19 April 2018

Rt Hon Frank Field MP  
Chair  
Work and Pensions Committee  
House of Commons  
London  
SW1A 0AA

Dear Mr Field

I am writing in response to your letter dated 4 April 2018, concerning the loss of the UK Passport contract and its implications on the De La Rue Pension Scheme.

I wanted to take the opportunity to respond to your questions in two ways; firstly, to give you an update on the actions we have taken recently relating to the Pension Scheme. Secondly, to address your specific concern around the impact of the loss of the UK Passport contract.

The Board recognises its obligations and shares the concerns with both the Trustees and the Scheme members that the fund has been in deficit and that deficit was growing despite more than £200m contributed to the Scheme between 2008 and 2017. Consequently the Company and the Trustees set up a Joint Working Group in April 2017 to specifically look at how the deficit could be best tackled. The working group will continue to meet and examine opportunities to better manage the fund’s assets and liabilities until the scheme is fully funded.

The Company has taken concerted action to strengthen the balance sheet. As you rightly point out both the pension deficit and net debt has grown in the period 2011-2017. I am therefore pleased to report that in our accounts being currently audited we expect to be able to report that:

As at 31 March 2018 (unaudited):

- Net debt has fallen to £55.0m from £120.9m (in March 2017)
- The pension deficit has fallen to c£100m from £239.4m (in March 2017)

I think you will agree that this demonstrates we have taken definitive actions around these key issues in the last twelve months.
With these dramatic improvements already delivered in both net debt and pension deficit, let me address your questions relating to the loss of the HMPO contract:

- The Company does not believe this loss will impact its ability to fund the agreed annual cash contributions agreed at the last triennial valuation in 2015. The next triennial valuation is underway now with the results expected in the Summer/Autumn of 2018. The Company will review the affordability of its obligations to both the shareholders and the Pension Scheme as a matter of course once it has the outcome of the latest valuation round.

- Whilst we have lost the contract, it is due to end at the end of July 2019 and there will be a transition period of up to 12 months thereafter. That means there is no profit impact for at least the next full financial year, and possibly for the next full 2 years. That allows the Company time to mitigate the contribution lost from the UK Passport contract.

- The Company sold Portals DLR Limited for net cash proceeds of £61m in March 2018. This activity deleverages our balance sheet and strengthens the covenant of the Company. The funds will be used to invest in our identified growth areas. We have been very explicit that the money will not be returned to shareholders. It is not our current intention to use the funds to pay down the pension deficit unless the triennial valuation mentioned above would indicate that this is necessary (which is not our current expectation).

I hope this successfully addresses your concerns, but would be happy to follow up if you had further questions.

Yours sincerely

Martin Sutherland  
Chief Executive