Notes to the accounts

1 Segmental analysis

The Group has two business units, Currency and Solutions. Currency is a single operating unit. Solutions consists of three operating units: Cash Processing Solutions, Security Products and Identity Systems. The Board, which is the Group's chief operating decision maker, monitors the performance of the Group at an operating unit level and there are therefore four reportable segments. The principal financial information reviewed by the Board, is revenue and operating profit before exceptional items, measured on an IFRS basis.

The Group's segments are:

Currency
- Provides printed banknotes, banknote paper and banknote security components

Solutions
- Cash Processing Solutions – primarily focused on the production of large banknote sorters and authentication machines for central banks, complementing the Currency business
- Security Products – produces security documents, including authentication labels, brand licensing products, government documents, cheques and postage stamps
- Identity Systems – involved in the provision of passport, ePassport, national ID and eID, driving licence and voter registration schemes

Inter-segmental transactions are carried out on an arms length basis and eliminated upon consolidation.

		Solutions				
2014	Currency £m	Cash Processing Solutions £m	Security Products £m	Identity Systems £m	Unallocated £m	Total £m
Total revenue	342.7	57.4	46.2	77.6	–	523.9
Less: inter-segment revenue	(1.9)	(4.2)	(4.5)	–	–	(10.6)
Revenue	340.8	53.2	41.7	77.6	–	513.3
Underlying operating profit/(loss)	62.0	(4.1)	10.6	22.0	–	90.5
Defined benefit pension administration cost					(1.2)	(1.2)
Exceptional items – operating (note 3)	0.5	(16.9)	1.3	–	(2.4)	(17.5)
Operating profit/(loss)	62.5	(21.0)	11.9	22.0	(3.6)	71.8
Net interest expense					(4.7)	(4.7)
Retirement benefit obligations net finance expense					(7.3)	(7.3)
Profit before taxation						59.8
Segment assets	247.7	35.6	26.4	39.8	133.4	482.9
Segment liabilities	(133.0)	(11.4)	(7.7)	(21.9)	(379.3)	(553.3)
Capital expenditure on property, plant and equipment	35.2	0.6	1.4	1.7	–	38.9
Capital expenditure on intangible assets	1.9	2.5	2.2	0.1	–	6.7
Depreciation of property, plant and equipment	17.1	1.3	2.0	3.4	–	23.8
Impairment of property, plant and equipment	–	3.6	–	–	–	3.6
Amortisation of intangible assets	1.3	2.7	–	0.5	–	4.5
Impairment of intangible assets	–	10.6	–	–	–	10.6

Unallocated assets principally comprise deferred tax assets of £37.5m (2012/13: £45.5m), cash and cash equivalents of £57.9m (2012/13: £24.8m) which are used as part of the Group's financing offset arrangements and derivative financial instrument assets of £2.7m (2012/13: £4.9m) as well as current tax assets, associates and centrally managed property, plant and equipment.

Unallocated liabilities principally comprise retirement benefit obligations of £168.0m (2012/13: £169.1m), borrowings of £147.8m (2012/13: £101.5m), current tax liabilities of £27.6m (2012/13: £29.1m) and derivative financial instrument liabilities of £7.3m (2012/13: £5.1m) as well as deferred tax liabilities and centrally held accruals and provisions.

1 Segmental analysis continued

2013*	Currency £m	Solutions: Cash Processing Solutions £m	Solutions: Security Products £m	Solutions: Identity Systems £m	Unallocated £m	Total £m
Total revenue	298.1	61.2	45.1	84.4	–	488.8
Less: inter-segment revenue	(1.9)	–	(3.2)	–	–	(5.1)
Revenue	296.2	61.2	41.9	84.4	–	483.7
Underlying operating profit	38.0	–	8.9	16.3	–	63.2
Defined benefit pension administration cost					(1.7)	(1.7)
Exceptional items – operating (note 3)	(1.8)	–	(2.1)	–	(3.7)	(7.6)
Operating profit/(loss)	36.2	–	6.8	16.3	(5.4)	53.9
Net interest expense					(3.6)	(3.6)
Retirement benefit obligations net finance expense					(6.6)	(6.6)
Profit before taxation						43.7
Segment assets	220.8	49.3	21.8	45.5	106.5	443.9
Segment liabilities	(112.2)	(21.9)	(8.9)	(23.8)	(343.7)	(510.5)
Capital expenditure on property, plant and equipment	33.3	1.7	6.8	0.4	–	42.2
Capital expenditure on intangible assets	3.1	1.0	–	0.1	–	4.2
Depreciation of property, plant and equipment	17.6	1.8	0.9	3.1	–	23.4
Amortisation of intangible assets	1.3	1.0	–	0.6	–	2.9

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

Analysis of revenue by activity

	2014 £m	2013 £m
Goods	**476.2**	446.1
Services	**37.1**	37.6
	513.3	483.7

Geographic analysis of revenue by origin

	2014 £m	2013 £m
UK	**428.1**	386.3
Other countries	**85.2**	97.4
	513.3	483.7

Geographic analysis of non-current assets

	2014 £m	2013 £m
UK	**142.0**	132.5
Malta	**26.7**	31.0
Sri Lanka	**18.5**	20.2
Other countries	**15.2**	22.1
	202.4	205.8

Deferred tax assets and derivative financial instruments are excluded from the analysis shown above.

Major customers

The Group has no major customer from which it derived revenues of greater than 10 per cent in 2013/14 (2012/13: £52.1m in the Identity Systems operating unit).

Notes to the accounts continued

2 Expenses by nature

	2014 £m	2013 £m
Cost of inventories recognised as an expense	**155.5**	112.0
Net decrease in impairment of inventories	**(1.4)**	(1.1)
Depreciation of property, plant and equipment	**23.8**	23.4
Asset impairment charge	**14.2**	–
Amortisation of intangibles	**4.5**	2.9
Operating leases:		
– Hire of plant and equipment	**1.0**	1.0
– Hire of property	**3.4**	3.8
Amounts payable to KPMG and its associates:		
– Audit of these consolidated financial statements	**0.2**	0.1
– Audit of the financial statements of subsidiaries pursuant to legislation	**0.3**	0.4
– Taxation services	**0.3**	0.1
– Other	**0.1**	–
Research and non-capitalised development expense	**11.1**	10.4
(Profit)/loss on disposal of property, plant and equipment	**(4.0)**	0.3
Employee costs (including Directors' emoluments) (note 23)	**151.0**	158.7
Foreign exchange losses	**0.6**	1.9

3 Exceptional items

Exceptional items are disclosed separately in the financial statements where the Directors consider it necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

	2014 £m	2013 £m
Site relocation and restructuring	**(3.5)**	(7.6)
Legacy indirect tax issues	**(2.2)**	–
Multi year contract bid costs	**(1.1)**	–
Professional fees on aborted acquisition	**(1.0)**	–
Gain on sale of fixed assets	**4.5**	–
Asset impairment	**(14.2)**	–
Exceptional items in operating profit	**(17.5)**	(7.6)
Tax credit on exceptional items	**4.2**	6.5

Exceptional costs of £3.5m have been incurred in 2013/14 in connection with the ongoing costs of implementing the Improvement Plan (2012/13: £7.6m). This brings the cumulative exceptional charges taken in respect of the Improvement Plan to a total of £35.2m.

In addition, £1.1m of charges were incurred in connection with the preparation of bids for the supply of products or services under multi year arrangements, £2.2m of charges with regard to the resolution of an overseas historic indirect tax liability, £1.0m of legal and professional fees incurred in relation to an aborted acquisition and £14.2m in relation to tangible and intangible asset impairments. These costs were partly offset by a gain on sale of fixed assets in the year of £4.5m. The net cash cost of exceptional items in the year was £4.0m.

Following a detailed review of the individual cash generating units within the CPS business and the performance of the business as a whole, impairment charges of £14.2m (£7.4m; development intangibles, £3.2m; goodwill intangibles and £3.6m; tangible assets) have been recognised. This is a consequence of lower expectations of future trading performance, informed by the poor trading result reported in the current financial year. These lower expectations, and hence lower forecast cash inflows, reflect the benefit of the targeted breakeven plan for 2014/15 but also recognise the continuing challenging environment for CPS.

The £3.5m exceptional operating charge with respect to the Improvement Plan reported in 2013/14 (2012/13: £7.6m) comprised £1.5m (2012/13: £0.8m) in staff compensation, £nil (2012/13: £0.2m) of accelerated depreciation on property, plant and equipment, £0.7m credit (2012/13: £4.3m charge) for site exit costs and £2.7m (2012/13: £2.3m) in other associated reorganisation costs.

Tax credits relating to exceptional items arising in the period were £0.9m (2012/13: £2.1m). In addition there was an exceptional credit of £3.3m (2012/13: £4.4m) in respect of the determination of the tax treatment of prior year exceptional items, of which £1.7m credit related to discontinued operations.

4 Interest income and expense

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

	2014 £m	2013* £m
Recognised in the income statement		
Interest income:		
– Cash and cash equivalents	**0.2**	0.2
Interest expense:		
– Bank overdrafts	**(0.6)**	(0.4)
– Bank loans	**(3.4)**	(2.6)
– Other, including amortisation of finance arrangement fees	**(0.9)**	(0.8)
Total interest expense calculated using the effective interest method	**(4.9)**	(3.8)
Retirement benefit obligation net finance expense (note 22)	**(7.3)**	(6.6)

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

All finance income and expense arises in respect of assets and liabilities not restated to fair value through the income statement.

The gain to the income statement in respect of the ineffective portion of derivative financial instruments was £nil (2012/13: £nil).

5 Taxation

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences 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 realised or the liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill, not deductible for tax purposes, or 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.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

Deferred tax assets and deferred tax liabilities are only offset to the extent that there is a legally enforceable right to offset current tax assets and current tax liabilities, they relate to taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis or to realise an asset and settle a liability simultaneously.

5 Taxation continued

	2014 £m	2013* £m
Consolidated income statement		
Current tax		
UK corporation tax:		
– Current tax	**12.4**	8.2
– Adjustment in respect of prior years	**(0.7)**	(3.8)
	11.7	4.4
Overseas tax charges:		
– Current year	**3.6**	3.9
– Adjustment in respect of prior years	**(2.9)**	(1.0)
	0.7	2.9
Total current income tax expense	**12.4**	7.3
Deferred tax:		
– Origination and reversal of temporary differences, UK	**0.9**	(3.1)
– Origination and reversal of temporary differences, overseas	**(1.4)**	1.3
Total deferred tax credit	**(0.5)**	(1.8)
Total income tax expense in the consolidated income statement	**11.9**	5.5
Attributable to:		
– Ordinary activities	**16.1**	12.0
– Exceptional items	**(4.2)**	(6.5)
Consolidated statement of comprehensive income:		
– On remeasurement of net defined benefit liability	**4.7**	(5.6)
– On cash flow hedges	**(0.7)**	0.3
– On foreign exchange on quasi-equity balances	**0.5**	(0.2)
Income tax expense/(credit) reported within other comprehensive income	**4.5**	(5.5)
Consolidated statement of changes in equity:		
– On share options	**0.3**	(0.6)
Income tax expense/(credit) reported within equity	**0.3**	(0.6)

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 23 per cent as follows:

	2014			2013*		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Profit before tax	**77.3**	**(17.5)**	**59.8**	51.3	(7.6)	43.7
Tax calculated at UK tax rate of 23 per cent (2012/13: 24 per cent)	**17.8**	**(4.0)**	**13.8**	12.3	(1.8)	10.5
Effects of overseas taxation	**(1.8)**	**–**	**(1.8)**	(0.7)	–	(0.7)
Expenses/(credits) not allowable for tax purposes	**0.6**	**1.3**	**1.9**	1.3	(0.3)	1.0
Increase in unutilised tax losses	**0.5**	**1.7**	**2.2**	0.3	–	0.3
Adjustments in respect of prior years	**(0.1)**	**(3.3)**	**(3.4)**	(1.1)	(4.4)	(5.5)
Change in UK tax rate	**(0.9)**	**0.1**	**(0.8)**	(0.1)	–	(0.1)
Tax expense/(credit)	**16.1**	**(4.2)**	**11.9**	12.0	(6.5)	5.5

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

The underlying effective tax rate excluding exceptional items was 20.8 per cent (2012/13: 23.4 per cent).

6 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted for the impact of the dilutive effect of share options.

The Directors are of the opinion that the publication of the underlying earnings per share, before exceptional items, is useful to readers of the accounts as it gives an indication of underlying business performance.

	2014 pence per share	2013* pence per share
Earnings per share		
Basic earnings per share	**47.3**	37.4
Diluted earnings per share	**47.0**	36.9
Underlying earnings per share		
Basic earnings per share	**60.7**	38.5
Diluted earnings per share	**60.2**	38.0

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

Earnings

	2014 £m	2013* £m
Earnings for basic and diluted earnings per share	**47.3**	37.2
Exceptional items	**17.5**	7.6
Less: Tax on exceptional items	**(4.2)**	(6.5)
Earnings for underlying earnings per share	**60.6**	38.3

Weighted average number of ordinary shares

	2014 Number m	2013 Number m
For basic earnings per share	**99.9**	99.6
Dilutive effect of share options	**0.7**	1.1
For diluted earnings per share	**100.6**	100.7

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

7 Equity dividends

Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the annual general meeting. Interim dividends are recognised in the period that they are paid.

	2014 £m	2013 £m
Final dividend for the period ended 30 March 2013 of 28.2p paid on 1 August 2013	**28.1**	–
Interim dividend for the period ended 28 September 2013 of 14.1p paid on 8 January 2014	**14.1**	–
Final dividend for the period ended 31 March 2012 of 28.2p paid on 2 August 2012	**–**	28.1
Interim dividend for the period ended 29 September 2012 of 14.1p paid on 9 January 2013	**–**	14.0
	42.2	42.1

A final dividend per equity share of 28.2p has been proposed for the period ended 29 March 2014. If approved by shareholders the dividend will be paid on 1 August 2014 to ordinary shareholders on the register at 4 July 2014.

8 Property, plant and equipment

Property, plant and equipment are stated at cost or valuation, less accumulated depreciation and any accumulated provision for impairment in value. Assets in the course of construction are included in property, plant and equipment on the basis of expenditure incurred at the balance sheet date.

No depreciation is provided on freehold land. Freehold and long leasehold buildings are depreciated over their estimated useful economic lives of 50 years. Other leasehold interests are depreciated over the lesser of the unexpired period of the lease and 50 years.

The Group's policy is to write off the cost or valuation of all other plant and equipment evenly over their estimated remaining useful life at rates which vary between 4 per cent and 50 per cent per annum. The principal annual rate of depreciation used is 10 per cent on plant and machinery and on fixtures and fittings. No depreciation is provided for assets in the course of construction.

Depreciation methods, residual values and useful lives are reviewed at least at each financial year end, taking into account commercial and technical obsolescence as well as normal wear and tear, provision being made where the carrying value exceeds the recoverable amount.

Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

	Notes	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	In course of construction £m	Total £m
Cost						
At 31 March 2012		60.2	320.2	23.9	15.8	420.1
Exchange differences		0.2	1.2	0.1	–	1.5
Additions		0.4	6.5	1.4	33.9	42.2
Transfers from assets in the course of construction		0.4	25.7	3.8	(29.9)	–
Disposals		(1.3)	(15.8)	(2.9)	(0.3)	(20.3)
At 30 March 2013		59.9	337.8	26.3	19.5	443.5
Exchange differences		(0.4)	(4.6)	(0.5)	(0.1)	(5.6)
Additions		–	3.0	0.6	35.3	38.9
Transfers from assets in the course of construction		6.1	24.3	3.8	(35.8)	(1.6)
Disposals		–	(8.3)	(1.0)	(0.2)	(9.5)
At 29 March 2014		**65.6**	**352.2**	**29.2**	**18.7**	**465.7**
Accumulated depreciation						
At 31 March 2012		23.9	217.2	18.1	–	259.2
Exchange differences		0.1	0.8	0.1	–	1.0
Depreciation charge for the year		1.6	19.9	1.9	–	23.4
Disposals		(1.3)	(15.7)	(2.8)	–	(19.8)
At 30 March 2013		24.3	222.2	17.3	–	263.8
Exchange differences		(0.2)	(3.8)	(0.4)	–	(4.4)
Depreciation charge for the year		1.5	19.7	2.6	–	23.8
Impairment	9	2.2	0.5	0.9	–	3.6
Disposals		–	(4.7)	(0.7)	–	(5.4)
At 29 March 2014		**27.8**	**233.9**	**19.7**	**–**	**281.4**
Net book value at 29 March 2014		**37.8**	**118.3**	**9.5**	**18.7**	**184.3**
Net book value at 30 March 2013		35.6	115.6	9.0	19.5	179.7
Net book value at 31 March 2012		36.3	103.0	5.8	15.8	160.9

9 Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any impairment losses.

Goodwill arising on consolidation represents the excess of the fair value of consideration transferred in a business combination over the Group's share of the fair value of identifiable assets, liabilities and contingent liabilities of the business acquired at the date of acquisition.

After initial recognition, goodwill is not amortised and is stated at cost less any accumulated impairment losses. At the date of acquisition, the goodwill is allocated to cash generating units for the purpose of impairment testing and is tested annually for impairment or when there are indications of impairment. Any impairment loss is recognised immediately in the income statement and is not subsequently reversed.

Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business. Goodwill arising on the acquisition of subsidiaries is presented in goodwill, and goodwill arising on the acquisition of associates is presented in investments in associates. Internally generated goodwill is not recognised as an asset. Goodwill arising on acquisitions before 27 March 2004 (the date of transition to IFRS) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Intangible assets purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost less accumulated amortisation and impairment losses. Software intangibles are amortised on a straight line basis over the shorter of their useful economic life or their licence period at rates which vary between three and five years. Expenditure incurred in the development of products or enhancements to existing product ranges is capitalised as an intangible asset only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured. Development costs not meeting these criteria are expensed in the income statement as incurred. Capitalised development costs are amortised on a straight line basis over their estimated useful economic lives, which vary between 5 and 10 years, once the product or enhancement is available for use. Product research costs are written off as incurred.

Distribution rights are capitalised at cost less accumulated amortisation and impairment losses and are amortised over their useful economic lives as determined by the life of the products to which they relate.

	Goodwill £m	Development costs £m	Software assets £m	Distribution rights £m	Total £m
Cost					
At 31 March 2012	8.2	19.2	8.7	0.4	36.5
Exchange differences	0.2	0.5	–	–	0.7
Additions	–	3.4	0.8	–	4.2
Disposals	–	–	–	–	–
At 30 March 2013	8.4	23.1	9.5	0.4	41.4
Exchange differences	(0.4)	(1.0)	–	–	(1.4)
Additions	–	6.3	0.4	–	6.7
Transfers from assets in the course of construction	–	1.6	–	–	1.6
Disposals	–	(0.2)	(0.6)	–	(0.8)
At 29 March 2014	**8.0**	**29.8**	**9.3**	**0.4**	**47.5**
Accumulated amortisation					
At 31 March 2012	0.5	4.3	7.1	0.4	12.3
Exchange differences	0.1	0.1	–	–	0.2
Amortisation for the year	–	1.9	1.0	–	2.9
Disposals	–	–	–	–	–
At 30 March 2013	0.6	6.3	8.1	0.4	15.4
Exchange differences	(0.1)	(0.3)	(0.1)	–	(0.5)
Amortisation for the year	–	3.9	0.6	–	4.5
Impairment	3.2	7.4	–	–	10.6
Disposals	–	–	(0.6)	–	(0.6)
At 29 March 2014	**3.7**	**17.3**	**8.0**	**0.4**	**29.4**
Carrying value at 29 March 2014	**4.3**	**12.5**	**1.3**	**–**	**18.1**
Carrying value at 30 March 2013	7.8	16.8	1.4	–	26.0
Carrying value at 31 March 2012	7.7	14.9	1.6	–	24.2

9 Intangible assets continued

Impairment testing

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet ready for use, the recoverable amount is estimated at each reporting date.

Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. In addition, goodwill is tested at least annually for impairment. Impairment tests are performed for all Cash Generating Units (CGUs) to which goodwill has been allocated at the balance sheet date or whenever there is indication of impairment. For all other intangible assets, an impairment test is performed whenever an indicator of impairment exists.

An impairment loss is recognised immediately in the income statement for the amount by which the asset's carrying value exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use and, in the case of goodwill, is not subsequently reversed. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

For other intangible assets, at each balance sheet date an assessment is made to determine whether there is any indication that an impairment loss recognised in prior periods may no longer exist or has decreased. Where such an indication exists, an impairment loss is reversed to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill is allocated to the Group's CGUs identified according to business segment and country of operation.

A segment level summary of the goodwill allocation is presented below:

	2014 £m	2013 £m
Currency	**4.3**	4.3
Cash Processing Solutions (CPS)	**–**	3.5
	4.3	7.8

The majority of the goodwill relates to the acquisition of CSI Inc in 2001 which was allocated to Currency and CPS on the basis that the acquired business generated synergies for both CGUs.

As a result of the worsening trading performance of the CPS operation reported in 2013/14, in addition to the annual review of the intangible goodwill, the value of the CPS CGU as a whole has been tested for impairment. Following this review, impairment charges of £14.2m were recorded with respect to the CPS operation. Of the total charge, £3.2m related to goodwill, £7.4m to development intangible assets and £3.6m was allocated to property, plant and equipment across the CPS business.

The estimates of recoverable amounts are based on value in use calculations which utilise cash flow projections covering a five year period using the latest projections approved by management plus a terminal value. Cash flows beyond the period covered by the projections have been held constant. The key assumptions underlying these projections are summarised below:

(a) Currency: The volume and price of orders secured, particularly in respect of banknotes and banknote papers, are based on a combination of the current order book and past experience, taking into account:

(i) Expectations in respect of economic growth and the banknote circulation policies of central banks

(ii) The Group's knowledge of its customer base, gained through its long standing relationships with them

(b) CPS: Unit sales of medium and large sorters and the extent of maintenance service income generated from these sales are based on a combination of orders on hand, past experience and expectations of future demand

The pre-tax discount rate used for Currency was 13 per cent (2012/13: 13 per cent) and for Cash Processing Solutions was 10 per cent (2012/13: 13 per cent). The discount rates applied take into account the Group's weighted average cost of capital, the relative risks associated with the CGUs' operations and the level of risk inherent in the forward projections.

The Directors do not consider there to be any reasonably possible change in assumptions that would result in a different conclusion being reached with regards to the impairment of the CPS CGU, or the recoverable amount being below the carrying amount of the Currency CGU.

10 Inventories

Inventories and work in progress are valued at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis and comprises directly attributable purchase and conversion costs, including direct labour and an allocation of production overheads based on normal operating capacity that have been incurred in bringing those inventories to their present location and condition. Net realisable value is the estimated selling price less estimated costs of completion and selling costs.

	2014 £m	2013 £m
Raw materials	**25.7**	27.3
Work in progress	**22.2**	25.7
Finished goods	**29.2**	20.4
	77.1	73.4

The replacement cost of inventories is not materially different from original cost.

Provisions of £0.6m recognised in pre-exceptional operating expenses were made against inventories in 2013/14 (2012/13: £1.4m). The Group also reversed provisions of £2.0m (2012/13: £2.5m), being provisions against inventory that was subsequently utilised or sold.

11 Trade and other receivables

Trade and other receivables are measured at carrying value less any impairment, which approximates to fair value.

	2014 £m	2013 £m
Trade receivables	**97.3**	82.6
Provision for impairment	**(3.4)**	(4.5)
Net trade receivables	**93.9**	78.1
Other receivables	**7.1**	6.5
Prepayments	**4.0**	4.6
	105.0	89.2

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, internationally dispersed.

The ageing of trade and other receivables (excluding prepayments) at the reporting date was:

	Gross 2014 £m	Impairment 2014 £m	Gross 2013 £m	Impairment 2013 £m
Not past due	**66.9**	**–**	62.2	–
Past due 0-30 days	**15.5**	**(0.2)**	13.9	–
Past due 31-120 days	**13.6**	**(0.6)**	8.2	(0.9)
Past due more than 120 days	**8.4**	**(2.6)**	4.8	(3.6)
	104.4	**(3.4)**	89.1	(4.5)

The provision for impairment in respect of trade receivables is used to record losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the financial asset directly.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2014 £m	2013 £m
Balance at beginning of year	**(4.5)**	(4.7)
Impairment losses recognised	**(0.9)**	(1.9)
Impairment losses reversed	**2.0**	2.1
Balance at end of year	**(3.4)**	(4.5)

Amounts can go past due before collection in situations where the customer may have raised queries over contractual compliance. Such issues arise in the normal course of business and are routinely addressed to the satisfaction of the customer. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and analysis of customer credit risk, including underlying customers' credit ratings if they are available.

12 Financial risk

Financial risk management

Overview

The Group's activities expose it to a variety of financial risks, the most significant of which are liquidity risk, market risk and credit risk.

The Group's financial risk management policies are established and reviewed regularly to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The use of financial derivatives is governed by the Group's risk management policies approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group's treasury department is responsible for the management of these financial risks faced by the Group.

Group treasury identifies, evaluates and in certain cases hedges financial risks in close cooperation with the Group's operating units. Group treasury provides written principles for overall financial risk management as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, use of derivative financial instruments and the investment of excess liquidity.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities where due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages this risk by ensuring that it maintains sufficient levels of committed borrowing facilities and cash and cash equivalents. The level of headroom needed is reviewed annually as part of the Group's planning process.

A maturity analysis of the carrying amount of the Group's borrowings is shown below in the reporting of financial risk section together with associated fair values.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The Group uses a range of derivative instruments, including forward contracts and swaps to hedge its risk to changes in foreign exchange rates and interest rates with the objective of controlling market risk exposures within acceptable parameters, while optimising the return. Derivative financial instruments are only used for hedging purposes.

(a) Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, unrecognised firm commitments and investments in foreign operations.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts, transacted with Group treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Group treasury is responsible for managing the net position in each currency via foreign exchange contracts transacted with financial institutions.

The Group's risk management policy aims to hedge firm commitments and between 60 per cent and 100 per cent of forecast exposures in each major currency for the subsequent 12 months to the extent that forecast transactions are highly probable.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The Group's policy is to manage the currency exposure arising from the net assets of the Group's foreign operations primarily through borrowings denominated in the relevant foreign currencies and through foreign currency swaps.

The Group's policy is not to hedge net investments in subsidiaries or the translation of profits or losses generated in overseas subsidiaries.

(b) Interest rate risk

All material financial assets and liabilities are maintained at floating rates of interest. Where the Group has forecast average levels of net debt above £50m on a continuing basis, floating to fixed interest rate swaps have been used to fix the interest rate on a minimum of 50 per cent of the Group's forecast average levels of net debt for a period of at least 12 months.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate has less of an influence on credit risk. Geographically, there is no concentration of credit risk. Where appropriate, letters of credit are used to mitigate the credit risk from customers.

The Group has established a credit policy that ensures that sales of products are made to customers with an appropriate credit history. The Group has a policy to procure advance payments during order negotiation which further reduces credit risk. Derivative counterparties and cash transactions are limited to high credit quality financial institutions and the Group has policies that limit the amount of credit exposure to any one financial institution.

12 Financial risk continued

Financial Instruments

Derivative financial instruments are recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The gain or loss on subsequent fair value measurement is recognised in the income statement unless the derivative qualifies for hedge accounting when recognition of any resultant gain or loss depends on the nature of the item being hedged.

Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and are effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the period in which the hedged item also affects the income statement. However, if the hedged item results in the recognition of a non-financial asset or liability, the amounts accumulated in equity on the hedging instrument are transferred from equity and included in the initial measurement of the cost of the asset or liability. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Fair value hedges

For an effective hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in net income. Gains or losses from remeasuring the derivative or, for non-derivatives, the foreign currency component of its carrying value, are recognised in net income.

Embedded derivatives

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. Any unrealised gains or losses on such separated derivatives are reported in the income statement.

Fair values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Fair value measurement basis	**Total fair value 2014 £m**	**Carrying amount 2014 £m**	Total fair value 2013 £m	Carrying amount 2013 £m
Financial assets					
Trade and other receivables*		**101.0**	**101.0**	84.6	84.6
Cash and cash equivalents		**57.9**	**57.9**	24.8	24.8
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**0.7**	**0.7**	3.3	3.3
– Short duration swap contracts designated as fair value hedges	Level 2	**0.1**	**0.1**	0.1	0.1
– Foreign exchange fair value hedges – other economic hedges	Level 2	**1.2**	**1.2**	0.6	0.6
– Embedded derivatives	Level 2	**0.5**	**0.5**	0.9	0.9
– Interest rate swaps	Level 2	**0.2**	**0.2**	–	–
Total financial assets		**161.6**	**161.6**	114.3	114.3
Financial liabilities					
Unsecured bank loans and overdrafts		**(147.8)**	**(147.8)**	(101.5)	(101.5)
Trade and other payables**		**(72.9)**	**(72.9)**	(59.6)	(59.6)
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**(5.0)**	**(5.0)**	(3.5)	(3.5)
– Short duration swap contracts designated as fair value hedges	Level 2	**(0.2)**	**(0.2)**	(0.1)	(0.1)
– Foreign exchange fair value hedges – other economic hedges	Level 2	**(0.1)**	**(0.1)**	(1.3)	(1.3)
– Embedded derivatives	Level 2	**(2.0)**	**(2.0)**	(0.2)	(0.2)
– Interest rate swaps	Level 2	**–**	**–**	–	–
Total financial liabilities		**(228.0)**	**(228.0)**	(166.2)	(166.2)

*Excluding prepayments

**Excluding accrued expenses, deferred income and payments received on account

Fair value measurement basis for derivative 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 valuation bases are classified according to the degree of estimation required in arriving at the fair values. Level 1 valuations are derived from unadjusted quoted prices for identical assets or liabilities in active markets, level 2 valuations use observable inputs for the assets or liabilities other than quoted prices, while level 3 valuations are not based on observable market data and are subject to management estimates.

Forward exchange contracts used for hedging

The fair value of forward exchange contracts has been determined using quoted forward exchange rates at the balance sheet date.

Interest rate swaps

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.

12 Financial risk continued

Embedded derivatives

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.

Determination of fair values of non-derivative financial assets and liabilities

Non-derivative financial assets and liabilities

Non-derivative financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest, are recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred. Non-derivative financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Hedge reserves

The hedge reserve balance on 29 March 2014 was (£3.2m), 30 March 2013: (£0.3m). Net movements in the hedge reserve are shown in the Group statement of changes in equity.

Comprehensive income after tax was £2.9m comprising a gain of £4.2m of fair value movements on new and continuing cash flow hedges, and a £0.6m charge to the income statement to match the recognition of the related cash flows in effective cash flow hedge relationships. Deferred tax on the net gain of £3.6m amounted to £0.7m.

Hedge reserve movements in the income statement were as follows:

	Revenue £m	Operating expense £m	Interest expense £m	Total £m
29 March 2014				
– Maturing cash flow hedges	**(0.3)**	**(0.3)**	**–**	**(0.6)**
– Ineffectiveness on de-recognition of cash flow hedges	**–**	**–**	**–**	**–**
	(0.3)	**(0.3)**	**–**	**(0.6)**
30 March 2013				
– Maturing cash flow hedges	0.5	(2.6)	–	(2.1)
– Ineffectiveness on de-recognition of cash flow hedges	–	–	–	–
	0.5	(2.6)	–	(2.1)

The ineffective portion of fair value hedges that was recognised in the income statement amounted to £nil (2012/13: £nil). The ineffective portion of cash flow hedges that was recognised in the income statement was £nil (2012/13: £nil).

Liquidity risk

The following are the contractual undiscounted cash flow maturities of financial liabilities, including contractual interest payments and excluding the impact of netting agreements.

29 March 2014	**Due within 1 year £m**	**Due between 1 and 2 years £m**	**Due between 2 and 5 years £m**	**Total undiscounted cash flows £m**	**Impact of discounting and netting £m**	**Carrying amount £m**
Non-derivative financial liabilities						
Unsecured bank loans and overdrafts	**147.8**	**–**	**–**	**147.8**	**–**	**147.8**
Derivative financial liabilities						
Gross amount payable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	**119.6**	**7.6**	**0.9**	**128.1**	**(123.1)**	**5.0**
– Short duration swap contracts designated as fair value hedges	**34.4**	**–**	**–**	**34.4**	**(34.2)**	**0.2**
– Fair value hedges – other economic hedges	**9.6**	**1.3**	**–**	**10.9**	**(10.8)**	**0.1**
Interest rate swaps	**–**	**–**	**–**	**–**	**–**	**–**
	311.4	**8.9**	**0.9**	**321.2**	**(168.1)**	**153.1**

30 March 2013	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Total undiscounted cash flows £m	Impact of discounting and netting £m	Carrying amount £m
Non-derivative financial liabilities						
Unsecured bank loans and overdrafts	101.5	–	–	101.5	–	101.5
Derivative financial liabilities						
Gross amount payable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	(9.1)	(4.3)	(2.5)	(15.9)	19.4	3.5
– Short duration swap contracts designated as fair value hedges	8.2	–	–	8.2	(8.1)	0.1
– Fair value hedges – other economic hedges	59.3	–	–	59.3	(58.0)	1.3
Interest rate swaps	–	–	–	–	–	–
	159.9	(4.3)	(2.5)	153.1	(46.7)	106.4

12 Financial risk continued

The following are the contractual undiscounted cash flow maturities of financial assets, including contractual interest receipts and excluding the impact of netting agreements.

29 March 2014	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Total undiscounted cash flows £m	Impact of discounting and netting £m	Carrying amount £m
Non-derivative financial assets						
Cash and cash equivalents	**57.9**	**–**	**–**	**57.9**	**–**	**57.9**
Derivative financial assets						
Gross amount receivable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	**34.9**	**2.8**	**–**	**37.7**	**(37.0)**	**0.7**
– Short duration swap contracts designated as fair value hedges	**14.9**	**–**	**–**	**14.9**	**(14.8)**	**0.1**
– Fair value hedges – other economic hedges	**84.7**	**3.4**	**0.4**	**88.5**	**(87.3)**	**1.2**
Interest rate swaps	**–**	**0.2**	**–**	**0.2**	**–**	**0.2**
	192.4	**6.4**	**0.4**	**199.2**	**(139.1)**	**60.1**

30 March 2013	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Total undiscounted cash flows £m	Impact of discounting and netting £m	Carrying amount £m
Non-derivative financial assets						
Cash and cash equivalents	24.8	–	–	24.8	–	24.8
Derivative financial assets						
Gross amount receivable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	89.9	0.3	–	90.2	(86.9)	3.3
– Short duration swap contracts designated as fair value hedges	34.0	–	–	34.0	(33.9)	0.1
– Fair value hedges – other economic hedges	30.9	–	–	30.9	(30.3)	0.6
Interest rate swaps	–	–	–	–	–	–
	179.6	0.3	–	179.9	(151.1)	28.8

The fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedged item is less than 12 months.

As at 29 March 2014, the Group has a total of undrawn committed borrowing facilities, all maturing in more than one year, of £53.9m (30 March 2013: £93.0m in more than one year). The amount of loans drawn on the £200m facility is £146.1m (30 March 2013: £98.4m). Guarantees of £nil (30 March 2013: £8.9m) have been drawn using the facility.

Forward foreign exchange contracts

The net principal amounts of the outstanding forward foreign exchange contracts at 29 March 2014 are US dollar 20.2m, euro 5.7m, Swiss franc (20.0m), Japanese yen (1.2bn), and Canadian dollar (1.0m).

The net principal amounts outstanding under forward contracts with maturities greater than 12 months are euro 1.4m, US dollar 5.0m and Japanese yen (0.6bn). These forward contracts are designated as cash flow hedges or fair value hedges as appropriate.

Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts at 29 March 2014 will be released to the income statement at various dates between one month and 30 months from the balance sheet date.

Short duration swap contracts

(i) Cash management swaps

The Group uses short duration currency swaps to manage the level of borrowings in foreign currencies. The fair value of cash management currency swaps at 29 March 2014 was £nil (2012/13: £nil). Gains and losses on cash management swaps are included in the consolidated income statement.

The principal amounts outstanding under cash management currency swaps at 29 March 2014 are US dollar 8.1m, euro 5.4m, Canadian dollar 1.3m, Swiss franc (10.9m), South African rand 9.8m, Australian dollar (1.6m), Singapore dollar 1.0m, and Japanese yen (0.3bn).

(ii) Balance sheet swaps

The Group uses short duration currency swaps to manage the translational exposure of monetary assets and liabilities denominated in foreign currencies. The fair value of balance sheet swaps as at 29 March 2014 was (£0.1m) (2012/13: £nil). Gains and losses on balance sheet swaps are included in the consolidated income statement.

The principal amounts outstanding under balance sheet swaps at 29 March 2014 are US dollar 23.2m, euro (10.4m), Swiss franc (3.8m), South African rand 11.4m, and Mexican peso (50.2m).

Embedded derivatives

Embedded derivatives relate to sales and purchase contracts denominated in currencies other than the functional currency of the customer/supplier, or a currency that is not deemed to be a commonly used currency of the country in which the customer/supplier is based. The net fair value of embedded derivatives at 29 March 2014 was (£1.5m) (2012/13: £0.7m).

Gains and losses on fair value hedges

The gains and losses recognised in the year on the Group's fair value hedges were (£0.1m) relating to balance sheet hedges (2012/13: £nil), £1.4m relating to other fair value hedges (2012/13: (£0.3m)), and £nil relating to cash management hedges (2012/13: £nil).

Notes to the accounts continued

12 Financial risk continued

Market risk: Currency risk

Exposure to currency risk

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2014	2013	**2014**	2013
US dollar	**1.59**	1.58	**1.66**	1.52
Euro	**1.19**	1.22	**1.21**	1.18

Sensitivity analysis

A 10 per cent strengthening of sterling against the following currencies at 29 March 2014 and 30 March 2013 would have increased/(decreased) profit or loss by the amounts shown below, based on the Group's external monetary assets and liabilities.

	2014 £m	2013 £m
US dollar	**1.0**	(0.4)
Euro	**(0.8)**	(1.4)

A 10 per cent weakening of sterling against the above currencies at 29 March 2014 and 30 March 2013 would have had the following effect:

	2014 £m	2013 £m
US dollar	**(1.3)**	0.4
Euro	**1.0**	1.7

The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012/13.

Interest rate risk

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	Carrying amount	
	2014 £m	2013 £m
Variable rate instruments		
Financial assets	**57.9**	24.8
Financial liabilities	**(147.8)**	(101.5)
	(89.9)	(76.7)

During the year ending 29 March 2014 the Group has entered into sterling 39m and US dollar 15m of floating to fixed interest rate swaps with financial institutions and with maturities of January and February 2016.

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit and loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit and loss		Equity	
	100bp increase £m	100bp decrease £m	100bp increase £m	100bp decrease £m
Variable rate instruments cash flow sensitivity (net)				
29 March 2014	**(0.7)**	**0.8**	**–**	**–**
30 March 2013	(0.5)	0.6	–	–

12 Financial risk continued

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the credit exposure at the reporting date. The exposure to credit risk at the reporting date was:

	Notes	Carrying amount 2014 £m	Carrying amount 2013 £m
Trade and other receivables (excluding prepayments)	11	**101.0**	84.6
Cash and cash equivalents	13	**57.9**	24.8
Forward exchange contracts used for hedging		**2.0**	4.0
Embedded derivatives		**0.5**	0.9
Interest rate swaps		**0.2**	–
		161.6	114.3

The maximum exposure to credit risk for trade and other receivables (excluding prepayments) by geographic region was:

	Carrying amount 2014 £m	Carrying amount 2013 £m
UK and Ireland	**13.3**	19.5
Rest of Europe	**13.4**	9.6
The Americas	**11.7**	6.5
Rest of world	**62.6**	49.0
	101.0	84.6

The maximum exposure to credit risk for trade and other receivables (excluding prepayments) by type of customer was:

	Carrying amount 2014 £m	Carrying amount 2013 £m
Banks and financial institutions	**40.5**	44.0
Government institutions	**34.2**	23.4
Distributors	**4.3**	2.6
Retail customers	**0.1**	0.2
End user customers	**13.9**	6.0
Other	**8.0**	8.4
	101.0	84.6

Fair value adjustment to credit risk on derivative contracts

The impact of credit related adjustments being made to the carrying amount of derivatives measured at fair value and used for hedging currency and interest rate risk have been assessed and considered to be immaterial. These derivatives are transacted with investment grade financial institutions. Similarly, the impact of the credit risk of the Group on the valuation of its financial liabilities has been assessed and considered to be immaterial.

12 Financial risk continued

Capital management

The Board's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group finances its operations through a mixture of equity funding and debt financing, which represent the Group's definition of capital for this purpose:

	Note	2014 £m	2013 £m
Total equity attributable to shareholders of the Company		**(75.5)**	(71.3)
Net debt	20	**(89.9)**	(76.7)
Group capital		**(165.4)**	(148.0)

The Group's debt financing is also analysed in notes 16 and 20.

Included within the Group's net debt are cash and cash equivalent balances that are not readily available for use by the Group. These balances are not significant, and are not readily available due to restrictions within some of the countries in which we operate.

Earnings per share and dividend payments are the two measures which, in the Board's view, summarise best whether the Group's objectives regarding equity management are being met. The Group's earnings and dividends per share and relative rates of growth illustrate the extent to which equity attributable to shareholders has changed. Both measures are disclosed and discussed within the strategic report and notes 6 and 7.

The Group's objective is to maximise sustainable long term growth of the earnings per share.

De La Rue's dividend policy is to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to enable the Group to achieve its strategy. The dividend per share objective is monitored against the target of a full year dividend cover of 1.75 times underlying earnings. The proposed total dividend for the year is covered 1.45 times.

The decision to pay dividends, and the amount of the dividends, will depend on, among other things the earnings, financial position, capital requirements, general business conditions, cash flows, net debt levels and share buyback plans.

There were no changes to the Group's approach to capital management during the year.

13 Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash held by the Group and short term deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

	2014 £m	2013 £m
Cash at bank and in hand	**55.7**	24.8
Short term bank deposits	**2.2**	–
	57.9	24.8

An analysis of cash, cash equivalents and bank overdrafts is shown in the Group cash flow statement.

All cash and deposits are of a floating rate nature and are recoverable within three months.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 12.

14 Deferred taxation

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2014 £m	2013 £m
Deferred tax assets	**37.5**	45.5
Deferred tax liabilities	**(1.3)**	(2.8)
	36.2	42.7

The gross movement on the deferred income tax account is as follows:

	2014 £m	2013 £m
Beginning of the year	**42.7**	39.1
Exchange differences	**0.1**	(0.1)
Income statement (charge)/credit	**0.5**	(0.1)
Tax (charged)/credited to equity	**(7.1)**	3.8
End of the year	**36.2**	42.7

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Property, plant and equipment £m	Fair value gains £m	Development costs £m	Other £m	Total £m
Liabilities					
At 31 March 2012	9.0	0.4	1.7	0.2	11.3
Recognised in the income statement	(0.1)	–	0.9	–	0.8
Recognised in equity	–	–	–	–	–
At 30 March 2013	8.9	0.4	2.6	0.2	12.1
Recognised in the income statement	–	(0.1)	(0.1)	(0.2)	(0.4)
Recognised in equity	–	–	–	–	–
At 29 March 2014	**8.9**	**0.3**	**2.5**	**–**	**11.7**

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
Assets					
At 31 March 2012	(2.5)	(35.0)	(1.4)	(11.5)	(50.4)
Recognised in the income statement	(0.7)	(2.3)	0.6	(0.2)	(2.6)
Recognised in equity	(0.5)	(1.7)	–	0.3	(1.9)
Exchange differences	–	–	–	0.1	0.1
At 30 March 2013	(3.7)	(39.0)	(0.8)	(11.3)	(54.8)
Recognised in the income statement	0.8	(1.9)	0.4	0.6	(0.1)
Recognised in equity	0.9	7.0	–	(0.8)	7.1
Exchange differences	–	–	–	(0.1)	(0.1)
At 29 March 2014	**(2.0)**	**(33.9)**	**(0.4)**	**(11.6)**	**(47.9)**

Other deferred assets and liabilities predominantly relate to tax associated with provisions of £3.7m (2012/13: £4.7m) and overseas tax credits of £4.7m (2012/13: £3.9m).

Deferred tax assets are recognised for tax losses available to carry forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group has not recognised deferred tax assets of £1.9m (2012/13: £1.7m) in respect of losses amounting to £7.1m (2012/13: £6.6m) that can be carried forward against future taxable income. Similarly, the Group has not recognised deferred tax assets of £13.6m (2012/13: £15.7m) in respect of overseas tax credits that are carried forward for utilisation in future periods.

Unremitted earnings totalled £492m at 29 March 2014 (2012/13: £483m). Deferred tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries where the timing of the reversal can be controlled and it was considered unlikely that dividends would be paid from those subsidiaries.

UK capital losses of £330.1m are carried forward at 29 March 2014 (2012/13: £330.2m). No deferred tax asset has been recognised in respect of these losses.

UK tax rate

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

This will reduce the UK Group's future current tax charge accordingly. The UK deferred tax assets and liabilities at 29 March 2014 have been calculated based on the rate of 20 per cent substantively enacted at the balance sheet date.

15 Trade and other payables

Trade and other payables are measured at carrying value which approximates to fair value.

	2014 £m	2013 £m
Current liabilities		
Payments received on account	**33.4**	42.7
Trade payables	**43.6**	33.5
Amounts owed to associated companies	**0.1**	0.4
Social security and other taxation	**3.2**	2.1
Deferred income	**4.7**	4.8
Accrued expenses	**59.9**	65.3
Other payables	**26.0**	18.6
	170.9	167.4
Non-current liabilities		
Other payables	**7.2**	5.0
	7.2	5.0

Payments received on account relate to monies received from customers under contract prior to commencement of production of goods or delivery of services.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 12.

16 Borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 12.

	Currency	Nominal interest rate	Year of maturity	Face value 2014 £m	Carrying amount 2014 £m	Face value 2013 £m	Carrying amount 2013 £m
Current liabilities							
Unsecured bank loans and overdrafts	EUR	3.85%	2014	**0.9**	**0.9**	0.6	0.6
Unsecured bank loans and overdrafts	GBP	2.29%	2014	**119.1**	**119.1**	80.2	80.2
Unsecured bank loans and overdrafts	USD	2.05%	2014	**27.1**	**27.1**	18.4	18.4
Unsecured bank loans and overdrafts	Other	–	2014	**0.7**	**0.7**	2.3	2.3
Total interest bearing liabilities				**147.8**	**147.8**	101.5	101.5

In 2013/14, bank overdrafts of £83.5m (2012/13: £97.3m) were pooled for interest purposes against credit balances.

As at 29 March 2014, the Group has committed borrowing facilities, all maturing in more than one year, of £200m. Up to £80m of the £200m facility can be utilised for either loans or guarantees.

As the draw downs on these loans are typically rolled over on terms of between one and three months, the borrowings are disclosed as a current liability. This is notwithstanding the long term nature of this facility which expires in December 2016.

17 Provisions for liabilities and charges

Provisions are recognised when the Group has a present obligation in respect of a past event, it is probable that an outflow of resources will be required to settle the obligation, and where the amount can be reliably estimated. Provisions are measured at the Directors' best estimate of the amount required to settle the obligation at the balance sheet date and are discounted where the time value of money is considered material.

	Restructuring £m	Business disposals £m	Warranty £m	Other £m	Total £m
At 30 March 2013	11.4	0.6	14.8	3.7	30.5
Exchange differences	–	–	–	(0.1)	(0.1)
Charge for the year	2.1	–	4.7	1.8	8.6
Utilised in year	(3.5)	–	(2.2)	(0.3)	(6.0)
Released in year	(4.1)	(0.6)	(4.8)	(0.3)	(9.8)
Reclassification	–	–	(0.8)	0.8	–
At 29 March 2014	**5.9**	**–**	**11.7**	**5.6**	**23.2**
Expected to be utilised within 1 year	4.5	–	11.7	4.9	21.1
Expected to be utilised after 1 year	1.4	–	–	0.7	2.1

Restructuring provisions represent amounts principally provided in 2011/12 for various reorganisations, in Currency and Security Products, involving the closure of three 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 25, 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.

18 Share capital

	2014 £m	2013 £m
Issued and fully paid		
100,718,004 ordinary shares of 44 152/175p each (2012/13: 99,743,705 ordinary shares of 44 152/175p each)	**45.2**	44.7
111,673,300 deferred shares of 1p each (2012/13: 111,673,300 deferred shares of 1p each)	**1.1**	1.1
	46.3	45.8

	2014		2013	
	Ordinary shares '000	**Deferred shares '000**	Ordinary shares '000	Deferred shares '000
Allotments during the year				
Shares in issue at 30 March 2013 / 31 March 2012	**99,744**	**111,673**	99,498	111,673
Issued under Executive Share Option plans	**–**	**–**	2	–
Issued under Savings Related Share Option Scheme	**815**	**–**	159	–
Issued under US Employee Share Purchase Plan	**11**	**–**	14	–
Issued under Deferred Bonus and Matching Share Plan	**–**	**–**	53	–
Issued under Annual Bonus Plan	**75**	**–**	3	–
Issued under Performance Share Plan	**73**	**–**	15	–
Shares in issue at 29 March 2014 / 30 March 2013	**100,718**	**111,673**	99,744	111,673

The deferred shares carry limited economic rights and no voting rights. They are unlisted and are not transferable except in accordance with the articles.

19 Share based payments

The Group operates various equity settled and cash settled option schemes. For equity settled share options, the 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 consolidated income statement, together with a corresponding increase in shareholders' equity, on a straight line basis over the vesting period, based on the numbers of shares that are actually expected to vest, taking into account non-market vesting conditions (including service conditions). Vesting conditions, other than non-market based 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 consolidated income statement 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 in the consolidated income statement.

At 29 March 2014, the Group has a number of share based payment plans, which are described below. These plans have been accounted for in accordance with the fair value recognition provisions of IFRS 2, Share Based Payments, which means that IFRS 2 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 Group's share based plans are set out in the table below:

	Expense recognised for the year		Liability at end of year	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Annual Bonus Plan	**0.5**	0.7	**–**	–
Deferred Bonus and Matching Share Plan	**–**	(1.0)	**–**	–
Performance Share Plan	**(1.4)**	3.6	**–**	–
Recruitment Share Award	**(0.1)**	0.1	**–**	–
Retention Share Award	**(0.1)**	0.1	**–**	–
Savings Related Share Option Scheme	**0.6**	0.3	**–**	–
US Employee Share Purchase Plan	**–**	–	**–**	–
	(0.5)	3.8	**–**	–

The fair value of share options is estimated at the date of grant using a lattice based option valuation model. The significant assumptions used in the valuation model are disclosed below:

Arrangement	Performance Share Plan	Savings Related Share Option Scheme	US Employee Share Purchase Plan
Dates of current year grants	04 Dec 2013	23 Dec 2013	01 Jan 2014
Number of options granted	150,059	530,412	12,000 (estimated)
Exercise price	n/a	705.70	See below
Contractual life (years)	3	3 or 5	1
Settlement	Shares	Shares	Shares
Vesting period (years)	3	3 or 5	1
Dividend yield	n/a	5.0%	n/a
Fair value per option at grant date	£8.93	£1.35 for 3 year plan £1.37 for 5 year plan	n/a

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

For details of the Annual Bonus Plan, refer to the directors' remuneration report on pages 41 to 58.

	2014 Number of options '000	2013 Number of options '000
Options outstanding at start of year	**240**	81
Granted	**–**	170
Forfeited	**(30)**	(8)
Exercised	**(65)**	(3)
Expired	**–**	–
Outstanding at end of year	**145**	240
Exercisable at year end	**–**	–

19 Share based payments continued

Deferred Bonus and Matching Share Plan

The plan was open to eligible senior executives throughout the Group until it was superseded. At 29 March 2014 there were no remaining options outstanding.

Performance Share Plan

For details of the Performance Share Plan, refer to the directors' remuneration report on pages 41 to 58.

	2014 Weighted average exercise price pence per share	2014 Number of options '000	2013 Weighted average exercise price pence per share	2013 Number of options '000
Options outstanding at start of year	**738.80**	**1,453**	729.61	1,096
Granted	**892.90**	**150**	759.80	452
Forfeited	**785.82**	**(259)**	740.48	(82)
Exercised	**559.50**	**(61)**	683.45	(13)
Expired	**–**	**–**	–	–
Outstanding at end of year	**836.95**	**1,283**	738.80	1,453
Exercisable at year end		**–**		–

The awards have been allocated based on a share price of 559.5p for the 26 November 2010 grants, 686.5p for the 31 January 2011 grants, 759.8p for the 23 June 2011 grants, 991.1p for the 10 July 2012 grants, and 892.9p for the 04 December 2013 grants.

Retention and Recruitment Share Award

For details of the Recruitment Share Award and Retention Share Award, refer to the directors' remuneration report on pages 41 to 58.

	Retention Share Award		Recruitment Share Award	
	2014 Number of options '000	2013 Number of options '000	2014 Number of options '000	2013 Number of options '000
Options outstanding at start of year	**46**	46	**66**	66
Granted	**–**	–	**–**	–
Forfeited	**–**	–	**–**	–
Exercised	**–**	–	**–**	–
Expired	**–**	–	**–**	–
Outstanding at end of year	**46**	46	**66**	66
Exercisable at year end	**–**	–	**–**	–

The shares have been granted based on a share price of 686.5p.

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 to the market 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.

	2014		2013	
	Number of options '000	Weighted average exercise price pence per share	Number of options '000	Weighted average exercise price pence per share
Options outstanding at start of year	**1,736**	**522.30**	1,765	510.22
Granted	**530**	**705.70**	229	775.34
Forfeited	**(109)**	**624.13**	(90)	523.65
Exercised	**(815)**	**447.75**	(159)	713.79
Expired	**(10)**	**566.20**	(9)	623.02
Outstanding at end of year	**1,332**	**636.08**	1,736	525.22
Exercisable at year end	**47**	**454.13**	80	522.30

The range of exercise prices for the share options outstanding at the end of the year is 444.14p – 819.55p (2013: 444.14 – 819.55p). The weighted average remaining contractual life of the outstanding share options is 1 September 2016 (2012/13: 1 September 2015).

19 Share based payments continued

US Employee Share Purchase Plan

De La Rue operates a US Employee Share Purchase Plan for US employees. Under the plan, employees have an option to purchase De La Rue plc shares at the end of each 12 month savings period at a price which is the lower of the market value of the De La Rue plc share either at the beginning or the end of the offering period, less a 15 per cent discount. In 2013/14, 11,079 shares (2012/13: 14,198 shares) were allotted pursuant to the plan. It is estimated that 12,000 shares will be required to satisfy the Company's 2014/15 obligations in respect of employees' savings under the plan as at 29 March 2014.

Market share purchase of shares by Trustee De La Rue Employee Share Ownership Trust

The De La Rue Employee Share Ownership Trust (Trust) is a separately administered trust established to administer shares granted under the various De La Rue Executive Share Option Schemes (ESOS) and the De La Rue Executive Share Option Plan (ESOP) (or any other share option plan established by the Company) to Executive Directors and senior employees. Liabilities of the Trust are guaranteed by the Company and the assets of the Trust mainly comprise shares in the Company. Ardel Trust Company (Guernsey) Limited is the Trustee. The own shares held by the Trust are shown as a reduction in shareholders' funds. The shares will be held at historical rates until such time as they are disposed of. Any profit or loss on the disposal of own shares is treated as a movement in reserves rather than as an income statement item.

The Trustee held no shares at 29 March 2014.

20 Analysis of net debt

	2014 £m	2013 £m
Cash at bank and in hand	**55.7**	24.8
Short term bank deposits	**2.2**	–
Bank overdrafts	**(1.7)**	(3.1)
Total cash and cash equivalents	**56.2**	21.7
Borrowings due within one year	**(146.1)**	(98.4)
Net debt	**(89.9)**	(76.7)

21 Operating leases

A lease is defined as an agreement whereby the lessor conveys to the lessee the right to use a specific asset for an agreed period of time in return for a payment or a series of payments.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

	2014 Property £m	**2014 Plant and equipment £m**	2013 Property £m	2013 Plant and equipment £m
Total commitments due:				
– Within one year	**2.3**	**0.2**	2.9	0.2
– Between one and five years	**1.5**	**0.1**	2.4	0.2
– Over five years	**25.0**	**–**	25.3	–
	28.8	**0.3**	30.6	0.4

22 Retirement benefit obligations

The Group operates retirement benefit schemes, devised in accordance with local conditions and practices in the country concerned, covering the majority of employees. The assets of the Group's plans are generally held in separately administered trusts or are insured. 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. 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 Group income statement. 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 income statement.

Return on plan assets excluding 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 plans 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.

The Group's contributions to defined contribution plans are charged to the income statement in the period to which the contributions relate.

(a) Defined benefit pension plans

Amounts recognised in the consolidated balance sheet:

	2014 UK £m	**2014 Overseas £m**	**2014 Total £m**	2013 UK £m	2013 Overseas £m	2013 Total £m
Equities	**281.1**	**–**	**281.1**	309.0	–	309.0
Bonds	**89.4**	**–**	**89.4**	169.0	–	169.0
Gilts	**154.1**	**–**	**154.1**	169.7	–	169.7
Diversified Growth Fund	**155.6**	**–**	**155.6**	–	–	–
Liability Driven Investment Fund	**65.8**	**–**	**65.8**	–	–	–
Other	**27.9**	**–**	**27.9**	113.4	–	113.4
Fair value of plan assets	**773.9**	**–**	**773.9**	761.1	–	761.1
Present value of funded obligations	**(931.8)**	**–**	**(931.8)**	(920.2)	–	(920.2)
Funded defined benefit pension plans	**(157.9)**	**–**	**(157.9)**	(159.1)	–	(159.1)
Present value of unfunded obligations	**(7.7)**	**(2.4)**	**(10.1)**	(7.6)	(2.4)	(10.0)
Net liability	**(165.6)**	**(2.4)**	**(168.0)**	(166.7)	(2.4)	(169.1)

Amounts recognised in the consolidated income statement:

	2014 UK £m	**2014 Overseas £m**	**2014 Total £m**	2013* UK £m	2013* Overseas £m	2013* Total £m
Included in employee benefits expense:						
– Current service cost	**–**	**(0.2)**	**(0.2)**	(7.8)	(0.3)	(8.1)
– Administrative expenses and taxes	**(1.2)**	**–**	**(1.2)**	(1.7)	–	(1.7)
Included in interest on retirement benefit obligation net finance expense:						
– Interest income on plan assets	**33.7**	**–**	**33.7**	33.2	–	33.2
– Interest cost on liabilities	**(41.0)**	**–**	**(41.0)**	(39.8)	–	(39.8)
Retirement benefit obligation net finance expense	**(7.3)**	**–**	**(7.3)**	(6.6)	–	(6.6)
Total recognised in the consolidated income statement	**(8.5)**	**(0.2)**	**(8.7)**	(16.1)	(0.3)	(16.4)
Return on plan assets excluding interest income	**3.5**	**–**	**3.5**	42.3	–	42.3
Actuarial (losses)/gains on defined benefit pension obligations	**(5.8)**	**0.2**	**(5.6)**	(72.0)	0.2	(71.8)
Amounts recognised in other comprehensive income	**(2.3)**	**0.2**	**(2.1)**	(29.7)	0.2	(29.5)

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

22 Retirement benefit obligations continued

Major categories of plan assets as a percentage of total plan assets:

	2014 UK %	2014 Overseas %	2014 Total %	2013 UK %	2013 Overseas %	2013 Total %
Equities	**36.3**	**–**	**36.3**	40.6	–	40.6
Bonds	**11.6**	**–**	**11.6**	22.2	–	22.2
Gilts	**19.9**	**–**	**19.9**	22.3	–	22.3
Diversified Growth Fund	**20.1**	**–**	**20.1**	–	–	–
Liability Driven Investment Fund	**8.5**	**–**	**8.5**	–	–	–
Other	**3.6**	**–**	**3.6**	14.9	–	14.9

All assets have quoted prices in active markets.

The Diversified Growth Fund is a diversified asset portfolio which includes investments in equities, emerging market bonds, property, high yield credit and structured finance and smaller holdings in other asset classes. The Liability Driven Investment (LDI) fund consists of fixed interest bond holdings (approximately 62 per cent), index linked bond holdings (approximately 37 per cent) and cash (approximately 1 per cent). Interest rate swaps and floating rate notes are employed to complement the role of the LDI fund for liability risk management.

Other UK assets comprise cash, interest rate swaps and floating rate notes.

Principal actuarial assumptions:

	2014 UK %	2014 Overseas %	2013 UK %	2013 Overseas %
Future pension increases – past service	**3.70**	**–**	3.70	–
Discount rate	**4.50**	**–**	4.50	–
Inflation rate	**3.40**	**–**	3.40	–

The financial assumptions adopted as at 29 March 2014 reflect the duration of the plan liabilities which has been estimated to be 19 years.

The mortality assumptions used to assess the defined benefit obligation for the UK plan are based on tables issued by the Continuous Mortality Investigation Bureau. At 29 March 2014 mortality assumptions were based on the SAPS All lives tables, with future improvements in line with the CMI model, CMI_2011 and a long term rate of 1.0 per cent per annum. This assumption is unchanged from that used as at 30 March 2013. The resulting life expectancies are as follows:

		2014	2013
Aged 65 retiring immediately (current pensioner)	Male	**22.2**	22.2
	Female	**24.6**	24.5
Aged 50 retiring in 17 years (future pensioner)	Male	**21.5**	23.2
	Female	**23.9**	25.7

The defined benefit pension schemes expose the Group to the following main risks:

Mortality risk – an increase in the life expectancy of members will increase the liabilities of the schemes. The mortality assumptions are reviewed regularly, and are considered appropriate.

Interest rate risk – A decrease in bond yields will increase the liabilities of the scheme. Liability driven investment strategies are used to hedge part of this risk.

Investment risk – The pension schemes invest in a range of assets to mitigate the risk of any single asset class, and align growth and returns to the long term funding objectives. The investment strategy is reviewed regularly to ensure it continues to be appropriate.

Inflation risk – The liabilities of the scheme are linked to inflation. An increase in inflation will result in an increase in liabilities. There are caps in place for UK scheme benefits to mitigate the risk of extreme increases in inflation. Liability driven investment strategies are used to hedge part of this risk.

Any increase in the retirement benefit obligation could lead to additional funding obligations in future years. The Group has agreed deficit funding to the scheme of £17.5m for 2014/15, rising by 4 per cent per annum until 2022.

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£38m
0.25% increase in RPI inflation rate	Increase in liability of c£28m
Increasing the underpin from 1% to 1.5% pa	Increase in liability of c£25m
Increasing life expectancy by one year	Increase in liability of c£13m

22 Retirement benefit obligations continued

The largest defined benefit pension plan operated by the Group is in the UK. A full actuarial valuation of the plan was carried out by a qualified actuary as at 5 April 2012 and updated to 29 March 2014. The plan is valued formally every three years, the next valuation being as at April 2015.

Changes in the fair value of UK plan assets:

	2014 £m	2013* £m
At 30 March 2013 / 31 March 2012	**761.1**	697.6
Interest income on plan assets	**33.7**	33.2
Plan administration expenses	**(1.2)**	(1.7)
Return on plan assets less interest income	**3.5**	42.3
Employer contributions and other income	**11.9**	22.4
Plan participant contributions	**–**	2.5
Benefits paid (including transfers)	**(35.1)**	(35.2)
At 29 March 2014 / 30 March 2013	**773.9**	761.1

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

Changes in the fair value of UK defined benefit pension obligations:

	2014 £m	2013* £m
At 30 March 2013 / 31 March 2012	**(927.8)**	(840.9)
Current service cost	**–**	(7.8)
Curtailments	**–**	–
Interest cost on liabilities	**(41.0)**	(39.8)
Effect of changes in financial assumptions	**0.2**	(72.6)
Effect of changes in demographic assumptions	**–**	–
Effect of experience items on liabilities	**(6.0)**	0.6
Plan participant contributions	**–**	(2.5)
Benefits paid (including transfers)	**35.1**	35.2
At 29 March 2014 / 30 March 2013	**(939.5)**	(927.8)

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

The Group expects to contribute £19.1m to its UK pension fund, in 2014/15, in respect of the special funding payments designed to eliminate the scheme deficit.

(b) Defined contribution pension plans

The Group operates a number of defined contribution plans for which the charge in the consolidated income statement for the year was £9.6m (2012/13: £4.1m).

Notes to the accounts continued

23 Employee information

	2014 number	2013 number
Average number of employees		
United Kingdom and Ireland	**2,196**	2,117
Rest of Europe	**731**	735
The Americas	**221**	246
Rest of world	**885**	855
	4,033	3,953
Average number of employees		
Currency	**2,648**	2,563
Cash Processing Solutions	**681**	697
Security Products	**311**	343
Identity Systems	**393**	350
	4,033	3,953

	2014 £m	2013 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	**129.9**	131.2
Social security costs	**11.8**	11.5
Share incentive schemes	**(1.1)**	3.5
Sharesave schemes	**0.6**	0.3
Pension costs	**9.8**	12.2
	151.0	158.7

24 Capital commitments

	2014 £m	2013 £m
The following commitments existed at the balance sheet date:		
– Contracted but not provided for in the accounts	**9.3**	19.9

25 Contingent liabilities

De La Rue has extensive international operations 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 and its subsidiaries, the Directors believe that adequate provision has been made to cover these matters. The Group 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.

In July 2010 the Board 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 was found that a small number of the many detailed specification parameters of some paper had fallen marginally short of specification. It was also established that certain paper specification test certificates had been deliberately falsified. The Board 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 cost 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 is also uncertain and the financial consequences, if any, cannot be estimated reliably at present.

26 Related party transactions

During the year the Group traded on an arms length basis with the associated company Fidink (33.3 per cent owned). The Group's trading activities with this company included £24.5m (2012/13: £17.4m) for the purchase of security ink and other consumables. At the balance sheet date there were creditor balances of £7.1m (2012/13: £1.7m) with Fidink. Intra-Group transactions between the parent and the fully consolidated subsidiaries or between fully consolidated subsidiaries are eliminated on consolidation. Such transactions were contracted on an arms length basis.

Key management compensation

	2014 £'000	2013 £'000
Salaries and other short term employee benefits	**5,096.8**	2,968.2
Termination benefits	**200.0**	549.2
Retirement benefits:		
– Defined contribution	**171.7**	149.6
– Defined benefit	**–**	33.2
Share based payments	**(617.1)**	1,959.8
	4,851.4	5,660.0

Key management comprises members of the Board (including the fees of Non-executive Directors) and the Executive Committee. Termination benefits include compensation for loss of office, ex gratia payments, redundancy payments, enhanced retirement benefits and any related benefits in kind connected with a person leaving office or employment.

Notes to the accounts continued

27 Principal subsidiaries and associated companies as at 29 March 2014

The Directors consider that to give full particulars of all subsidiary undertakings would have led to a statement of excessive length. A full list of subsidiary undertakings will be filed with the Company's annual return.

The trading companies listed below include those which principally affect the profits and assets of the Group.

Country of incorporation and operation		Activities	De La Rue interest in ordinary shares %
Europe			
United Kingdom	DLR (No.1) Limited	Holding company	100
	DLR (No.2) Limited*	Holding company	100
	De La Rue Holdings plc	Holding and general commercial activities	100
	De La Rue International Limited	Security paper and printing, sale and maintenance of CPS products and services, identity systems, brand protection and holograms	100
	De La Rue Overseas Limited	Holding company	100
	De La Rue Finance Limited	Internal financing	100
	De La Rue Investments Limited	Holding company	100
	Portals Group Limited	Holding company	100
Channel Islands	The Burnhill Insurance Company Limited	Insurance	100
Malta	De La Rue Currency and Security Print Limited	Security printing	100
The Netherlands	De La Rue BV	Holding company and distribution and marketing of CPS products	100
Russia	De La Rue CIS	Manufacturing, distribution, service and marketing	100
Switzerland	Thomas De La Rue A.G.	Holding company	100
North America			
USA	De La Rue North America Holdings Inc.	Holding company	100
	De La Rue North America Inc.	Security printing	100
South America			
Brazil	De La Rue Cash Systems Limitada	Distribution, service and marketing	100
Mexico	De La Rue Mexico, S.A. de C.V.	Distribution, marketing and identity systems	100
Africa			
Kenya	De La Rue Currency and Security Print Limited	Security printing	100
Far East			
China	De La Rue Trading (Shenzhen) Co Limited	Distribution, service and marketing	100
Hong Kong	De La Rue Systems Limited	Distribution, service and marketing	100
Sri Lanka	De La Rue Lanka Currency and Security Print (Private) Limited	Security printing	60

*Held directly by De La Rue plc