

Registration number: 00720284

De La Rue International Limited  
Annual Report and Financial Statements  
for the Period from 26 March 2017 to 31 March 2018



# **De La Rue International Limited**

## **Corporate Information**

<b>Directors</b>	E H D Peppiatt J F Hermans H M Willis L S Roche
<b>Company Secretary</b>	J F Hermans
<b>Registered office</b>	De La Rue House Jays Close Viables Basingstoke Hampshire RG22 4BS United Kingdom
<b>Auditors</b>	Ernst & Young LLP Apex Plaza Forbury Road Reading RG1 1YE United Kingdom

## **De La Rue International Limited**

### **Strategic Report for the period from 26 March 2017 to 31 March 2018**

The Directors present their strategic report for the period from 26 March 2017 to 31 March 2018.

#### **Principal activity**

The Company is primarily a trading company and engages in selling products to both the Group's external customers and also to companies within the De La Rue Group. The Company is also a holding company. Its strategic objective is to further develop its leading position as a commercial provider of banknotes in addition to investing and growing business lines that are exposed to high growth markets, specifically Polymer, Security Features, Identity Solutions and Product Authentication.

Delivery of the strategy continues to focus on building on the Company's track record in innovation, sophisticated design capability and in the 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 add value.

The Company is investing in its people, assets, processes and innovation. This ensures the Company has the technology and capacity to meet customer needs, maintain an industry leading position and deliver sustainable growth while providing attractive returns for its shareholders.

During the year, the Group disposed of its paper business. On 26 March 2018 prior to the external sale, the Company transferred the trade and assets of the paper business into a newly created wholly owned subsidiary Portals De La Rue Limited. The paper business does not meet the FRS102 definition of a discontinued operation and as such its results have been included within continuing operations. On 29 March 2018 the Company completed the sale of Portals De La Rue Limited to Whickerco Limited, a company owned by EPIRIS Fund II.

In the prior period, the Company disposed of a number of subsidiaries following the sale by the De La Rue Group of the Cash Processing Solution business and substantially reduced the value of its investments. During the current period no adjustments for the provision for impairment on investments were made (2017: £nil), and no dividends were received from investments (2016/17: £nil). The Company's subsidiaries are disclosed in note 15 to these financial statements.

The strategies and objectives of the companies in which De La Rue International Limited holds an investment in, are in line with those published in the consolidated 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.

#### **Fair review of the business**

##### **Currency**

Overall, the Currency business relating to external customers benefitted from the high volumes from Banknote Print, Banknote Paper, as well as Polymer. The Company achieved good volumes in Banknote Print of 7.3bn notes (2016/17: 7.1bn), whilst Banknote Paper volumes increased by 4% to 12,200 tonnes (2017/18: 11,800 tonnes). However, high raw material cost, compounded with production issues resulted in a decline in profitability. Banknote Paper, as part of Portals De La Rue Limited, was sold on 29 March 2018. Polymer volumes more than doubled to 810 tonnes (2016/17: 380 tonnes) in the year, and security thread volume was up 23% year on year. The benefit of higher sales to external customers was offset by a lower level of sales to other De La Rue Group companies during the period.

##### **Product Authentication and Traceability**

Revenue and operating profit decreased during the period on external customer sales, driven by lower sales in the government revenue services (GRS) area.

## **De La Rue International Limited**

### **Strategic Report for the period from 26 March 2017 to 31 March 2018 (continued)**

#### **Identity Solutions**

Identity solutions revenue was higher in the period, however the identity solutions profit level was adversely affected by a £3.7m write off of the bid costs associated to the UK Passport retender.

In 2017/18 the Company made good progress in core markets as countries switch from Machine Readable Passport to E Passport.

#### **Exceptional items**

During the year a net credit in respect of exceptional items of £74,930,000 was recorded (2017: charge of £1,471,000 which primarily related to the gain on revaluation of the pension scheme deficit of £80,500,000 following the change in indexation method from RPI to CPI. For further details see note 6.

#### **Outlook and future developments**

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

#### **Currency**

Though growth prospects in the Currency market remain broadly unchanged, there is a shift to more formal, technology-led procurement. Many customers buy the complete banknote from one supplier, but others are moving to a multi-supplier model by disaggregating note buying into its individual elements: substrate, security features and printing. Tenders are also becoming more common.

The demand for banknotes and the substrates they are printed on is largely satisfied by state print works (SPW) and state paper mills (SPM), with a proportion of it being met by a number of commercial manufacturers, including De La Rue. The commercial bank note print market is highly concentrated, with four major operators sharing two thirds of the market. De La Rue is the market leader with 26% market share.

SPWs and SPMs regularly turn to commercial providers for help in fulfilling demand, known as 'overspill'. Overspill orders typically account for 2% to 4% of the market and can have a noticeable effect on the commercial print and paper markets. Conversely, the unpredictability of overspills creates market volatility.

As central banks seek to reduce the 'cost of cash', polymer is becoming more popular due to its durability, sustainability and greater security. Thirty four countries have already issued or are about to issue one or more denominations on polymer. De La Rue expect the market to double in size in the next five years.

While pricing in print and paper remains stable, customers are increasingly seeking to access the benefits of added value security features such as threads and holograms, making the ownership of such innovations an attractive opportunity. Almost all countries purchase security features on the commercial market, which provides the opportunity for De La Rue to sell directly into the SPW market. Several players lead the security features industry, including De La Rue.

## **De La Rue International Limited**

### **Strategic Report for the period from 26 March 2017 to 31 March 2018 (continued)**

#### **Product authentication & traceability market (previously Security Products)**

Excisable fast moving consumer goods such as tobacco and alcohol are widely recognised to be among the most illegally traded products in the world. The need for protecting tax revenue, together with continuing changes to government policy worldwide driven by international treaties such as the WHO Framework Convention on Tobacco Control (FCTC) and TPD in Europe remain the key drivers for growth in the tax stamp market.

For global commercial organisations, revenue loss from counterfeit goods remains a real threat to brands and consumer confidence. Highly secure labels, connected to technology led authentication and tracking solutions, ensure brands are protected and that consumers can be confident of buying genuine products.

#### **Identity solutions market**

Against a background of increasing population and greater globalisation, demand for identity products and services continues to rise as governments increasingly focus on improving border security, authentication, and their citizens' access to services. While physical tokens such as passports and ID cards are important, there is a growing emphasis on end-to-end solutions that combine secure tokens with systems and services which help to create and validate unique, trusted legal identities.

The global identity market, including passports, ID cards, driving licenses and the associated digital solutions, is valued at around £3.9bn today and expected to grow at c6% a year. Although many countries have in-house

security print capabilities, many still choose to source printing or individual components from the commercial market. More than half of the identity market is available to commercial manufacturers.

With an annual growth of c8%, the passport market remains attractive. Around 165m passports are issued globally each year, 25% of which are available to commercial security printers. Customers increasingly value security features and the systems and services surrounding the physical product. While we believe demand for physical passports will remain for the long term, the market is transitioning from conventional Machine Readable Passports to chip-based ePassports. This further drives demand for full integration of end-to-end solutions.

We will continue to fulfil our existing ten year contract with Her Majesty's Passport Office and assist with transitioning to the new supplier following the loss of the new UK Passport tender. We continue to reassess our capabilities and cost base to remain competitive in this market.

Globally, around 100 countries have compulsory identity card schemes. The national ID market is expected to grow at 5%. Today over 70% of the national IDs in circulation globally are chip-based. Technological advances in recent years have enabled new types of ID schemes, combining traditional ID functionality with online verification, social insurance and other functionalities.

## **De La Rue International Limited**

### **Strategic Report for the period from 26 March 2017 to 31 March 2018 (continued)**

#### **Key performance indicators**

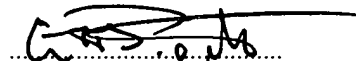
The Directors monitor and manage the performance of the Company against its published financial statements and against key performance indicators (KPIs). The KPIs of the Company are revenue and operating profit, which can be found on page 11 and volumes, which are described in the Business Reviews above. Details of the Group's KPIs, which includes the Company, are set out in the Strategic Report section on pages 34 to 35 of the 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 36 to 41 of the 2018 Annual Report of De La Rue plc. These do not form part of this report.

Approved by the Board on 20 December 2018 and signed on its behalf by:

  
.....  
E H D Peppiatt  
Director

## **De La Rue International Limited**

### **Directors' Report for the period from 26 March 2017 to 31 March 2018**

**Registered number: 00720284**

The Directors present their report and the financial statements for the period from 26 March 2017 to 31 March 2018.

#### **Result and dividends**

The Directors report a profit after taxation amounting to £100,051,000 (2017: £60,195,000). No interim dividend was paid during the period (2017: £nil) and the retained profit for the period was transferred to reserves. The Directors do not recommend the payment of a final dividend.

#### **Directors of the Company**

The Directors who held office during the period and at the date of signing this report were as follows:

E H D Peppiatt

J F Hermans (alternate Director for E H D Peppiatt)

J H Sodha (resigned 19 March 2018)

H M Willis (appointed 30 July 2018)

L S Roche

#### **Research and development**

During the period a total of £13,351,000 was charged to the profit and loss account in respect of research, development and design (2017: £10,119,000).

#### **Employee involvement**

Details of employee related costs can be found in note 9 to the financial statements on page 25. The company follows the employment policies of the De La Rue Group, details of which are set out on pages 42 to 51 of the 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 innovation. 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's intranet communication channels, and more traditional house notices, are further strengthened through regular 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, transgender status, sexual orientation, religion or belief, marital status, age, colour, nationality, national origin, disability or trade union affiliation. 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 shareholder value.

#### **Employment of disabled persons**

If an employee becomes disabled during 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.

#### **Political donations**

During the period the Company made no political donations (2017: £nil).

#### **Going concern**

The Directors continue to adopt the going concern basis in preparing the financial statements, as reported in note 2.

## **De La Rue International Limited**

### **Directors' Report for the period from 26 March 2017 to 31 March 2018 (continued)**

#### **Disclosure of information to the auditor**

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which the auditor is unaware.

#### **Reappointment of auditors**

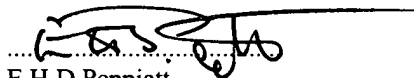
Following Ernst & Young LLP's appointment as auditor for the Group, KPMG LLP resigned and Ernst & Young LLP were appointed as auditor for the period ending 31 March 2018. Ernst & Young LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

#### **Post balance sheet event**

On 26th October 2018, a landmark pension case involving the Lloyds Banking Group's defined benefit pension schemes was handed down by the High Court. The judgement brings some clarity to defined benefit pension schemes in general and requires schemes to equalise pension benefits between men and women relating to Guaranteed Minimum Pensions (or "GMP"). Based on our preliminary assessment, we estimate the impact of this in relation to the UK defined benefit scheme could be to increase obligations by approximately £2m. We expect this to be recognised as a cost in the Profit and Loss account in the 30 March 2019 financial statements.

Subsequent to the year end, the Group has undertaken a review of its operational structure which will result in restructuring charges of approximately £1,365,000 being recorded in the Profit and Loss account in the 30 March 2019 financial statements.

Approved by the Board on 20 December 2018 and signed on its behalf by:



E H D Peppiatt  
Director



## **De La Rue International Limited**

### **The Statement of Directors' Responsibility in respect of the Report for the Period from 26 March 2017 to 31 March 2018**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards has 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent Auditor's Report to the members of De La Rue International Limited**

### **Opinion**

We have audited the financial statements of De La Rue International Limited for the period ended 31 March 2018 which comprise the Profit and Loss Account, the Statement of comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 34, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

## **Independent Auditor's Report to the members of De La Rue International Limited (continued)**

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**Independent Auditor's Report to the members of De La Rue International Limited  
(continued)**

**Use of our report**

This report is made solely to the company's members, 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 members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

*Ernst & Young UK*

Kevin Harkin (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Reading

Date: *20/12/2018*

# De La Rue International Limited

## Profit and Loss Account for the period from 26 March 2017 to 31 March 2018

		26 March 2017 to 31 March 2018	27 March 2016 to 31 March 2018	2018 Total £ 000	27 March 2016 to 25 March 2017	27 March 2016 to 25 March 2017	2017 Total £ 000
	Note	Continuing operations £ 000	Discontinued operations £ 000		Continuing operations £ 000	Discontinued operations £ 000	
Turnover	3	479,612	-	479,612	487,142	879	488,021
Cost of sales		(390,372)	-	(390,372)	(402,407)	(1,045)	(403,452)
Gross profit/(loss)		89,240	-	89,240	84,735	(166)	84,569
Distribution costs		(16,203)	-	(16,203)	(18,447)	(60)	(18,507)
Administrative expenses		(24,797)	-	(24,797)	(17,987)	(47)	(18,034)
Exceptional items	6	78,462	(3,532)	74,930	130	(1,601)	(1,471)
(Loss)/profit on disposal of operations	35	(18,795)	-	(18,795)	-	3,966	3,966
Other operating income	4	8,820	-	8,820	14,948	-	14,948
Operating profit/(loss)	5	116,727	(3,532)	113,195	63,379	2,092	65,471
Other interest receivable and similar income	7	10,051	-	10,051	10,582	1	10,583
Interest payable and similar expenses	8	(7,043)	-	(7,043)	(8,823)	-	(8,823)
		3,008	-	3,008	1,759	1	1,760
Profit/(loss) before tax		119,735	(3,532)	116,203	65,138	2,093	67,231
Taxation	12	(16,823)	671	(16,152)	(7,036)	-	(7,036)
Profit/(loss) for the financial period		102,912	(2,861)	100,051	58,102	2,093	60,195

The notes on pages 15 to 42 form an integral part of these financial statements.

# De La Rue International Limited

## Statement of Comprehensive Income for the period from 26 March 2017 to 31 March 2018

	Note	26 March 2017 to 31 March 2018 £ 000	26 March 2016 to 25 March 2017 £ 000
Profit for the period		100,051	60,195
Foreign currency translation gains		(1,342)	1,637
Remeasurement gain/(loss) on retirement benefit obligations		61,508	(25,300)
Tax related to remeasurement of net defined benefit liability		(10,342)	2,270
Change in fair value of cash flow hedges (net of tax)		(2,815)	(125)
		47,009	(21,518)
Total comprehensive income for the period		147,060	38,677

The notes on pages 15 to 42 form an integral part of these financial statements.


# De La Rue International Limited

## Balance Sheet as at 31 March 2018

	Note	31 March 2018 £ 000	25 March 2017 £ 000
<b>Non current assets</b>			
Intangible assets	13	2,843	3,106
Tangible assets	14	64,902	107,599
Investments:			
Investment in subsidiaries	15	2	2
Other investment	16	6,573	-
Deferred tax assets	17	14,926	37,542
Derivative financial instruments	31	218	627
		<u>89,464</u>	<u>148,876</u>
<b>Current assets</b>			
Stocks	18	22,850	54,976
Debtors	19	522,350	469,290
Derivative financial instruments	31	3,130	15,021
Cash at bank and in hand	20	173,764	56,697
		<u>722,094</u>	<u>595,984</u>
<b>Creditors: Amounts falling due within one year</b>	21	<u>(340,145)</u>	<u>(214,985)</u>
<b>Net current assets</b>		<u>381,949</u>	<u>380,999</u>
<b>Total assets less current liabilities</b>		<u>471,413</u>	<u>529,875</u>
<b>Creditors: Amounts falling due after more than one year</b>	21	(73)	(55,909)
Provisions for liabilities	22	<u>(4,506)</u>	<u>(8,673)</u>
<b>Net assets excluding pension liability</b>		<u>466,834</u>	<u>465,293</u>
Net pension liability	23	<u>(87,618)</u>	<u>(237,000)</u>
<b>Net assets</b>		<u>379,216</u>	<u>228,293</u>
<b>Capital and reserves</b>			
Share capital		2,000	-
Capital redemption reserve		1,863	-
Profit and loss account		375,705	225,830
Hedge reserve		<u>(352)</u>	<u>2,463</u>
<b>Total equity</b>		<u>379,216</u>	<u>228,293</u>

The notes on pages 15 to 42 form an integral part of these financial statements.

Approved and authorised by the Board on 20 December 2018 and signed on its behalf by:

  
 .....  
 L S Roche  
 Director

# De La Rue International Limited

## Statement of Changes in Equity for the period from 26 March 2017 to 31 March 2018

	Share capital £000	Hedge reserve £ 000	Capital redemption reserve £ 000	Profit and loss account £ 000	Total £ 000
At 27 March 2016	-	2,588	-	187,028	189,616
Profit for the period		-	-	60,195	60,195
Other comprehensive loss	-	(125)	-	(21,393)	(21,518)
Total comprehensive income	-	(125)	-	38,802	38,677
At 25 March 2017	-	2,463	-	225,830	228,293
At 26 March 2017	-	2,463	-	225,830	228,293
Profit for the period				100,051	100,051
Other comprehensive income		(2,815)	-	49,824	47,009
Total comprehensive income	-	(2,815)	-	149,875	147,060
Transactions with owners in their capacity as owners:					
Share capital	2,000	-	-	-	2,000
Share based payments	-	-	1,863	-	1,863
At 31 March 2018	2,000	(352)	1,863	375,705	379,216

The notes on pages 15 to 42 form an integral part of these financial statements.



# **De La Rue International Limited**

## **Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018**

### **1 General information**

The Company is a private company limited by shares incorporated in United Kingdom.

### **2 Accounting policies**

#### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **Statement of compliance**

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

#### **Basis of preparation**

These financial statements have been prepared under the historical cost convention modified to include certain financial instruments at fair value and in accordance with the applicable UK accounting standards. The accounts have been prepared as at 31 March 2018, being the last Saturday in March. The comparatives for the 2017 financial period are for the period ended 25 March 2017.

Monetary amounts in these financial statements are rounded to the nearest whole £1,000, except where otherwise indicated.

#### **Reduced disclosures**

In accordance with FRS102, the Company meets the definition of a qualifying entity and has therefore taken advantage of the exemptions from the following disclosure requirements listed below. The consolidated financial statements of De La Rue plc include the equivalent disclosures.

- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.
- Cash Flow Statement and related notes.
- Key Management Personal compensation.
- Share based payment – share based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash settled share based payments, explanation of modifications to arrangements.

#### **Going concern**

The Company meets its funding requirements through cash generated from operations and a Group revolving credit facility which expires in December 2021. 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 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 publically available.

## **De La Rue International Limited**

### **Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **Exemption from preparing group accounts**

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.

##### **Foreign currency transactions and balances**

###### ***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 relevant 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 foreign branches***

The assets and liabilities of foreign branches 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 branches 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.

##### **Revenue recognition**

Company revenue predominantly represents sales to external customers of manufactured products which fall within the Group's ordinary trading activities. This excludes VAT and other sales taxes.

Revenue 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, the timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of products and associated components, when sold separately, the transfer usually occurs on loading the goods onto the relevant carrier or, at an earlier point in time when conditions are met for the recognition of turnover on a bill-and-hold basis.

##### **Contract revenue recognition**

Revenue on service based contracts is recognised as services are provided. If the services under a single arrangement are rendered in different reporting periods, or under an arrangement that also includes the sale of goods, then the consideration is allocated on a relative fair value basis between the sale of goods and rendering of services and then allocated to the appropriate reporting periods in accordance with the transfer of risks and rewards and the contractual life of the service contract.

Revenue 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.

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 2 Accounting policies (continued)

##### Tax

The tax expense included in the profit and loss account comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the period, including adjustments in respect of prior periods, using tax rates enacted or substantively enacted by the balance sheet date. Tax is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Deferred tax is provided on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date and that are expected to apply when the asset is realized or the liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill not deductible for tax purposes, or result from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

##### Tangible assets

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

##### Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Leasehold properties with less than 50 years unexpired	Written off over life of lease
Plant and equipment	Ranging from 4% to 33%
Fixtures and fittings	10%

##### Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date. Goodwill is amortised over its useful life, which shall not exceed ten years if a reliable estimate of the useful life cannot be made.

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 2 Accounting policies (continued)

##### Negative goodwill

Negative goodwill is capitalised and amortised through the profit and loss account over the estimated life to which the goodwill relates.

##### Intangible assets

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

##### Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class	Amortisation method and rate
Product development	Ranging from 10% to 20%
Software licenses	Ranging from 20% to 33%
Distribution rights	Written off over life of related product

##### Investments

Fixed asset investments are stated at cost or valuation in the balance sheet, less provision for any impairment in the value of the investment. Dividends receivable from investments are recognised in the profit and loss account when paid, or when approved by the shareholders.

In accordance with FRS102, in the case of a dividend income from a subsidiary which reduces the value of that subsidiary below its carrying amount, dividend receipts will be credited against the carrying amount of the investment on the balance sheet.

##### Other investments

As part of the consideration received for the disposal of the Portals De La Rue paper business the Company has received loan notes, preference shares and ordinary shares in Mooreco Limited, a parent company of the purchaser. As these instruments will be repaid or redeemed on the earlier of their contractual life or a sale or liquidity event they are accounted for as held to maturity investments.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

##### Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

## **De La Rue International Limited**

### **Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **Stocks**

Stocks and work in progress are valued at the lower of cost, including relevant production overheads, and net realisable value. Cost is determined on a weighted average cost basis and comprised directly attributable purchase and conversation costs, including direct labour and an allocation of production overheads based on normal operating capacity that have been incurred in bringing those inventories into their present location and condition.

##### **Trade creditors**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the Company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

##### **Borrowings**

Interest-bearing borrowings are initially recorded at fair value, net of transaction costs. Interest-bearing borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Profit and Loss Account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

##### **Provisions**

Provisions are recognised when the Company has an obligation at the reporting date as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

##### **Leases**

Operating lease rentals including any lease incentives are charged to the profit and loss account as incurred on straight line basis. 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.

##### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

## **De La Rue International Limited**

### **Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **Defined benefit pension obligation**

The pension rights of the Company employees are dealt with through a self administered scheme, the assets of which are held independently of the Group's finances. The scheme is a defined benefit scheme and is closed to future accrual. The Group agrees deficit funding with the scheme Trustees and Pension Regulator. The Company is a participating employer. The Group has adopted a policy whereby the scheme funding and deficit are recorded in the main UK trading subsidiary of the Group, De La Rue International Limited, which pays all contributions to the scheme and hence these are shown in these Company accounts.

The cost of providing benefits under each scheme is determined using the projected unit credit actuarial valuation method. The current service cost and gains and losses on settlements and curtailments are included in operating costs in the profit and loss account. The interest income on the plan assets of funded defined benefit pension schemes and the imputed interest on pension scheme liabilities are disclosed as retirement benefit obligation net finance expense respectively in the profit and loss account.

Return on plan assets excluding assumed interest income on the assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full in the period in which they arise.

The liability recognised in respect of defined benefit pension schemes is the present value of the defined benefit obligation less the fair value of the scheme assets, as determined by actuarial valuations carried out at the balance sheet date.

##### **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 date 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 were modelled on a binomial lattice and those under the remaining schemes are calculated using the Black-Scholes option pricing formula. Vesting conditions, other than non market conditions, are not taken into account when estimating the fair value.

For cash settled share options, the services received from employees are measured at the fair value of the liability for options outstanding and recognised in the profit and loss account on a straight-line basis over the vesting period. The fair value of the liability is remeasured at each reporting date and at the date of settlement with changes in fair value recognised through the profit and loss account.

Where De La Rue plc grants share options over its shares to the employees of the Company these awards are accounted for by De La Rue plc as an additional investment in its subsidiary. Any payment made by the subsidiary undertakings in respect of these arrangements are treated as a return of this investment. Share based payments were previously recharged to subsidiaries and recorded via the intercompany loan account.

##### **Discontinued operations**

The disposal of the paper business on 29 March 2018 does not meet the FRS102 definition of a discontinued operation and as such its results have been included within continuing operations.

In the prior period, following a 'root and branch' review initiated in November 2015, the Group decided to exit the cash processing solutions business (CPS). In line with the requirements of FRS 102, the disposal group was classified as a discontinued operation, with its post-tax profit or loss presented on a line by line basis in a separate discontinued operations column on the face of the profit and loss account.

## **De La Rue International Limited**

### **Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **Critical accounting estimates and areas of judgement**

The Company makes estimates and assumptions concerning the future, and the outcome may differ from that calculated. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

Customer contracts within the Currency business will often include specific terms that impact the timing of revenue recognition. The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of products and associated components, when sold separately, the transfer usually occurs on loading the goods onto the relevant carrier or, at an earlier point in time when conditions are met for recognition of revenue on a bill and hold basis. Judgement is used in interpreting these terms and conditions in assessing when the risks and rewards have been transferred to the customer especially where they include complex acceptance criteria.

At any point in time, the Company has significant levels of inventory, including work in progress. Currency manufacturing is a complex process and the final product is required to be made to exacting specifications and tolerance levels. In valuing the work in progress at the balance sheet date, assessments are made over the level of waste contained within the product based on the production performance to date and past experience. In assessing the recoverability of finished stock assessments are made to validate that inventory is correctly stated at the lower of cost and net realisable value and that obsolete inventory, including inventory in excess of requirements, is provided against.

Pension costs within the income statement and the pension obligations as stated in the balance sheet are both dependent upon a number of assumptions chosen by management. These include the rate used to discount future liabilities, the expected longevity for current and future pensioners and estimates of future rates of inflation.

The discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Company measures warranty provisions at the Directors' best estimate of the amount required to settle the obligation at the balance sheet date, discounted where the time value of money is considered material. These estimates take account of available information, historical experience and the likelihood of different possible outcomes. Both the amount and the maturity of these liabilities could be different from those estimated.

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 3 Revenue

The analysis of the Company's revenue for the period from continuing operations is as follows:

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
Sale of goods	479,612	488,021

The analysis of the Company's turnover for the period by class of business is as follows:

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
Currency	374,824	382,010
CPS	-	879
Product Authentication and Traceability	26,847	29,383
Identity Solutions	77,941	75,749
	479,612	488,021

The analysis of the Company's turnover for the period by market is as follows:

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
UK	117,256	98,428
Europe	41,795	30,386
Rest of world	320,561	359,207
	479,612	488,021

#### 4 Other operating income

The analysis of the Company's other operating income for the period is as follows:

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
Other operating income	8,820	14,948



## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 5 Operating profit

Arrived at after charging/(crediting)

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
Staff costs - (see note 9)	119,093	116,571
Depreciation expense	16,114	16,140
Amortisation of intangibles	1,432	1,407
Research and development cost	13,351	10,119
Operating leases:		
Hire of plant and machinery	324	256
Hire of land and buildings	1,531	1,621
Loss on disposal of property, plant and equipment	-	686
Auditors remuneration	181	149

#### 6 Exceptional items

	26 March 2017 to 31 March 2018 £'000	27 March 2016 to 25 March 2017 £'000
Gain on revaluation of pension scheme deficit	(80,500)	-
Costs associated with the indexation change on the pension scheme	1,015	-
Site relocation and restructuring	785	409
Costs associated with the CPS disposal (discontinued)	3,532	1,601
Costs associated with the disposal of the paper business	238	-
Warranty provisions	-	(539)
	(74,930)	1,471

A gain of £80.5m has been recorded on the revaluation of the UK defined benefit pension scheme following the change in indexation method from RPI to CPI. This is in relation to a past service cost and not an actuarial gain and as a result has been recognised in the profit and loss account during the period. In addition costs of £1.0m have been incurred relating to professional advisor and other costs directly related to the indexation change.

Site relocation and restructuring costs of £0.8m (2016/17: £0.4m) have been incurred in 2017/18 related to the redesign of the organizational structure and in connection with our manufacturing footprint review.

Costs of £3.5m were incurred associated with the disposal of CPS (2016/17: £1.6m) which primarily related to the costs incurred on a loss making contract which relates to the CPS business that was not novated post disposal.

Surplus warranty provisions of £0.5m in the prior period were credited to exceptional items consistent to where the cost of the original provisions was presented.

# De La Rue International Limited

## Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

### 7 Other interest receivable and similar income

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
Interest income on bank deposits	219	92
Interest income on loans to group undertakings	9,832	10,491
	<u>10,051</u>	<u>10,583</u>

### 8 Interest payable and similar expenses

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
Interest on bank overdrafts and borrowings	482	391
Net interest on the net defined benefit pension liability	5,600	7,400
Interest payable on loans from group undertakings	961	1,032
	<u>7,043</u>	<u>8,823</u>

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 9 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
Wages and salaries	96,860	96,024
Social security costs	10,281	9,408
Pension costs	9,757	10,300
Share-based payment expenses	1,352	839
	118,250	116,571

The average number of persons employed by the Company (including a Director) during the period, analysed by category was as follows:

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
Rest of the world	10	14
United Kingdom	2,018	2,010
	2,028	2,024

#### 10 Directors' remuneration

During the period Messrs J H Sodha, E H D Peppiatt and J F Hermans were employed by De La Rue plc, Mrs L S Roche was employed by De La Rue Holdings Limited and all were remunerated in respect of their services to the Group as a whole by their employing companies. No Director received any additional remuneration for their role as a Director of De La Rue International Limited. Their emoluments are dealt with in those companies' financial statements.

#### 11 Auditor's remuneration

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
Audit of the financial statements	181	149

# De La Rue International Limited

## Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

### 12 Taxation

Tax charged/(credited) in the profit and loss account, other comprehensive income and equity:

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
<b>Current taxation</b>		
Current tax on income in the period	4,393	5,904
Adjustments in respect of prior periods	(1,092)	(724)
Total current tax	3,301	5,180
<b>Deferred taxation</b>		
Origination and reversal of timing differences	18,006	(4,603)
Change in tax rate	4,610	4,125
Total deferred taxation	22,617	(478)
Total tax	25,918	4,702

	2018 Current tax £ 000	2018 Deferred tax £ 000	2017 Current tax £ 000	2017 Deferred tax £ 000
Recognised in profit and loss account	5,866	10,286	7,780	(744)
Recognised in other comprehensive income	(2,565)	12,907	(2,600)	330
Recognised directly in equity	-	(576)	-	(64)
Total tax	3,301	22,617	5,180	(478)

#### *Analysis of current tax recognized in profit and loss*

UK corporation tax	5,822	6,683
Foreign tax	44	1,097
Total current tax recognised in profit and loss	5,866	6,785

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 12 Taxation (continued)

The tax on profit before tax for the period is lower than the standard rate of corporation tax in the UK of 19% (2017 : 20%).

The differences are reconciled below:

	26 March 2017 to 31 March 2018 £ 000	27 March 2016 to 25 March 2017 £ 000
Profit before tax	116,203	67,231
Corporation tax at standard rate of 19% (2017: 20%)	22,079	13,446
Permanent differences	(118)	(4,254)
Group relief	(3,980)	(2,839)
Foreign tax	44	1,097
Reduction in tax rate on deferred tax balance	(1,351)	(226)
Prior year adjustments	(522)	(188)
Total tax charge	16,152	7,036

#### Factors which may affect future tax rates

A reduction in the UK tax rate from 20 per cent to 19 per cent (effective from April 2017) then 17 per cent (effective from April 2020) was substantively enacted on 26 October 2015 and 6 September 2016 respectively. Deferred tax has been recognised at a rate of 17% reflecting the rate that was substantively enacted at the balance sheet date.

# De La Rue International Limited

## Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

### 13 Intangible assets

	Other intangible assets £ 000	Distribution Rights £ 000	Total £ 000
<b>Cost or valuation</b>			
At 26 March 2017	8,893	314	9,207
Additions	1,169	-	1,169
At 31 March 2018	10,062	314	10,376
<b>Amortisation</b>			
At 26 March 2017	5,787	314	6,101
Amortisation charge	1,432		1,432
At 31 March 2018	7,219	314	7,533
<b>Carrying amount</b>			
At 31 March 2018	2,843	-	2,843
At 25 March 2017	3,106	-	3,106

The aggregate amount of research and development expenditure recognised as an expense during the period is £13,350,665 (2017: £10,119,088).

# De La Rue International Limited

## Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

### 14 Tangible assets

	Land and buildings £ 000	Other property, plant and equipment £ 000	Furniture, fittings and equipment £ 000	Assets under construction £ 000	Total £ 000
<b>Cost or valuation</b>					
At 26 March 2017	17,136	263,981	19,518	7,299	307,934
Additions	-	1,201	116	9,473	10,790
Disposals	-	(386)	(104)	(1,621)	(2,111)
Disposal of subsidiary	(6,088)	(130,990)	(3,182)	(3,509)	(143,769)
Reclassification	3,456	(18,740)	1,403	9,362	(4,519)
Transfers from assets in course of construction	-	5,480	1,264	(6,744)	-
Transfer from/(to) Group Companies	-	(751)	-	(1,580)	(2,331)
At 31 March 2018	14,504	119,795	19,015	12,680	165,994
<b>Depreciation</b>					
At 26 March 2017	4,842	185,094	10,399	-	200,335
Charge for the period	206	11,615	4,293	-	16,114
Eliminated on disposal	-	(280)	(99)	-	(379)
Eliminated on disposal of subsidiary	(403)	(106,866)	(2,966)	-	(110,235)
Reclassification	2,114	(8,101)	1,468	-	(4,519)
Transfers from/(to) Group Companies	-	(224)	-	-	(224)
At 31 March 2018	6,759	81,238	13,095	-	101,092
<b>Carrying amount</b>					
At 31 March 2018	7,745	38,557	5,920	12,680	64,902
At 26 March 2017	12,294	78,887	9,119	7,299	107,599

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 15 Investments in subsidiaries, joint ventures and associates

	31 March 2018 £ 000	25 March 2017 £ 000
Investments in subsidiaries	2	2
<b>Subsidiaries</b>		<b>£ 000</b>
<b>Cost or valuation</b>		
At 26 March 2017		2
Additions		18,929
Disposals		(18,929)
At 31 March 2018		2
<b>Provision</b>		
At 26 March 2017		-
Eliminated on disposal		-
At 31 March 2018		-
<b>Carrying amount</b>		
At 31 March 2018		2
At 26 March 2017		2

On 29 March 2018 the Company completed the sale of Portals De La Rue Limited to Whickerco Limited, a company owned by EPIRIS Fund II.

#### Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows. Unless otherwise stated all Group owned shares are ordinary:

Name of undertaking	Country of incorporation	Nature of business	Proportion of voting rights and shares held
De La Rue (Guernsey) Limited	Channel Islands	Non-trading	100%
<i>PO Box 142, The Beehive, Rohais, St Peter Port, GY1 3HT, Guernsey</i>			
De La Rue Consulting Services Limited	UK	Trading	100%
<i>De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS</i>			
De La Rue Commercial Services Limited	Nigeria	Trading	100%
<i>7<sup>th</sup> Floor, Marble House, 1 Kingsway Road, Ikoyi, Lagos, Nigeria</i>			
De La Rue Global Services (SA)(Pty) Limited	South Africa	Trading	100%
<i>3<sup>rd</sup> Floor, 54 Melrose Boulevard, Melrose Arch, Gauteng, 2196, South Africa</i>			



## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 16 Other investments

On 29 March 2018 the Company completed the sale of Portals De La Rue Limited to EPIRIS Fund II. Under the terms of the agreement the Company received £6.6m in loan notes issued by the purchaser. £2.6m was immediately converted to a preference share holding and £0.2m to an ordinary shareholding of 10% in Mooreco Limited, a parent company of the purchaser. These instruments will be repaid or redeemed on the earlier of their contractual life or a sale or liquidity event.

#### 17 Deferred tax

Deferred tax assets relate to the following:

	31 March 2018	25 March 2017
	£ 000	£ 000
Timing differences between capital allowances and depreciation	(723)	(3,481)
Other short term timing differences	682	1,237
Hedge reserves	72	(504)
Pension	14,895	40,290
	<u>14,926</u>	<u>37,542</u>

A further deferred tax asset has not been recognised in relation to capital losses (£300m) as there is insufficient evidence that this asset will be recovered.

#### 18 Stocks

	31 March 2018	25 March 2017
	£ 000	£ 000
Raw materials and consumables	8,459	17,154
Work in progress	5,970	15,090
Finished goods and goods for resale	8,248	20,207
Goods in transit	173	2,525
	<u>22,850</u>	<u>54,976</u>

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 19 Debtors

	31 March 2018 £ 000	25 March 2017 £ 000
Trade debtors	53,060	66,041
Amounts owed by Group undertakings	439,834	380,194
Other debtors	5,769	3,810
Taxation and social security	1,526	-
Prepayments and accrued income	18,150	19,245
Corporation tax	4,011	-
Total current trade and other debtors	<u>522,350</u>	<u>469,290</u>

Amounts owed by Group undertakings are unsecured and interest bearing. Interest rates charges on group loans with subsidiaries are based on the appropriate currency LIBOR rate and an interest margin determined by the creditworthiness of the borrower.

Debtors includes £426,460,000 (2017 - £364,523,000) receivable after more than one year. These represent amounts owed by group undertakings.

#### 20 Cash and cash equivalents

	31 March 2018 £ 000	25 March 2017 £ 000
Cash on hand	11	5
Cash at bank	<u>173,753</u>	<u>56,692</u>
	<u>173,764</u>	<u>56,697</u>

#### 21 Creditors

	Note	31 March 2018 £ 000	25 March 2017 £ 000
<b>Due within one year</b>			
Payments received on account		22,053	19,493
Loans and borrowings		75,563	54,100
Trade creditors		30,718	41,530
Amounts due to Group undertakings		131,528	15,440
Social security and other taxes		4,461	2,247
Other payables		2,960	3,984
Accrued expenses		55,498	70,763
Derivative financial instruments	30	3,799	7,187
Deferred income		14,081	172
Corporation tax		-	69
		<u>340,661</u>	<u>214,985</u>

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 21 Creditors (continued)

	Note	31 March 2018 £ 000	25 March 2017 £ 000
<b>Due after one year</b>			
Derivative financial instruments	30	73	434
Amounts owed to Group Undertakings		-	54,137
Payments received on account		-	1,338
		<u>73</u>	<u>55,909</u>

Amounts owed to group undertakings are interest bearing, unsecured and can be repaid early at the request of the lender. Interest rate charges on group loans with subsidiaries are based on the appropriate currency LIBOR rate and an interest margin determined by the creditworthiness of the borrower.

#### 22 Provisions for liabilities

	Restructuring & reorganisation £ 000	Warranties £ 000	Other provisions £ 000	Total £ 000
At 26 March 2017	548	6,958	1,167	8,673
Additional provisions	251	4,466	2,001	6,718
Provisions used	(548)	(6,644)	(667)	(7,859)
Unused provision reversed	-	(3,026)	-	(3,026)
At 31 March 2018	<u>251</u>	<u>1,754</u>	<u>2,501</u>	<u>4,506</u>

Restructuring and reorganisation provisions principally relate to the manufacturing footprint review announced in December 2015. These provisions include amounts for staff compensation and site exit costs which are expected to be utilised within one year.

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 but can be reliably estimated based on previous experience. 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 one year.

Other provisions comprise a number of liabilities with varying expected utilisation rates. As part of the disposal accounting for the sale of Portals De La Rue Limited to EPIRIS Fund II on 29<sup>th</sup> March 2018, an amount of £0.7m has been recognised for the potential amount payable under the recompense contract clause. The utilization for this is expected after one year. Other provisions also include an amount of £1.3m in relation to a onerous contract that was not transferred as part of the sale of Cash Processing Solutions Limited. The expected utilisation of this is after one year.

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 23 Pension and other schemes

##### Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £8.9m (2017: £8.8m).

##### Defined benefit pension schemes

The pension rights of the Company employees are dealt with through a self administered scheme, the assets of which are held independently of the Company's finances. The scheme is a defined benefit scheme and is closed to future accrual. The Company is a participating employer. The Group has adopted a policy whereby the scheme funding and deficit are recorded in this Company, the main UK trading subsidiary of the Group, which pays all contributions to the scheme and hence are shown in these Company accounts.

The Group's formal triennial funding valuation of the UK defined benefit pension scheme was finalised in June 2016. The underlying funding deficit as at 5 April 2015 was valued at £252m. The Group agreed a revised funding plan with the Trustee to eliminate the deficit over a period of 12 years from 31 March 2016. The plan will see the existing funding payment schedule extended from 2022 to 2028.

The cash contributions to the scheme of £13.5m (in addition to the regular contributions outside of the revised funding plan) have been made in the current year and £20.5m will be made in 2019 and then rising by 4% per annum to 2022. It will be frozen at £23.0m per year between 2023 and 2028. In the year ended 31 March 2018, the Group made funding payments and management fees totalling £15.3m. The Group will continue to pay annual fees of £1.6m for managing the scheme in addition to the cash contributions. The next triennial funding valuation is due in April 2018.

In November 2017 the Trustee of the Defined Benefit Scheme decided to change indexation of future increases to the Defined Benefit Scheme benefits from the Retail Prices Index ('RPI') to the Consumer Prices Index ('CPI'), effective from April 2018. The decision was made following a request from the Company and a detailed legal review upon which the Trustee concluded that CPI is currently a more suitable index for the calculation of annual increases in the Scheme. This change led to a past service credit of £80.5m. The directors continue to assess any residual impact from this change.

The amounts recognised in the statement of financial position are as follows:

	31 March 2018 £ 000	25 March 2017 £ 000
Fair value of scheme assets	980,000	974,500
Present value of defined benefit obligation	(1,067,618)	(1,211,500)
Defined benefit pension scheme deficit	(87,618)	(237,000)

# De La Rue International Limited

## Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

### 23 Pension and other schemes (continued)

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	31 March 2018 £ 000
Present value at start of period	(1,211,500)
Interest cost on liabilities	(32,300)
Past service cost	80,500
Effect of gains/losses on liabilities	40,400
Benefits paid	<u>55,300</u>
Present value at end of period	<u>(1,067,600)</u>

Fair value of scheme assets

Changes in the fair value of scheme assets are as follows:

	31 March 2018 £ 000
Fair value at start of period	974,500
Interest income	26,700
Return on plan assets, excluding amounts included in interest income/(expense)	21,100
Scheme admin expenses	(2,300)
Employer contributions and other income	15,300
Benefits paid	<u>(55,300)</u>
Fair value at end of period	<u>980,000</u>

Analysis of assets

The major categories of scheme assets are as follows:

	31 March 2018 £m	25 March 2017 £m
Equities	199.9	222.9
Bonds	273.9	270.0
Gilts	-	-
Diversified Growth Fund	208.6	199.4
Liability Driven Investment Fund	230.1	222.2
Multi Asset Credit	52.2	38.1
Other	<u>15.3</u>	<u>21.9</u>
	<u>980.0</u>	<u>974.5</u>

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 23 Pension and other schemes (continued)

	31 March 2018 % <sup>(1)</sup>	25 March 2017 % <sup>(1)</sup>
Equities	20.0	22.9
Bonds	28.0	27.7
Diversified Growth Fund	21.0	20.5
Liability Driven Investment Fund	24.0	22.8
Multi Asset Credit	5.0	3.9
Other	2.0	2.2

<sup>(1)</sup> As a percentage of total scheme assets

#### *Principal actuarial assumptions*

The principal actuarial assumptions at the statement of financial position date are as follows:

	31 March 2018 %	25 March 2017 %
Future pension increases – past service	-	3.65
Discount rate	2.65	2.75
CPI inflation rate	2.00	2.20
RPI inflation rate	3.10	3.30

#### *Post retirement mortality assumptions*

	31 March 2018 Years	25 March 2017 Years
Current UK pensioners at retirement age – male	22.4	22.7
Current UK pensioners at retirement age – female	23.8	24.2
Future UK pensioners at retirement age – male	22.8	23.3
Future UK pensioners at retirement age – female	24.9	25.5

The table below provides the sensitivity of the liability in the scheme to changes in various assumptions:

Assumption change	Approximate impact on Liability
0.25% decrease in discount rate	Increase in liability of c£41m
0.25% increase in CPI inflation rate	Increase in liability of c£17m
Increasing life expectancy by one year	Increase in liability of c£45m

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 24 Share capital and reserves

##### Allotted, called up and fully paid shares

	31 March 2018		25 March 2017	
	No.	£ 000	No.	£ 000
Ordinary share of £1 each	2,000,000	2,000	1	-

On 20 June 2017 the Company issued 1,999,999 ordinary shares at nominal value, for total consideration of £1,999,999.

Ordinary shares have full rights in the Company with respect to voting, dividends and distributions

##### Redeemable preference shares

There are 29,000 redeemable preference shares of CHF 1,000 each authorised. They are redeemable at £Nil per share and carry no voting rights.

#### Reserves

##### *Profit and loss account*

Cumulative profit and loss, net of distributions to owners.

##### *Capital redemption reserve*

With effect from the current financial period, cumulative share based payment charge in relation to equity settled and cash settled option schemes granted in the ultimate parent undertaking De La Rue plc to employees of the Company. Share based payments were previously recharged to subsidiaries and recorded via the intercompany loan account.

##### *Hedge reserve*

This reserve records the portion of any gain or loss on hedging instruments that are determined to be effective cash flow hedges. When the hedge transaction occurs, the gain or loss on the hedging instrument is transferred out of equity to the profit and loss account. If a forecast transaction is no longer expected to occur, the gain or loss on the related hedging instrument previously recognised in equity is transferred to the profit and loss account.

#### 25 Loans and borrowings

	31 March 2018 £ 000	25 March 2017 £ 000
<b>Current loans and borrowings</b>		
Bank overdrafts	75,563	54,100

## **De La Rue International Limited**

### **Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)**

#### **26 Share-based payments**

At 31 March 2018, the a number of Company employees participated in three share settled share option schemes in the shares of De La Rue plc. The Company recognises and measures its share based payment expense on the basis of a reasonable allocation of the expense recognised for the Group.

The required disclosures are therefore included in the consolidated financial statements of De La Rue plc.

#### **Annual Bonus Plan**

Awards under the Annual Bonus Plan are made to Executive Directors of De La Rue plc and selected senior executives within the Group 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.

Sixty per cent of the annual bonus is payable immediately in cash. The remaining forty per cent is payable in deferred shares. Fifty per cent of the share based awards under the Plan vest a minimum period of one year after the cash payout, and the remaining balance of shares two years after the cash payout, 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.

#### **Performance Share Plan**

Awards are made annually to Executive Directors of De La Rue plc and selected senior executives within the Group generally following the announcement of results.

Awards vest after three or four years 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.

#### **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 £500 per month over a period of three years.

There are no performance conditions attached to the options. After the three 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 10 per cent has been assumed on new options granted in the year based on historic experience.



## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 27 Commitments

##### Capital commitments

The total amount contracted for but not provided in the financial statements was £626,550,000 (2017: £2,508,000).

Included is an amount in relation to the sale of Portals De La Rue Limited to EPIRIS Fund II on 29 March 2018.

As part of the transaction Portals De La Rue Limited will supply security paper to meet the De La Rue Group's anticipated internal requirements with pre agreed volumes and price mechanisms for the next 10 years. Based on the terms of the agreement the Group has a capital commitment of approximately £626m over the next 10 years.

#### 28 Contingent liabilities

The De La Rue Group has extensive international operations and is subject to various legal and regulatory regimes, including those covering taxation matters from which, in the ordinary course of business, contingent liabilities can arise. While the outcome of litigation and disputes can never be predicted with certainty, having regard to legal advice received and the insurance arrangements of the Company and its subsidiaries, the Directors believe that adequate provision has been made to cover these matters. The Company also provides guarantees and performance bonds which are issued in the ordinary 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.

#### 29 Financial guarantee contracts

During the period the Group extended the revolving credit facility by two years to a maturity date of December 2021 and also increased the facility size from £250m to £275m. The Company has jointly guaranteed the bank borrowings of Group companies under the Group £275m revolving credit facility. At 31 March 2018, the amount of loans drawn down on the £275m facility is £65.0m (25 March 2017: £132.0m). The amount guaranteed is £275m (2017: £250m).

#### 30 Leases

Total commitments under non cancellable operating leases are as follows:

Land and buildings	2018 £ 000	2017 £ 000
Total commitments due:		
Within one year	1,882	1,647
Between two and five years	6,435	6,588
Over five years	25,438	27,399
	<hr/> 33,755	<hr/> 35,634

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 31 Financial instruments

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The fair value of forward exchange contracts has been determined using quoted forward exchange rates at the balance sheet date. Interest rate swaps are measured by reference to third party bank confirmations and discounted cash flows using the yield curves in effect at the balance sheet date. The fair value of embedded derivatives is calculated based on the present value of forecast future exposures on relevant sales and purchase contracts and using quoted forward foreign exchange rates at the balance sheet date.

The carrying amounts of financial assets and liabilities are all held at fair value through the profit or loss.

The amounts of financial assets held at fair value are as follow:

	31 March 2018 £ 000	31 March 2018 £ 000	25 March 2017 £ 000	25 March 2017 £ 000
	Current	Non Current	Current	Non current
Cash	173,764		56,697	-
Cash flow hedges	1,448	156	4,411	20
Other economic hedges	1,316	51	963	8
Embedded derivatives	366	11	9,647	599
	3,130	218	15,021	627

The amounts of financial liabilities held at fair value are as follow:

	31 March 2018 £ 000	31 March 2018 £ 000	25 March 2017 £ 000	25 March 2017 £ 000
	Current	Non Current	Current	Non current
Unsecured bank loans and overdrafts	75,563		54,100	-
Cash flow hedges	2,835	33	1,425	38
Other economic hedges	375	-	5,087	395
Embedded derivatives	589	40	675	1
	3,799	73	7,187	434

The Company has taken exemption from the requirements to disclose its hedge accounting arrangements as these are included in the consolidated Annual Report of De La Rue plc.

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 32 Immediate and ultimate parent undertaking

The immediate parent undertaking of the Company is De La Rue Holdings Limited 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 for which consolidated group financial statements are prepared. Copies of the Group financial statements are available from the Company secretary, De La Rue plc at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS.

#### 33 Events since the balance sheet date

On 26th October 2018, a landmark pension case involving the Lloyds Banking Group's defined benefit pension schemes was handed down by the High Court. The judgement brings some clarity to defined benefit pension schemes in general and requires schemes to equalise pension benefits between men and women relating to Guaranteed Minimum Pensions (or "GMP"). Based on our preliminary assessment, we estimate the impact of this in relation to the UK defined benefit scheme could be to increase obligations by approximately £2m. We expect this to be recognised as a cost in the Profit and Loss account in the 30 March 2019 financial statements.

Subsequent to the year end, the Group has undertaken a review of its operational structure which will result in restructuring charges of approximately £1,365,000 being recorded in the Profit and Loss account in the 30 March 2019 financial statements.

#### 34 Discontinued operations

Following a 'root and branch' review initiated in November 2015, the Group decided to exit the Cash Processing Solutions business (CPS). As part of this sale the UK trade and assets of CPS were transferred on 3 May 2016 to Cash Processing Solutions Limited, a wholly owned subsidiary of De La Rue Holdings Limited. The sale of the CPS business was completed on 22 May 2016.

CPS is presented as a discontinued operation in the prior period in these financial statements. No UK pension liability transferred upon the disposal.

Profit on disposal of discontinued operations:

	31 March 2018 £ 000	25 March 2017 £ 000
Amounts paid/payable by purchaser	-	21,680
Disposal costs paid/accrued	-	(101)
Net assets and liabilities disposed of	-	(17,613)
	-	3,966

## De La Rue International Limited

### Notes to the Financial Statements for the period from 26 March 2017 to 31 March 2018 (continued)

#### 35 Disposal of paper business

On 26 March 2018 prior to the external sale, the Company transferred the trade and assets of the paper business into a newly created wholly owned subsidiary Portals De La Rue Limited. The paper business does not meet the FRS102 definition of a discontinued operation and as such its results have been included within continuing operations. No pension liability transferred as part of the disposal.

The loss on disposal is shown below:

Loss on disposal of assets:

	31 March 2018 £ 000	25 March 2017 £ 000
Amounts paid/payable by purchaser	58,384	-
Net assets and liabilities disposed of	(65,996)	-
	<u>(7,612)</u>	<u>-</u>

On 29 March 2018 the Company completed the sale of Portals De La Rue Limited to Whickerco Limited, a company owned by EPIRIS Fund II, resulting in a loss on disposal as shown below.

Loss on disposal of investment:

	31 March 2018 £ 000	25 March 2017 £ 000
Amounts paid/payable by purchaser	7,746	-
Cost of investment disposed of	(18,929)	-
	<u>(11,183)</u>	<u>-</u>

A total loss on disposal of £18,795,000 has been recognised.