
<b>Net decrease in cash/equivalents</b>	<u>(32)</u>	<u>(66)</u>	<u>(93)</u>	<u>320</u>
Cash/equivalents (beginning of the year)	149	117	149	117
Exchange rate effects	(1)	(1)	(1)	(2)
<b>Cash/equivalents</b>	<u>117</u>	<u>50</u>	<u>55</u>	<u>434</u>
<b>Cash and cash equivalents consist of:</b>				
Cash at bank and in hand	50	43	44	263
Short term bank deposits	70	15	22	172
Bank overdrafts	(4)	(8)	(11)	(0)
<b>Cash/equivalents</b>	<u>£117</u>	<u>£50</u>	<u>£55</u>	<u>£434</u>
<b>Free Cash Flow</b>	<u>£68</u>	<u>£40</u>	<u>£37</u>	<u>£1</u>
<b>Free Cash Flow per share</b>	<u>0.43</u>	<u>0.30</u>	<u>0.23</u>	<u>0.01</u>
<b>Free Cash Flow Yield</b>	<u>5%</u>	<u>3%</u>	<u>3%</u>	<u>0%</u>

Source: De La Rue plc.