

De La Rue International Limited

(Registered Number: 720284)

Directors' Report and Financial Statements

For the period ended 31 March 2012

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Directors' Report

The Directors submit their report together with the audited financial statements of the Company for the period 27 March 2011 to 31 March 2012

Review of business

De La Rue International Limited (the Company) is an indirect subsidiary of De La Rue plc

The Directors report a profit on ordinary activities after taxation amounting to £15,477,000 (2011 £33,425,000 loss) A dividend of £25,000,000 was paid during the period (2011 £nil) and the retained loss for the period of £9,523,000 was transferred to reserves (2011 £33,425,000 retained loss) The Directors do not recommend the payment of a final dividend

In June 2012 the Company and certain other De La Rue Group companies agreed a new £200m four and a half year revolving facility which expires in December 2016 Key financial covenants on this facility are unchanged

Principal activities

The Company is involved in the design and production of national currencies and a wide range of security documents In addition, the Company manufactures sophisticated, high speed cash sorting and authentication equipment

Strategy and objectives

The Company is primarily a trading company Its strategic objective is to further develop its leading position as a commercial provider of banknotes, banknote paper, security features and associated services, in addition to expanding its market share in the areas of government revenues, brand authentication, identity solutions and cash sorting and authentication equipment

Delivery of the strategy continues to focus on leveraging the Company's market position, delivering key innovations to customers worldwide, which add value to their businesses, whilst achieving an efficient manufacturing base The value proposition is underpinned by the sophisticated design, production and delivery of high quality products and services in an industry with high barriers to entry The Company seeks to build long term relationships with its customers and form trusted partnerships where its experience and the quality of its products and services are valued

The Company is also a holding company and as such its objective is to ensure that the carrying value of the investments is appropriate and that no impairment is required as well as ensuring that the investments maximise the Company's shareholder returns The principal subsidiaries are disclosed in note 13 to these financial statements

The strategies and objectives of the companies in which De La Rue International Limited holds an investment are in line with those published in the financial statements of its ultimate parent company De La Rue plc, a copy of which can be obtained from the Company Secretary of De La Rue plc at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS

Directors' Report (continued)

Company performance

The Company manages its operations on a divisional basis

Currency

Banknote print volumes were up on the prior year reflecting the good opening order book and the strong order intake during the year. Paper output volumes were also up primarily reflecting the internal print volumes, as well as additional external sales.

Revenue increased reflecting the increase in volumes noted above. Operating profit increased reflecting the higher volumes, an improved product mix compared with the prior year and the benefits of the Improvement Plan. However, some of the gains were offset by increased raw material and component costs, most notably on cotton which had an adverse impact of c£9m compared with 2010/11. Cotton prices peaked around February 2011 and have declined since then but currently remain above recent historic levels.

2010 paper production issues

Discussions remain ongoing with the principal customer concerned and the authorities, and therefore there remains uncertainty as to the ultimate outcome of these issues, including their financial impact (described more fully in note 27).

Cash Processing Solutions (CPS)

Following the recent restructuring programme the performance in CPS continues to improve. Increased volumes of the large DLR 7000 banknote sorter, which processes, sorts and validates up to 2,000 notes a minute, combined with the maintenance of good service revenue have underpinned the 60 per cent increase in revenue. Operating margins have benefited from the restructuring of the business and the improved economies of scale flowing from the higher volumes.

Security Products

As expected, Security Products has had a challenging year with broadly flat revenue and reduced operating profit resulting from a combination of continued lower Holographic internal and external component sales, and lower demand for brand licensing products. A number of the revenue and cost saving initiatives under the Improvement Plan, including site relocations, will enhance the performance of this operation.

Identity Systems (IDS)

The IDS team has completed the transition on the UK Passport contract from the implementation phase in the prior year to full production and service in the current year. Revenue and profit levels predominantly reflect this successful ramp up to full scale production volumes for the year as whole. The business has delivered over seven million passports to date under this contract and also supported a successful repatriation of the Foreign & Commonwealth Office passport issuance service.

The international part of IDS performed in line with expectations, continuing to implement a wide range of projects across the globe.

Directors' Report (continued)

Outlook and future developments

The Company will continue to operate in accordance with its principal activities

Currency

Continued underlying growth in the market for banknotes remains evident despite the increase in the number of electronic transactions. The long term growth trend for the world market for banknotes is expected to be c4 per cent annually, although the pattern varies considerably between countries. The market available to commercial providers of banknotes and their components is expected to grow at a broadly similar trend rate.

The currency market does, however, exhibit short term variations in order patterns according to the individual decisions taken by central banks. This has the potential to create material volume variation year on year for commercial providers such as De La Rue.

Central bank policy determines the issuance of notes into circulation taking into consideration factors such as design, durability and security.

Cash Processing Solutions (CPS)

Recognising the need to manage both the cost of cash and the quality of cash in circulation, customers continue to seek control, efficiencies and cost reductions, thereby generating demand for automated cash processing equipment. The trend for central banks to outsource the recycling of banknotes to the commercial sector continues to be evident, increasing the demand for advanced solutions. This requirement to improve operating visibility and reduce costs also drives demand for cash management software solutions which deliver detailed data and control at all stages of the cash cycle process. This demand creates opportunities for the CPS business within retail and commercial operations as well as the Companies core customer base.

The DLR 9000 has enhanced the Companies product range, meeting currency print facility requirements to improve efficiencies by enabling the quality of banknotes to be rapidly verified as part of the manufacturing process before they are issued.

CPS's global service network supports a large installed base, providing regular service and maintenance to customers and generating stable long term revenue for the business.

Directors' Report (continued)

Security Products

Performance in the government revenue protection and brand authentication sectors reflects the threat of illicit trade and counterfeiting. Security Products has a strong portfolio of secure documents and software solutions to meet customer needs in counteracting these threats.

Governments are working hard to maximise indirect tax revenues on high value consumer goods such as alcohol and tobacco by reducing illicit trade. This year 135 countries agreed on a protocol to eliminate illicit trade in tobacco products as part of the World Health Organisation's Framework Convention on Tobacco Control. This requires those countries to implement systems to allow products to be easily authenticated which will result in higher tax collections.

For global brands the threat of revenue losses from counterfeit and parallel trade activities is equally acute. International trade provides an opportunity, but also a threat, to well known brands. Sophisticated product protection technologies linked to digital authentication and tracking solutions are used to ensure that brands are protected and consumers can be confident of using genuine products.

Security Products provides anti counterfeit technology for users of cheques, credit cards, vouchers and postage stamps to minimise the losses from financial fraud.

Security Products supplies other security printers around the world with high security cylinder mould paper suitable for passports and valuable documents. In addition to external sales, the business also supplies internal operations with components as part of a robust internal supply chain.

Identity Systems (IDS)

The transition to electronic identity solutions continues to be the most significant trend in the market place with De La Rue well positioned for this development having now delivered a number of projects for customers.

The government identity market is increasingly focused on complete and integrated solutions rather than just document issuance and as a result, a greater range of technologies is being demanded by customers. Specialist systems integration, therefore, is a key attribute in this area, and the Company remains one of the leading providers.

IDS is a contract based business focusing on government customers. The nature of this business is such that revenues can be variable and subject to cancellation or delay. Maintaining as broad a portfolio of business as possible and a strong pipeline of opportunities helps mitigate this risk.

Directors' Report (continued)

Key performance indicators

The Directors monitor and manage the performance of each investment against its published financial statements and against the key performance indicators (KPIs) of the De La Rue Group because the Company's Directors believe that analysis using KPIs specifically for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business. Details of the Group's KPIs, which includes the Company, are set out in the Business Review section on pages 6 to 33 of the 2012 Annual Report of De La Rue plc, which does not form part of this report.

Principal risks and uncertainties

The Company operates in a changing economic and competitive environment that presents risks, many of which are driven by factors that cannot easily be controlled or predicted.

The key risks facing the Company, its subsidiaries and associate investments are disclosed in the Risk and Risk Management section, on pages 25 to 28 of the 2012 Annual Report of De La Rue plc. These do not form part of this report.

Directors

The names of the Directors holding office during the period were as follows:

E H D Peppiatt
J F Hermans (alternate Director for E H D Peppiatt)
C C Child
K A Robinson (alternate director for C C Child)

Research and development

During the period a total of £8,591,000 was charged to the profit and loss account in respect of research, development and design (2011: £8,102,000). Key innovations are disclosed in the Business Review section on pages 6 to 33 of the 2012 Annual Report of De La Rue plc, which does not form part of this report.

Payments to suppliers

Creditor days for the Company have been calculated at 44 days (2011: 31 days). The Group's policy is to pay suppliers in accordance with agreed commercial terms, normally on the basis of monthly summary invoicing plus 60 days subject to local laws or other exceptions.

Directors' Report (continued)

Employees

Details of employee related costs can be found in note 5 to the financial statements on page 19. The Company follows the employment policies of the De La Rue Group, details of which are set out on pages 29 to 33 of the 2012 Annual Report of De La Rue plc which does not form part of this report. This may be summarised as follows. The Company aims to employ people of high quality and encourages creativity and initiative. It recognises individual and team contributions and will give all employees the chance to develop their potential. The Company promotes employee involvement through a policy of communication and consultation. The Company newsletter, the SharePoint communications channel and more traditional house notices are further strengthened through quarterly briefings, a two-way communications programme designed to maximise dialogue.

The Company offers equal opportunities in recruitment, training and promotion and in terms and conditions of employment, irrespective of gender, sexual orientation, religious beliefs, age, colour, ethnic or racial origin, nationality, disability or trade union membership. If an employee becomes disabled when in the Company's employment, full support is given through the provision of special training, equipment or other resources to facilitate continued employment wherever possible. All managers are required to ensure that all employees understand their responsibility for the active implementation of Company policy.

The Company sustains strategic management development initiatives to enhance the commercial awareness of its managers and to improve both customer and shareholder value.

Political and charitable contributions

Charitable and educational contributions totalled £55,019 (2011: £24,795). There were no political donations.

Going Concern

The Directors continue to adopt the going concern basis in preparing the financial statements, as reported in note 1.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the Directors are required to


- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Auditors

The auditors, KPMG Audit Plc, have indicated their willingness to continue to act and are deemed to have been re-appointed pursuant to Section 487 of the Companies Act 2006

On behalf of the Board



J F Hermans
Secretary
14 December 2012

Registered Office
De La Rue House
Jays Close
Viabes
Basingstoke
Hampshire
RG22 4BS

Independent Auditor's Report to the Member of De La Rue International Limited

We have audited the financial statements of De La Rue International Limited for the period ended 31 March 2012 set out on pages 11 to 37. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006


In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the Member of De La Rue International Limited (Continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



A J Sykes
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square,
London
E14 5GL

14 December 2012

Profit and Loss Account
For the period ended 31 March 2012

	<i>Note</i>	2012 £'000	2011 (re-presented)* £'000
Turnover	3	504,302	415,092
Operating profit/(loss)	4,5,6	11,155	(48,708)
Comprising			
Operating profit/(loss) before exceptional items		35,453	(19,707)
Exceptional items	6	(24,298)	(29,001)
Income from fixed asset investments		-	2,462
Profit/(loss) on ordinary activities before interest and taxation		11,155	(46,246)
Interest receivable and similar income	7	1,262	780
Interest payable and similar charges	8	(1,483)	(515)
Profit/(loss) on ordinary activities before taxation		10,934	(45,981)
Taxation on profit/(loss) on ordinary activities	9	4,543	12,556
Profit/(loss) for the financial period	23	15,477	(33,425)

There is no difference between the results in the profit and loss account and the results on an historical cost basis

*Please refer to note 3 for details of the re-presentation of the comparatives

Statement of Total Recognised Gains and Losses
For the period ended 31 March 2012

	2012 £'000	2011 £'000
Profit/(loss) for the financial period	15,477	(33,425)
Currency translation differences	294	984
Total gains and losses recognised since last financial statements	15,771	(32,441)

The notes on pages 13 to 37 form part of these financial statements

Balance Sheet at 31 March 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	75,776	72,689
Investments	12	4,985	5,387
		80,761	78,076
Current assets			
Stocks	14	42,545	44,660
Debtors - due within one year	15	78,569	94,985
Debtors - due after one year	16	852,931	773,313
Deferred tax asset	17	351	-
Cash at bank and in hand		36,910	55,319
		1,011,306	968,277
Creditors – amounts falling due within one year	18	(185,347)	(252,870)
Net current assets		825,959	715,407
Total assets less current liabilities		906,720	793,483
Creditors – amounts falling due after more than one year	19	(622,412)	(517,669)
Provisions for liabilities and charges	20	(41,595)	(23,872)
Net assets		242,713	251,942
Capital and reserves			
Called up share capital	21	152,000	152,000
Profit and loss account	23	90,713	99,942
Equity shareholders' funds	24	242,713	251,942

Approved by the Board on 14 December 2012



C C Child
Director

The notes on pages 13 to 37 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

The principal accounting policies adopted by the Company are as follows

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. The accounts have been prepared as at 31 March 2012, being the last Saturday in March. The comparatives for the 2011 financial period are for the period ended 26 March 2011.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report on pages 2 to 8.

The Company meets its funding requirements through cash generated from operations and a Group revolving credit facility which expires in December 2016. The Company's forecasts and projections, which cover a period of more than twelve months, taking into account reasonably possible changes in normal trading performance, show that the Company should be able to operate within its currently available facilities. The Company has sufficient financial resources together with assets that are expected to generate cash flow in the normal course of business. As a consequence and not withstanding the uncertainty as to the outcome of the paper production issues discussed in notes 6 and 27, the Directors have a reasonable expectation that the Company is well placed to manage its business risks and to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual financial statements.

The Company is a wholly owned subsidiary of De La Rue plc and is included in the consolidated financial statements of De La Rue plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1. The Company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions (but not balances) with entities that are wholly owned within the De La Rue Group.

(b) Consolidation of subsidiaries

The financial statements contain information about De La Rue International Limited as an individual company and do not contain consolidated financial information as the parent of a group of companies. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, De La Rue plc, a company registered in England and Wales. References to "Group" mean to De La Rue plc and its subsidiaries.

Notes (continued)

1 Accounting policies (continued)

(c) Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the dates of the individual transactions or if hedged forward at the rate of exchange under the related forward contract. Monetary assets and liabilities denominated in foreign currencies are subsequently retranslated at the rate of exchange ruling at the balance sheet date, and such exchange differences are taken to the profit and loss account.

Translation of the results of the foreign branch

The assets and liabilities of the foreign branch denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Income and expenses within the income statement of the branch are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions) and all resulting exchange differences are recognised as a separate component of equity.

(d) Turnover

Turnover represents sales of manufactured products and services which fall within the Company's ordinary trading activities. This excludes VAT and other sales taxes.

Turnover is recognised in the profit and loss account to the extent that it is probable that the economic benefits associated with the transaction will flow into the Company and the amount can be reliably measured. In practice this means that revenue is recognised when goods or services are supplied to external customers in accordance with the terms of sale. Goods are supplied when the significant risks and rewards of ownership are transferred to the buyer.

Turnover and costs on project based contracts are recognised by reference to the stage of completion, based on the work performed to date and the overall contract profitability. The assessment of the stage of completion is dependent on the nature of the contract, and is assessed by reference to reviews of work performed, achievement of contractual milestones and costs incurred.

Turnover on service based contracts is recognised as services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes (continued)

1 Accounting policies (continued)

(e) Goodwill amortisation

Upon the acquisition of a business, fair values that reflect the conditions at the date of acquisition are attributed to the identifiable net assets acquired. When the consideration paid for a business exceeds such net assets, the difference is treated as goodwill and is capitalised and amortised over an appropriate period not exceeding 20 years. For acquisitions prior to 1 April 1998 all goodwill is eliminated in the Company Balance Sheet against reserves. On disposal of a business the profit or loss on disposal is determined, after including the attributable amount of purchased goodwill to the extent that this has not been amortised through the profit and loss account. Negative goodwill is capitalised and amortised through the profit and loss account over the estimated life to which the goodwill relates.

(f) Other intangible assets

Distribution rights are amortised over their useful economic lives as determined by the life of the products to which they relate.

(g) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation of fixed assets is calculated on a straight line basis at rates sufficient to write down the assets over their expected useful lives.

The principal annual rates of depreciation are as follows:

Leasehold properties with less than 50 years unexpired	Written off over life of lease
Plant and equipment	Ranging from 8% to 33%
Fixtures and fittings	10%

(h) Leases

Operating lease rentals are charged to the profit and loss account as incurred. Tangible fixed assets acquired under finance leases are included in the balance sheet at their equivalent capital value and are depreciated over their useful lives. The corresponding liabilities are recorded as a creditor and the interest elements of the finance lease rentals are charged to the profit and loss account.

(i) Research and development

Product research and development expenditure is written off in the year in which it is incurred.

Notes (continued)

1 Accounting policies (continued)

(j) Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

(k) Stocks

Stocks and work in progress are valued at the lower of cost, including relevant production overheads, and net realisable value

(l) Retirement benefits

The Company is a participating employer in the De La Rue Group pension schemes. The pension rights of De La Rue International Limited employees are dealt with through self administered schemes, the assets of which are held independently of the Company's finances. The principal scheme is a defined benefit scheme that is funded partly by contributions from members and partly by contributions from De La Rue plc and its subsidiaries at rates advised by independent professionally qualified actuaries. In accordance with FRS 17, De La Rue International Limited accounts for its contributions as though it were a defined contribution scheme, where contributions payable to the scheme in respect of the accounting period are charged to the profit and loss account. This is because the underlying assets and liabilities of the scheme cover De La Rue plc and a number of its subsidiaries and it cannot be split between each subsidiary on a consistent and reasonable basis. Full details of the scheme and its deficits (measured on an IAS 19 basis) can be found in note 22 to the consolidated financial statements of De La Rue plc.

Notes (continued)

1 Accounting policies (continued)

(m) Share based payments

De La Rue International Limited participates in various equity settled and cash settled option schemes that are operated by its ultimate parent entity De La Rue plc. For the equity settled schemes, services received from employees are measured by reference to the fair value of the share options. The fair value is calculated at grant and recognised in the profit and loss account, together with a corresponding increase in shareholder's funds, on a straight line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. The fair values under the Executive Share Option Plan were modelled on a binomial lattice and those under the remaining schemes are calculated using the Black-Scholes option pricing formula. The share based payment expense incurred is recharged by De La Rue plc to the Company via an intercompany loan account. Vesting conditions, other than non market conditions, are not taken into account when estimating the fair value. FRS 20 has been applied to share settled share options granted after 7 November 2002.

For cash settled share options, the services received from employees are measured at the fair value of options outstanding and recognised in the profit and loss account on a straight-line basis over the vesting period. The grant of cash settled share based payments by De La Rue plc to employees of the Company are initially recognised as a capital contribution and disclosed as other contributed equity. De La Rue plc recharges this expense to the Company.

(n) Investments

Investments are stated at cost or valuation in the balance sheet, less provision for any impairment in the value of the investment.

2 Directors' emoluments

During the period under review Mr C C Child was employed by De La Rue plc, and with effect from 3 June 2011, Mr E H D Peppiatt and Mr J F Hermans were also employed by De La Rue plc (previously employed by De La Rue Holdings plc), and all were remunerated in respect of their services to the Group as a whole by their employing company. Their emoluments are dealt with in those companies' financial statements.

Notes (continued)

3 Turnover

Turnover by business segment is analysed below

	2012	2011 (re-presented)
	£'000	£'000
Currency	363,258	295,402
CPS	27,637	17,220
Security Print	44,320	45,465
IDS	69,087	57,005
	504,302	415,092

Turnover by sales destination is analysed below

	2012	2011 (re-presented)
	£'000	£'000
United Kingdom	105,988	82,810
Rest of Europe	96,655	65,114
Rest of World	301,659	267,168
	504,302	415,092

The Company's business is based in the UK. The majority of net assets of the Company are located in the UK. The Company has taken advantage of the exemption for segmental reporting contained in SSAP 25 as segmental information is given in the consolidated financial statements of the ultimate parent undertaking, De La Rue plc.

The comparative profit and loss account has been re-presented to reinstate £20.3m of turnover, which was previously also deducted from cost of sales, in order to allow a comparison with the 2012 reported financial information. This adjustment relates to sales to other wholly owned subsidiaries within the De La Rue Group.

This treatment is consistent with the accounting policy for turnover set out in note 1. There has been no change to the Company's accounting policy for turnover and there is no impact of this re-presentation on either the reported profit or net assets for 2011.

Notes (continued)

4 Operating costs

	2012	2011
		(represented)
	£'000	£'000
Turnover	504,302	415,092
Cost of sales	(424,950)	(395,880)
Distribution costs	(19,461)	(19,840)
Administrative expenses	(24,438)	(19,079)
Exceptional costs (note 6)	(24,298)	(29,001)
Operating profit/(loss)	11,155	(48,708)

Please refer to note 3 for details of the re-presentation of the comparatives

5 Operating profit / (loss) (excluding exceptional items)

	2012	2011
	£'000	£'000
Operating profit/(loss) is stated after the following amounts have been charged/(credited)		
Staff costs		
- Wages and salaries	87,077	87,351
- Social security costs	7,850	7,116
- Other pension costs	27,183	50,173
- Share based payment expense	1,536	718
Amortisation of goodwill and other intangible fixed assets	-	78
Depreciation of tangible fixed assets		
- purchased	12,810	11,361
- leased	13	72
Auditors' remuneration		
- statutory audit of this Company	140	178
- other services	3	194
- tax services	29	28
Operating leases		
- hire of plant and machinery	514	889
- other	-	-
Research and development	8,591	8,102
Loss on sale of fixed assets	1,103	99

Notes (continued)

6 Exceptional items

	2012 £'000	2011 £'000
Costs relating to paper production issues	708	29,001
Site relocation and restructuring	23,590	-
	24,298	29,001

Exceptional costs of £24.3m have been incurred in 2011/12 mainly in connection with the closure of two sites and the relocation of manufacturing activity including £11.1m in staff compensation, £0.8m of fixed asset impairment charges, £8.7m for site exit costs and £2.9m in associated reorganisation costs. The exceptional charge also includes additional costs (reported under the Currency segment) of £0.7m associated with the paper quality issue that arose in 2010/11.

Exceptional costs in the prior year related to the following:

- An exceptional charge relating to the paper production quality issues incurred in the year ended 26 March 2011 of £29.0m included production and rectification costs of £19.9m, a £0.9m impairment of receivables, legal costs of £3.5m and other costs of £4.7m mainly relating to losses on derivatives related to sales and purchase contracts rendered ineffective by the cancellation of shipments. Provision has not been made for the potential costs of resolutions or for potential fines from regulatory authorities. The nature and extent of these resolutions and potential fines will be the subject of ongoing discussion, the outcome of which cannot be estimated reliably at present. The issue is more fully described in note 27. Contingent liabilities.

7 Interest receivable and similar income

	2012 £'000	2011 £'000
Interest receivable from Group undertakings	1,001	762
Other interest receivable	188	18
Foreign exchange gains on translation of Group loans	73	-
	1,262	780

8 Interest payable and similar charges

	2012 £'000	2011 £'000
Interest paid to Group undertakings	1,473	429
Finance lease interest in respect of plant and machinery	2	6
Foreign exchange losses on translation of Group loans	-	23
Other interest payable	8	57
	1,483	515

Notes (continued)

9 Taxation on profit on ordinary activities

	2012 £'000	2011 £'000
Current tax		
UK corporation tax at 26% (2011 28%)	2,083	(12,357)
Prior year movement	(3,277)	-
Foreign tax	146	-
	(1,048)	(12,357)
Deferred tax		
Origination and reversal of timing difference	(1,234)	50
Change in tax rate	381	(242)
Prior year movement	(2,642)	(7)
	(3,495)	(199)
Total tax credit on ordinary activities	(4,543)	(12,556)

Factors affecting the tax charge for the current period

The current tax credit for the period is lower (2011 lower) than the standard rate of corporation tax in the UK of 26% (2011 28%). The differences are explained below

	2012 £'000	2011 £'000
Current tax reconciliation		
Profit / (loss) on ordinary activities before taxation	10,934	(45,981)
Expected tax charge / (credit) at 26% / 28%	2,843	(12,875)
Effects of		
Permanent differences	987	568
Origination and reversal of timing difference	1,234	(50)
Foreign tax	146	-
Prior year adjustments	(3,277)	-
Group relief not paid for	(2,981)	-
Total current tax credit	(1,048)	(12,357)

The standard rate of corporation tax in the UK changed to 26% with effect from 1 April 2011. During the year the UK Government announced that the rate of UK corporation tax would reduce to 24% from 1 April 2012 and then by 1% over each of the following two years to 22%. After the year end, the UK Government has announced that the rate will be reduced further from 1 April 2014 to 21%.

Deferred tax has been recognised at a rate of 24% reflecting the rate that was substantively enacted at the balance sheet date.

Notes (continued)

10 Intangible assets

	Goodwill £'000	Intellectual property rights £'000	Distribution rights £'000	Total £'000
Cost or valuation				
At 26 March 2011 & 31 March 2012	3,164	1,047	314	4,525
Amortisation				
At 26 March 2011 & 31 March 2012	3,164	1,047	314	4,525
Net book value				
At 26 March 2011 & 31 March 2012	-	-	-	-

Notes (continued)

11 Tangible assets

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Assets in course of construction £'000	Total £'000
Cost or valuation					
At 26 March 2011	10,476	220,984	16,527	5,130	253,117
Transfer to Group Companies	-	13	(13)	-	-
Transfers from assets in the course of construction	-	11,952	1,285	(13,237)	-
Additions	80	3,913	1,442	11,615	17,050
Reclassifications	(836)	(148)	984	-	-
Disposals	(72)	(2,476)	(943)	-	(3,491)
At 31 March 2012	9,648	234,238	19,282	3,508	266,676
Accumulated depreciation					
At 26 March 2011	1,990	166,301	12,137	-	180,428
Transfer to Group Companies	-	12	(12)	-	-
Provision for the period	422	10,091	2,309	-	12,822
Reclassifications	-	252	(252)	-	-
Disposals	-	(1,953)	(397)	-	(2,350)
At 31 March 2012	2,412	174,703	13,785	-	190,900
Net book value					
At 26 March 2011	8,486	54,683	4,390	5,130	72,689
At 31 March 2012	7,236	59,535	5,496	3,508	75,776

The net book value of plant and machinery held under finance leases at 31 March 2012 was £14,000 (2011 £27,000) Depreciation charged during the period amounted to £13,000 (2011 £72,000)

Notes (continued)

12 Investments

	£'000
Cost or valuation	
At 26 March 2011 & 31 March 2012	5,387
Provisions for impairment	
At 26 March 2011	-
Provision	402
At 31 March 2012	402
Net book value	
At 31 March 2012	4,985

In the opinion of the Directors the investments in, and amounts due from, the Company's subsidiary undertakings are worth at least the amounts at which they are stated in the balance sheet

13 Subsidiary undertakings

The following information deals only with those subsidiaries that, in the opinion of the Directors principally affected the profit or the amount of assets of De La Rue International Limited

Name of subsidiary	Country of registration or incorporation	Class of shares	Nature of business	Proportion of nominal value of issued shares held by the Company
De La Rue (Malaysia) Sdn Bhd	Malaysia	Ordinary	Distribution, service and marketing	100%
De La Rue Global Services (Pty) Limited	South Africa	Ordinary	Security Printing	100%
De La Rue Mexico S A, de C V	Mexico	Ordinary	Distribution, marketing and identity systems	100%

Notes (continued)

14 Stocks

	2012 £'000	2011 £'000
Raw materials	18,013	16,867
Work in progress	10,725	11,613
Finished goods and spares	13,649	16,078
Goods in transit	158	102
	42,545	44,660

15 Debtors - amounts due within one year

	2012 £'000	2011 £'000
Trade debtors	53,508	55,849
Amounts owed by Group undertakings	10,637	17,407
Taxation and social security	1,739	11,291
Other debtors	1,089	2,631
Prepayments and accrued income	11,596	7,807
	78,569	94,985

16 Debtors - amounts due after one year

	2012 £'000	2011 £'000
Amounts owed by Group undertakings	852,931	773,313
	852,931	773,313

Notes (continued)

17 Deferred taxation

Deferred tax asset / (provisions) relate to the following

	2012	2011
	£'000	£'000
Timing differences between capital allowances and depreciation	(4,228)	(4,544)
Other short term timing differences	4,579	1,400
Deferred Tax asset / (provision)	351	(3,144)

The movement on the deferred taxation account is explained as follows

	£'000
At 26 March 2011	(3,144)
Amount charged to the profit and loss account for the period	3,495
At 31 March 2012	351

18 Creditors - amounts falling due within one year

	2012	2011
	£'000	£'000
Bank loans and overdrafts	40,536	67,469
Payments received on account	40,267	50,681
Trade creditors	24,119	18,910
Amounts owed to Group undertakings	22,763	60,545
Other creditors	4,784	5,103
Taxation and social security	2,652	2,848
Accruals and deferred income	50,011	47,270
Share based payment accrual	212	17
Obligations under finance leases	3	27
	185,347	252,870

Amounts owed to Group undertakings are unsecured

Notes (continued)

19 Creditors - amounts falling due after more than one year

	2012 £'000	2011 £'000
Amounts owed to Group undertakings	612,855	509,482
Other creditors	9,541	8,163
Obligations under finance leases		
- Between one and two years	7	11
- Between two and five years	9	13
	622,412	517,669

The finance lease obligation is repayable quarterly in advance and interest is accrued at LIBOR plus 45 basis points

Amounts owed to Group undertakings are unsecured. These amounts are repayable in more than 5 years.

Notes (continued)

20 Provisions for liabilities and charges

	Restructuring & reorganisations £'000	Warranty provisions £'000	Deferred tax £'000	Other £'000	Total £'000
At 26 March 2011	629	19,840	3,144	259	23,872
Provided in the period	20,331	12,036	-	1,185	33,552
Utilised in the period	(949)	(6,308)	-	-	(7,257)
Released in the period	(40)	(5,388)	(3,144)	-	(8,572)
At 31 March 2012	19,971	20,180	-	1,444	41,595

Restructuring provisions include £19.6m in respect of exceptional amounts provided in 2011/12 for various reorganisations, principally in Security Products, involving the closure of two sites and the relocation of manufacturing activity to Gateshead and Westhoughton. These provisions include amounts for staff compensation and site exit costs, which are expected to be utilised over three years reflecting the contractual commitments to which they relate.

Warranty provisions relate to present obligations for defective products and include known claims as well as anticipated claims that had not been reported at the balance sheet date. The provisions are management judgements based on information currently available, past history and experience of the products sold. However, it is inherent in the nature of the business that the actual liabilities may differ from the provisions. The precise timing of the utilisation of these provisions is uncertain but is generally expected to fall within the year. Warranty provisions include £5.0m in respect of the 2010 paper production quality issues described in note 6. Exceptional items, which are expected to be utilised within twelve months.

Other provisions comprise a number of liabilities with varying expected utilisation rates. There are no individually material provisions within this total.

The movement in the deferred tax account in the year is explained within note 17.

Notes (continued)

21 Called up share capital

	2012	2011
Authorised		
152,000,000 Ordinary shares of £1 each	£152,000,000	£152,000,000
29,000 Redeemable preference shares of CHF 1,000 each	CHF 29,000,000	CHF 29,000,000
	2012	2011
	£'000	£'000
Allotted, called up and fully paid		
152,000,000 Ordinary shares of £1 each	152,000	152,000

22 Share Based Payments

At 31 March 2012, De La Rue International Limited employees participate in five share settled share option schemes in the shares of De La Rue plc, which are described below. These plans have been accounted for in accordance with the fair value recognition provisions of FRS 20 'Share Based Payments' which means that FRS 20 has been applied to all grants of employee share based payments granted after 7 November 2002 that had not vested at 1 January 2005 and cash settled awards outstanding at 1 January 2005.

The compensation cost and related liability that have been recognised for De La Rue International's participation in share based compensation plans are set out in the table below.

	Expenses recognised for the period		Liability at end of period	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Annual Bonus Plan	151	60	-	-
Deferred Bonus and Matching Share Plan	(140)	349	-	-
Executive Share Option Plan	-	-	-	-
Performance Share Plan	1,181	70	-	-
Savings Related Share Option Scheme	344	239	-	-
	1,536	718	-	-

Reconciliations of option movements over the period to 31 March 2012 for each class of options are shown below.

Notes (continued)

22 Share Based Payments (continued)

Annual Bonus Plan

Awards under the Annual Bonus Plan are made to Executive Directors and selected senior executives on achievement of the annual bonus targets set at the beginning of the financial year, and comprise both a cash element and a share element

Share based awards under the Plan may only vest after three years from the date of grant while the award holder remains an employee within the Group. Awards may vest early where employment ceases in specified good leaver circumstances and awards in these circumstances will vest in full in accordance with the rules of the Plan.

Additional awards may be made equivalent in value to the amount of dividends that would have been received since the award date in respect of the number of shares that the participant acquires under the Plan.

	2012 Number of options '000	2011 Number of options '000
Options outstanding at start of period	81	-
Granted	-	81
Forfeited	(12)	-
Exercised	-	-
Transferred to another Group company	-	-
Expired	-	-
Outstanding at end of period	69	81
Exercisable at period end	-	-

The shares have been allocated based on a share price of 559.5p

Deferred Bonus and Matching Share Plan

The Plan is open to senior executives of the Company. The Plan is a combination of three elements: deferred allocation, dividend allocation and matching allocation. The matching allocation is linked to the deferred allocation and is subject to the following performance condition: that up to 50 per cent of the award is released subject to an earnings per share test and up to 50 per cent is released based on the performance of the total shareholder return test (TSR) against the companies in the FTSE Mid 250 excluding investment trusts. The TSR performance condition has been incorporated into the Monte Carlo simulation model used to estimate the fair value of these options.

Additional awards may be made equivalent in value to the amount of dividends that would have been received since the award date in respect of the number of shares that the participant acquires under the Plan.

Notes (continued)

22 Share Based Payments (continued)

Deferred Bonus and Matching Share Plan (continued)

	2012	2011
	Number of	Number of
	options	options
	'000	'000
Options outstanding at start of period	189	255
Granted – deferred shares	-	-
Granted – matching shares	-	-
Forfeited	(98)	-
Exercised	(26)	(64)
Transferred to another Group company	-	-
Expired	-	(2)
Outstanding at end of period	65	189
Exercisable at period end	-	-

Executive Share Option Plan

The Executive Share Option Plan was open to senior executives of the Group and expired on 17 July 2006 for the purposes of grant of options. Options were granted at a price equal to the average market price of a share over the three dealing days immediately preceding the date of grant with a performance condition based on the achievement of an earnings per share growth target of a minimum of three per cent per annum earnings per share growth over the rate of increase in the retail price index. All options under the Plan vested with the exception of the 2002 grant of options which failed the performance condition. A pre vesting forfeiture rate of five per cent per annum has been assumed.

Notes (continued)

22 Share Based Payments (continued)

Executive Share Option Plan (continued)

	2012 Number of Options	2012 Weighted average exercise price per share	2011 Number of Options	2011 Weighted average exercise price per share
	'000		'000	
Options outstanding at start of period	8	382.03	8	382.03
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	(8)	382.03	-	-
Transferred from another Group company	-	-	-	-
Expired	-	-	-	-
Outstanding at end of period	-	-	8	382.03
Exercisable at period end	-	-	8	382.03

The range of exercise prices for the share options outstanding at the end of the prior period was 340.50p – 407.42p. The remaining contractual life of the outstanding share options at the prior period end was set up to 5 July 2015.

Performance Share Plan

Awards are made annually to Executive Directors and selected senior executives generally following the announcement of results.

Awards may only vest after three years and if relevant post grant performance targets have been met. Awards may be allowed to vest early where employment ceases in specified good leaver circumstances and in these circumstances performance conditions and apportionment for the time that the award has been held shall be applied in accordance with the rules of the Plan.

Notes (continued)

22 Share Based Payments (continued)

Performance Share Plan (continued)

	2012 Number of options '000	2011 Number of options '000
Options outstanding at start of period	105	-
Granted	530	105
Forfeited	(24)	-
Exercised	-	-
Transferred to another Group company	-	-
Expired	-	-
Outstanding at end of period	611	105
Exercisable at period end	-	-

The shares have been allocated based on a share price of 559 5p for the 26 November 2010 grants and 759 8p for the 23 June 2011 grants

Savings Related Share Option Scheme

The Scheme is open to all UK employees. Options are granted at the prevailing market price at the time of the grant (with a discretionary discount of a maximum of 20% to the market share price), to employees who agree to save between £5 and £250 per month over a period of three or five years.

There are no performance conditions attaching to the options. After the three or five year term has expired, employees normally have six months in which to decide whether or not to exercise their options. A pre vesting forfeiture rate of 5 per cent has been assumed.

	2012 Number of Options '000	2012 Weighted average exercise price per share	2011 Number of Options '000	2011 Weighted average exercise price per share
Options outstanding at start of period	1,912	520.19	1,058	685.46
Granted	205	722.66	1,406	444.14
Forfeited	(134)	513.53	(382)	752.84
Exercised	(227)	623.73	(159)	379.24
Transferred from another Group company	2	151.82	-	-
Expired	(112)	743.09	(11)	663.18
Outstanding at end of period	1,646	511.12	1,912	520.19
Exercisable at period end	-	-	-	-

Notes (continued)

22 Share Based Payments (continued)

Savings Related Share Option Scheme (continued)

The range of exercise prices for the share options outstanding at the end of the period is 444 14p – 819 55p (2011 357 00p – 819 55p) The weighted average remaining contractual life of the outstanding share options is 1 September 2015 (2011 1 September 2014)

23 Reserves

	Profit And Loss Account 2012 £'000
At 26 March 2011	99,942
Currency translation differences	294
Profit for the financial period	15,477
Dividends payable	(25,000)
At the end of the period	90,713

24 Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Profit/(loss) for the financial period	15,477	(33,425)
Share based payments expense	(1,536)	(718)
Capital contribution in respect of share based payment expense	1,536	718
Other recognised gains relating to the period (net)	294	984
Net (decrease) / increase in shareholders' funds	15,771	(32,441)
Opening shareholders' funds	251,942	284,383
Dividends	(25,000)	-
Closing shareholders' funds	242,713	251,942

25 Particulars of employees

	2012 Number	2011 Number
The average number of persons employed by the Company during the period was		
United Kingdom	1,935	1,919
Rest of the World	11	7
	1,946	1,926

Notes (continued)

26 Capital commitments

	2012	2011
	£'000	£'000
The following capital commitments existed at the balance sheet date		
Contracted but not provided for in the financial statements	21,976	3,994

27 Contingent liabilities

The Company operates internationally and is subject to various legal and regulatory regimes, including those covering taxation matters. While the outcome of litigation and other disputes can never be predicted with certainty, having regard to legal advice received and the insurance arrangements of the Company, the Directors believe that adequate provision has been made to cover these matters. The Company provides guarantees and performance bonds which are issued in the normal course of business. In the event that a guarantee or bond is called, provision may be required subject to the particular circumstances, including an assessment of its recoverability.

In July 2010 the Board of De La Rue plc, the Company's ultimate parent undertaking, commissioned an investigation by external lawyers into issues that had been brought to its attention internally. The investigation, which was completed in October 2010, found nothing of substance to support the matters raised other than in respect of some paper production issues where it found that a small number of the many detailed specification parameters of some paper produced by the Company had fallen marginally short of specification. It was also established that certain paper specification test certificates had been deliberately falsified. The Board of De La Rue plc reported the findings of the investigation to the appropriate authorities, who are considering the matter, and has implemented a number of measures arising from the findings of the investigation.

Provision, as described in note 6. Exceptional items, has been made for the costs associated with the paper production issues identified at this stage, including the write off of trade receivables and other costs relating to the investigation, production and rectification of these matters.

Provision has not been made for the potential costs of resolutions or for potential fines from regulatory authorities. The nature and extent of these resolutions will be the subject of ongoing discussions, the outcome of which cannot be estimated reliably at present. The timing, response and outcome of the consideration by the authorities of the reported findings of the investigation and rectification is also uncertain and the financial consequences, if any, cannot be estimated reliably at present.

Cross guarantees

The Company has jointly guaranteed the bank borrowings of Group companies under the Group £200 million four and a half year revolving credit facility.

Notes (continued)

28 Leases

	2012 £'000	2011 £'000
Annual commitments under non cancellable operating leases are		
Land and buildings		
Leases expiring		
- Within one year	71	-
- Between one and two years	-	-
- Between two and five years	765	773
- After five years	3,955	1,318
Others		
Leases expiring		
- Within one year	39	59
- Between one and two years	39	32
- Between two and five years	18	41
- After five years	-	-

29 Pension costs

The Company is a participating employer in the De La Rue Group pension schemes. The principal scheme is of the defined benefit type with assets held in separate trustee administered funds. The contributions to the scheme are assessed in accordance with advice of AON Consulting, independent consulting actuaries, using the Defined Accrued Benefits Method. The Company is unable to identify the share of the underlying assets and liabilities of the Group scheme that relates to its business and is permitted under FRS 17 to treat this scheme as a defined contribution scheme.

The Group's last formal (triennial) funding valuation of the Company's defined benefit pension scheme took place on 5 April 2009 and identified the Scheme to have a deficit of £204.0m (5 April 2006: £56.0m).

Following the completion of the 2009 valuation and in addition to a one-off contribution resulting from the Group's sale of its investment in Camelot in 2011 (£35m), the Group agreed with the Trustee to an annual funding plan of £15m per annum (commencing in 2010/11 and running for approximately 11 years) with a 4 per cent annual increment.

During 2011/12, the Group made special funding payments of £23.1m to the Group pension fund, comprising the scheduled contribution of £7.5m and a one off special payment of £15.6m. Total pension costs were £27,183,000 (2011: £50,173,000).

Notes (continued)

30 Immediate and ultimate parent undertaking

The immediate parent undertaking of the Company is De La Rue Holdings plc and the ultimate parent undertaking is De La Rue plc, both of which are registered in England and Wales. The De La Rue Group is the only Group of which the Company is a member and for which Group financial statements are prepared. Copies of the Group financial statements are available from the Secretary, De La Rue plc at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS.