

De La Rue International Limited

(Registered Number: 00720284)

Annual Report and Financial Statements

For the period ended 29 March 2014

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Strategic Report

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 building on the Company's proven 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, enabled by its cash generative business model. 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.

The Company is also a holding company and as such its objective is to ensure that the carrying value of the investments is appropriate as well as ensuring that the investments maximise the Company's shareholder returns. During the year no adjustments for the provision for impairment on investments were made (2013: £1,274,000 provision increase), and no dividends were received from investments (2013: £4,902,000). 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 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.

Business Review

The Company manages its operations on a divisional basis.

Currency

Banknote print volume was similar to the prior year while banknote paper output volume was up 10 per cent despite the continuing overcapacity in the banknote paper market. Revenue grew largely due to increased direct banknote paper and component sales. In addition the average price of banknotes sold was higher than in the corresponding period albeit below the historic average for this mix of work. Underlying operating profit improved principally reflecting the benefits from the ongoing cost reduction programme together with the positive impact of the higher revenues.

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).

Strategic Report (continued)

Cash Processing Solutions (CPS)

The CPS business performance was disappointing with reduced revenues mainly reflecting reduced large sorter sales and a reduction in service revenue. The lower revenue and increased machine trial costs on prospective orders resulted in a reduction in the underlying operating profit.

Security Products

Revenue grew mainly due to increased passport and other security paper volumes. Underlying operating profit increased mainly reflecting the benefits of the Improvement Plan and the full year effect of reduced costs following the relocation of manufacturing from Dunstable to the Gateshead factory.

Identity Systems (IDS)

The IDS business performed strongly throughout the year. Although revenue declined, largely as the corresponding period included one off sales in relation to the HM Passport Office regional office roll out project, underlying operating profit increased. The increase in underlying operating profit reflects a strong performance across all operations largely generated by further operating efficiencies and within the International part of the business, an unusually high number of longer term contracts completed in the year.

Outlook and future developments

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

Currency

The global demand for banknotes continues to grow on average by approximately 4 per cent annually, although the rate of growth for individual countries will vary; reflecting local economic circumstances. The demand for banknotes and the substrates on which they are printed is largely satisfied by state print works (SPW), state paper mills (SPM) and a small number of commercial manufacturers such as De La Rue. As well as the supply of finished banknotes to central banks and substrates to SPWs, De La Rue also supplies security components that SPWs and SPMs can incorporate directly into their products.

Variability in demand is a feature of the market, with short term fluctuations in the timing and size of orders, including overspill, reflecting the decisions taken by central banks. This has the potential to create material volume variation year on year.

Key factors affecting banknote issuance by central banks are note retirement, changes in the underlying level of GDP, and changes in using cash as a means of payment. Of these, note retirement is the most important and is affected by:

- The timing and frequency of changes in note design
- Changes in cash circulation policy and technology
- Growth in automated cash handling requiring notes to be in good condition
- Changes in 'clean note' policy
- Changes in denomination structure
- The introduction of new anti-counterfeiting security features

Strategic Report (continued)

Cash Processing Solutions (CPS)

The cash processing industry is a mature market with a number of suppliers providing a variety of different products to manage and control the handling of cash. Cash processing is an essential aspect of the currency lifecycle as it assists in maintaining the authentication and integrity of all cash in circulation. In addition, to guarantee the quality of currency there is a market requirement within banknote print works for end of line inspection and processing of printed banknotes.

With the increasing volumes of cash in circulation, both central and commercial banks are under pressure to provide efficient, secure cash processing solutions. Using sophisticated vault software and hardware solutions, much of the process can be automated while also providing the data and controls needed to minimise cost and ensure the quality and integrity of the notes processed.

De La Rue addresses these needs with its advanced cash sorting machines, market leading vault management software, and single note inspection systems. De La Rue supports and maintains customer solutions via a global network of engineers, often working at customer sites.

Security Products

Security Products' customers fall into two broad categories: governments and commercial brand owners, both of which continue to come under attack from criminal activity.

Governments continue to work hard to protect indirect tax revenues on products such as alcohol and tobacco by minimising illicit trade. By 2013, 168 countries were signed up to the World Health Organization Framework Convention on Tobacco Control, which is committed to eliminating illicit trade in tobacco products. This will require governments to apply unique and secure codes onto cigarette packs and also the ability to track and trace the products through the supply chain. De La Rue is strongly placed to address this market having delivered its flexible track and trace solution for several customers.

Revenue loss from counterfeit goods remains a real threat to global brands and consumer confidence. Advanced technology within labels, linked to digital authentication and tracking solutions, ensure brands are protected and that consumers can be confident of buying genuine products. Contracts are often secured on a multi-year basis. This means that while sales cycles may be long, once contracts are secured, the business benefits from a good degree of continuity. Growth in security products will come from building share in the currently fragmented market and opportunities offered by increasing demand for government revenue solutions.

Strategic Report (continued)

Identity Systems (IDS)

The passport and identity market is increasingly seeking complete integrated solutions, with highly secure passports and ID cards, full integration with other government systems and processes and efficient and reliable personalisation and issuance procedures. Countries continue to adopt ePassports, which is driving not only the demand for further system integration, but also the need for expertise to manage the project efficiently and without undue risk.

De La Rue is a leading provider of passport and ID solutions and continues to deliver complex projects globally. It is able to offer an in-house passport design and production capability as well as issuance and passport personalisation systems. Additionally, De La Rue's experienced project managers are well versed in complex system roll out and integration projects.

Identity Systems is a contract based business focused 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. To maintain market position it is key that De La Rue continues to provide value to its customers through efficient manufacturing and market leading design and security features.

Key performance indicators

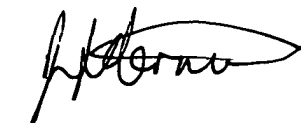
The Directors monitor and manage the performance of the Company against its published financial statements and against key performance indicators (KPIs). The KPIs of the Company are revenue and operating profit, which can be found on page 11 and volumes, which are described in the Business Reviews above. Details of the Group's KPIs, which includes the Company, are set out in the Strategic Report section on pages 10 to 11 of the 2014 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 21 to 23 of the 2014 Annual Report of De La Rue plc. These do not form part of this report.

On behalf of the Board



J F Hermans
Secretary
11 September 2014

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

Directors' Report

The Directors submit their report together with the audited financial statements of the Company for the period 31 March 2013 to 29 March 2014.

Result and dividends

De La Rue International Limited (the "Company") is an intermediate subsidiary of De La Rue plc.

The Directors report a profit on ordinary activities after taxation amounting to £47,857,000 (2013: £23,192,000). No interim dividend was paid during the period (2013: £nil) and the retained profit for the period of £47,857,000 was transferred to reserves (2013: £23,192,000). The Directors do not recommend the payment of a final dividend.

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 £13,697,000 was charged to the profit and loss account in respect of research, development and design (2013: £9,073,000). Key innovations are disclosed in the Strategic Report section of the 2014 Annual Report of De La Rue plc, which does not form part of this report.

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 25 to 28 of the 2014 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'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, 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.

Directors' Report (continued)

Political donations

There were no political donations made in the year (2013: £nil).

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 auditor

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 auditor is 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 auditor is aware of that information.

Auditors

KPMG Audit Plc resigned as auditor on 11 October 2013 pursuant to section 516 of the Companies Act 2006. On 21 October 2013 the Shareholders appointed KPMG LLP as auditor of the Company to fill the casual vacancy as auditor under section 485(3) of the Companies Act 2006. KPMG LLP has indicated its willingness to continue in office.

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

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 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).

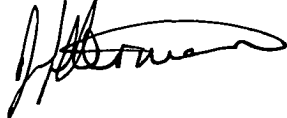
Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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.

On behalf of the Board



J F Hermans
Secretary

11 September 2014

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 29 March 2014 set out on pages 11 to 35. 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 Statement of Directors' Responsibilities 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

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 29 March 2014 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 Strategic Report and 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.

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Ian Bone
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London
E14 5GL

11 September 2014

Profit and Loss Account For the period ended 29 March 2014

		2014	2013
	Note	£'000	£'000
Turnover	3	495,505	442,676
Operating profit	4,5,6	58,271	23,519
Comprising:			
Operating profit before exceptional items	5	58,759	30,442
Exceptional items	6	(488)	(6,923)
Income from fixed asset investments		-	4,902
Profit on ordinary activities before interest and taxation		58,271	28,421
Interest receivable and similar income	7	1,067	966
Interest payable and similar charges	8	(1,542)	(1,350)
Profit on ordinary activities before taxation		57,796	28,037
Taxation on profit on ordinary activities	9	(9,939)	(4,845)
Profit for the financial period	23	47,857	23,192

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

Statement of Total Recognised Gains and Losses For the period ended 29 March 2014

	2014	2013
	£'000	£'000
Profit for the financial period	47,857	23,192
Currency translation differences	(364)	3
Total gains and losses recognised since last financial statements	47,493	23,195

The notes on pages 13 to 35 form part of these financial statements.

Balance Sheet at 29 March 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	113,143	96,943
Investments	12	3,711	3,711
		116,854	100,654
Current assets			
Stocks	14	55,462	47,156
Debtors – amounts due within one year	15	91,890	81,046
Debtors – amounts due after one year	16	285,768	935,621
Deferred tax asset	17	-	315
Cash at bank and in hand		59,031	32,078
		492,151	1,096,216
Creditors – amounts falling due within one year	18	(199,613)	(211,025)
Net current assets		292,538	885,191
Total assets less current liabilities		409,392	985,845
Creditors – amounts falling due after more than one year	19	(76,365)	(694,033)
Provisions for liabilities and charges	20	(19,626)	(25,904)
Net assets		313,401	265,908
Capital and reserves			
Called up share capital	21	152,000	152,000
Profit and loss account	23	161,401	113,908
Equity shareholders' funds	24	313,401	265,908

Approved by the Board on 11 September 2014



C C Child
Director

The notes on pages 13 to 35 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 29 March 2014, being the last Saturday in March. The comparatives for the 2013 financial period are for the period ended 30 March 2013.

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 notwithstanding the uncertainty as to the outcome of the paper production issues discussed in note 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 (FRS) 1. The Company is also exempt under the terms of FRS 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 to the Financial Statements (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

Company turnover 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.

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, 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 turnover on a bill-and-hold basis.

Turnover 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.

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.

Notes to the Financial Statements (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

Intellectual property and 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 4% 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 to the Financial Statements (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 major schemes are defined benefit pension funds with assets held separately from the Group. The major defined benefit pension funds are based in the UK and are now closed to future accrual, with all members being deferred members or pensioners. 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 to the Financial Statements (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 Messrs C C Child, E H D Peppiatt and J F Hermans were employed by De La Rue plc, Mr K A Robinson was 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 companies. Their emoluments are dealt with in those companies' financial statements.

Notes to the Financial Statements (continued)

3 Turnover

Turnover by business segment is analysed below:

	2014 £'000	2013 £'000
Currency	373,041	305,423
CPS	15,685	28,534
Security Products	35,414	31,085
IDS	71,365	77,634
	495,505	442,676

Turnover by sales destination is analysed below:

	2014 £'000	2013 £'000
United Kingdom	108,801	109,906
Rest of Europe	88,037	70,374
Rest of World	298,667	262,396
	495,505	442,676

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.

4 Operating costs

Operating profit is stated after the following operating cost charges:

	2014 £'000	2013 £'000
Cost of sales	415,912	385,199
Distribution costs	12,005	11,716
Administrative expenses	8,829	15,319
Exceptional costs (note 6)	488	6,923
Operating costs	437,234	419,157

Notes to the Financial Statements (continued)

5 Operating profit (excluding exceptional items)

	2014 £'000	2013 £'000
Operating profit is stated after the following amounts have been charged/(credited):		
Staff costs		
- Wages and salaries	85,437	85,623
- Social security costs	8,714	8,497
- Other pension costs	19,060	22,849
- Share based payment expense	62	1,936
Depreciation of tangible fixed assets		
- purchased	13,942	13,730
Auditor's remuneration		
- statutory audit of this Company	146	143
- other services	-	-
- tax services	-	-
Operating leases		
- hire of plant and machinery	245	398
Research and development	13,697	9,073
Loss/(profit) on disposal of fixed assets	1,408	(1)

Notes to the Financial Statements (continued)

6 Exceptional items

	2014 £'000	2013 £'000
Site relocation and restructuring	3,962	6,923
Multi year contract bid costs	995	-
Gain on sale of assets	(4,469)	-
	488	6,923

Exceptional costs of £4.0m have been incurred in 2013/14 mainly in connection with the ongoing costs of implementing the Improvement Plan (2012/13: £6.9m). This brings the cumulative exceptional charges taken in respect of the Improvement Plan to a total of £34.5m.

In addition, £1.0m of charges were incurred in connection with the preparation of bids for the supply of products or services under multi year arrangements. These costs were partly offset by a gain on sale of fixed assets of £4.5m.

7 Interest receivable and similar income

	2014 £'000	2013 £'000
Interest receivable from Group undertakings	858	893
Other interest receivable	27	73
Foreign exchange gains on translation of Group loans	182	-
	1,067	966

8 Interest payable and similar charges

	2014 £'000	2013 £'000
Interest payable on Group undertakings	1,062	1,321
Foreign exchange losses on translation of Group loans	-	25
Other interest payable	480	4
	1,542	1,350

Notes to the Financial Statements (continued)

9 Taxation on profit on ordinary activities

	2014 £'000	2013 £'000
Current tax		
UK corporation tax at 23% (2013: 24%)	8,630	3,676
Prior year (over)/under provision	(479)	1,104
Foreign tax	406	29
	8,557	4,809
Deferred tax		
Origination and reversal of timing differences	1,590	597
Change in tax rate	(160)	14
Prior year movement	(48)	(575)
	1,382	36
Total tax charge on ordinary activities	9,939	4,845

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2013: lower) than the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below.

	2014 £'000	2013 £'000
Current tax reconciliation		
Profit on ordinary activities before taxation	57,796	28,037
Expected tax charge at 23% / 24%	13,293	6,729
Effects of:		
Non taxable dividends received	-	(1,176)
Permanent differences	(1,790)	866
Origination and reversal of timing differences	(1,590)	(598)
Foreign tax	406	29
Prior year adjustments	(479)	1,104
Group relief not paid for	(1,283)	(2,145)
Total current tax charge	8,557	4,809

The main rate of UK corporation tax will be reduced to 21% from April 2014 and 20% from April 2015. These amendments were substantively enacted on 2 July 2013.

Deferred tax has been recognised at a rate of 20% reflecting the rate that was substantively enacted at the balance sheet date. A deferred tax asset has not been recognised in relation to capital losses (£309m) as there is insufficient evidence that this asset will be recovered.

Notes to the Financial Statements (continued)

10 Intangible assets

	Goodwill £'000	Intellectual property rights £'000	Distribution rights £'000	Total £'000
Cost or valuation				
At 30 March 2013 & 29 March 2014	3,164	1,047	314	4,525
Accumulated amortisation				
At 30 March 2013 & 29 March 2014	3,164	1,047	314	4,525
Net book value				
At 30 March 2013 & 29 March 2014	-	-	-	-

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 30 March 2013	8,953	245,585	19,153	9,868	283,559
Transfer from/(to) Group Companies	-	(1,367)	10	-	(1,357)
Transfers from assets in the course of construction	6,006	23,280	3,156	(32,442)	-
Additions	-	1,657	561	32,880	35,098
Disposals	-	(41,484)	(113)	(1,561)	(43,158)
At 29 March 2014	14,959	227,671	22,767	8,745	274,142
Accumulated depreciation					
At 30 March 2013	2,052	172,352	12,212	-	186,616
Transfer from/(to) Group Companies	-	(1,411)	2	-	(1,409)
Provision for the period	593	11,663	1,686	-	13,942
Disposals	-	(38,043)	(107)	-	(38,150)
At 29 March 2014	2,645	144,561	13,793	-	160,999
Net book value					
At 30 March 2013	6,901	73,233	6,941	9,868	96,943
At 29 March 2014	12,314	83,110	8,974	8,745	113,143

Notes to the Financial Statements (continued)

12 Investments

	£'000
Cost or valuation	
At 30 March 2013 & 29 March 2014	5,387
Provisions for impairment	
At 30 March 2013 & 29 March 2014	1,676
Net book value	
At 30 March 2013 & 29 March 2014	3,711

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 (Proprietary) 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 to the Financial Statements (continued)

14 Stocks

	2014 £'000	2013 £'000
Raw materials	16,061	18,961
Work in progress	13,410	11,838
Finished goods and spares	25,926	16,201
Goods in transit	65	156
	55,462	47,156

15 Debtors - amounts due within one year

	2014 £'000	2013 £'000
Trade debtors	71,037	55,208
Amounts owed by Group undertakings	12,043	13,969
Taxation and social security	98	120
Other debtors	1,618	692
Prepayments and accrued income	7,094	11,057
	91,890	81,046

16 Debtors - amounts due after one year

	2014 £'000	2013 £'000
Amounts owed by Group undertakings	285,768	935,621
	285,768	935,621

Notes to the Financial Statements (continued)

17 Deferred taxation

Deferred tax (provision)/asset relate to the following:

	2014	2013
	£'000	£'000
Timing differences between capital allowances and depreciation	(4,304)	(3,803)
Other short term timing differences	3,237	4,118
Deferred Tax (liability)/asset	(1,067)	315

The movement on the deferred taxation account is explained as follows:

	£'000
At 30 March 2013	315
Amount charged to the profit and loss account for the period	(1,382)
At 29 March 2014	(1,067)

18 Creditors - amounts falling due within one year

	2014	2013
	£'000	£'000
Bank loans and overdrafts	47,283	63,613
Payments received on account	28,897	39,744
Trade creditors	36,798	25,014
Amounts owed to Group undertakings	23,659	27,179
Other creditors	13,231	7,357
Taxation and social security	4,947	3,723
Deferred tax liability	1,067	-
Accruals and deferred income	43,242	44,018
Share based payment accrual	489	377
	199,613	211,025

Amounts owed to Group undertakings are unsecured.

Notes to the Financial Statements (continued)

19 Creditors - amounts falling due after more than one year

	2014 £'000	2013 £'000
Amounts owed to Group undertakings	60,187	677,832
Other creditors	16,178	16,196
Obligations under finance leases:		
- Between one and two years	-	5
- Between two and five years	-	-
	76,365	694,033

Amounts owed to Group undertakings are unsecured. These amounts are repayable within 5 years.

20 Provisions for liabilities and charges

	Restructuring & reorganisations £'000	Warranty provisions £'000	Other £'000	Total £'000
At 30 March 2013	10,214	14,515	1,175	25,904
Provided in the period	2,085	4,489	1,724	8,298
Utilised in the period	(3,449)	(2,096)	(88)	(5,633)
Released in the period	(4,083)	(4,860)	-	(8,943)
Reclassification	-	(826)	826	-
At 29 March 2014	4,767	11,222	3,637	19,626

Restructuring and reorganisation provisions represent amounts principally provided in 2011/12 for various reorganisations, in Currency and Security Products, involving the closure of two sites and the relocation of manufacturing activity to our facilities in 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 one year. Warranty provisions include £4.7m in respect of the 2010 paper production quality issues described in note 27, which are expected to be utilised within one year.

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

Notes to the Financial Statements (continued)

21 Called up share capital

	2014	2013
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
	2014	2013
	£'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 29 March 2014, De La Rue International Limited employees participate in three 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 the Company's participation in share based compensation plans are set out in the table below:

	Expenses recognised for the period		Liability at end of period	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Annual Bonus Plan	329	437	-	-
Deferred Bonus and Matching Share Plan	-	(602)	-	-
Performance Share Plan	(841)	1,775	-	-
Savings Related Share Option Scheme	574	326	-	-
	62	1,936	-	-

Notes to the Financial Statements (continued)

22 Share Based Payments (continued)

Arrangement	Performance Share Plan	Savings related share option scheme
Dates of current year grants	4 Dec 2013	3 Dec 2013
Number of options granted	27,996	486,149
Exercise price	n/a	705.7p
Contractual life (years)	3	3 or 5
Settlement	Shares	Shares
Vesting period (years)	3	3 or 5
Dividend yield	n/a	5.0%
Fair value per option at grant date	892.9p	135p for 3 year plan 137p for 5 year plan

An expected volatility rate of 20 per cent (2012/13: 30 per cent) has been used for grants in the period. This rate is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life. The rate applied during the year was 1.1 or 1.9 per cent depending on the vesting period.

Reconciliations of option movements over the period to 29 March 2014 for each class of options are shown below.

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.

Notes to the Financial Statements (continued)

22 Share Based Payments (continued)

Annual Bonus Plan (continued)

	2014 Number of options '000	2013 Number of options '000
Options outstanding at start of period	161	69
Granted	-	103
Forfeited	(12)	(8)
Exercised	(56)	(3)
Transferred to another Group company	-	-
Expired	-	-
Outstanding at end of period	93	161
Exercisable at period end	-	-

The 2012/13 share allocation was based on a share price of 984.5p.

Deferred Bonus and Matching Share Plan

The Plan options outstanding were exercised or expired in the comparative year. The Plan is now closed.

	2014 Number of options '000	2013 Number of options '000
Options outstanding at start of period	-	65
Exercised	-	(29)
Expired	-	(36)
Outstanding at end of period	-	-
Exercisable at period end	-	-

Notes to the Financial Statements (continued)

22 Share Based Payments (continued)

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.

	2014	2013
	Number of	Number of
	options	options
	'000	'000
Options outstanding at start of period	746	611
Granted	122	233
Forfeited	(29)	(82)
Exercised	(75)	(13)
Transferred to another Group company	-	(3)
Expired	-	-
Outstanding at end of period	764	746
Exercisable at period end	-	-

The awards have been allocated based on a share price of 991.1p for the 10 July 2012 grants and 892.9p for the 4 December 2013 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.

Notes to the Financial Statements (continued)

22 Share Based Payments (continued)

Savings Related Share Option Scheme (continued)

	2014 Number of Options '000	2014 Weighted average exercise price per share	2013 Number of Options '000	2013 Weighted average exercise price per share
Options outstanding at start of period	1,610	527.07	1,646	510.89
Granted	486	705.70	221	775.34
Forfeited	(106)	628.32	(90)	523.54
Exercised	(748)	457.79	(151)	710.23
Transferred (to) / from another Group company	(5)	1,064.30	1	444.14
Expired	(9)	552.60	(17)	623.02
Outstanding at end of period	1,228	635.02	1,610	527.07
Exercisable at period end	-	-	-	-

The range of exercise prices for the share options outstanding at the end of the period is 444.14p – 819.55p (2013: 444.14p – 819.55p). The weighted average remaining contractual life of the outstanding share options is a period of 3.5 years, ending 1 September 2017 (2013: 1 September 2015).

23 Reserves

	Profit And Loss Account 2014 £'000
At 30 March 2013	113,908
Currency translation differences	(364)
Profit for the financial period	47,857
Dividends payable	-
At the end of the period	161,401

Notes to the Financial Statements (continued)

24 Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Profit for the financial period	47,857	23,192
Share based payments expense	(62)	(1,936)
Capital contribution in respect of share based payment expense	62	1,936
Other recognised (losses)/gains relating to the period (net)	(364)	3
Net increase in shareholders' funds	47,493	23,195
Opening shareholders' funds	265,908	242,713
Dividends	-	-
Closing shareholders' funds	313,401	265,908

25 Particulars of employees

	2014 Number	2013 Number
The average number of persons employed by the Company during the period was:		
United Kingdom	2,017	1,936
Rest of the world	13	8
	2,030	1,944

26 Capital commitments

	2014 £'000	2013 £'000
The following capital commitments existed at the balance sheet date:		
Contracted but not provided for in the financial statements	9,256	17,973

Notes to the Financial Statements (continued)

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 has been made in prior years 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 are 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 to the Financial Statements (continued)

28 Leases

	2014 £'000	2013 £'000
Annual commitments under non cancellable operating leases are:		
Land and buildings		
Leases expiring:		
- Within one year	775	-
- Between two and five years	-	746
- After five years	2,756	4,159
Others		
Leases expiring:		
- Within one year	78	68
- Between two and five years	1	17
- 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 Group's defined benefit pension scheme took place on 5 April 2012 and identified the Scheme to have a deficit of £180.0m (5 April 2009: £204.0m). Details of the latest actuarial valuations and the assumptions underlying them are contained in the financial statements of De La Rue plc.

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 2013/14, the Group made special funding payments of £11.5m (2012/13: £16.2m) to the Group pension fund. Total pension costs for the Company were £19,060,000 (2013: £22,849,000).

Notes to the Financial Statements (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 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.