

A MORE SECURE WORLD



DeLaRue

De La Rue plc

Annual Report 2018



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Our business at a glance



Currency

£371.8m Revenue £45.1m Adjusted operating profit*



Identity Solutions

£82.0m Revenue £8.3m Adjusted operating profit*



Product Authentication & Traceability

£40.1m Revenue £9.4m Adjusted operating profit*

06

OUR ROLE IN THE WORLD ECONOMY

Q&A

34

How we performed

Revenue
£m



£493.9m

23

Chief Executive Officer's review



We made good progress in our strategic plan in the year.



* This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on page 157.

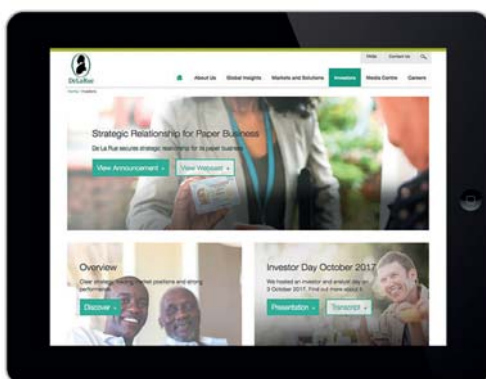
Our purpose

We want to enable every citizen to participate in the global economy.

We live in a world that is crying out for trust and integrity to help make it a more secure place to live and work.

We work closely with governments, central banks and commercial organisations in over 140 countries around the world.

We invest in innovation, developing new advanced security products, software solutions and other specialist services that underpin the integrity of trade, personal identity and the movement of goods and services.



We use the UN SDG logos to illustrate how our activities support each goal.



Visit us online
www.delarue.com/ar2018

A solid performance

Financial highlights

Revenue

£493.9m

2017: £461.7m

Dividend per share

25.0p

2017: 25.0p

Adjusted EBITDA*¹

£87.3m

2017: £97.4m

Reported EBITDA

£148.2m

2017⁴: £96.0m

Adjusted operating profit*²

£62.8m

2017: £70.7m

Reported operating profit

£123.0m

2017: £70.2m

Adjusted basic earnings per share*³

42.9p

2017: 47.1p

Reported basic earnings per share from continuing operations⁴

93.7p

2017: 47.2p

* This is a non-IFRS measure. See further explanations and reconciliations to the comparable IFRS measures on page 157. 'Reported' measures are on an IFRS basis.

¹ Adjusted EBITDA represents earnings from continuing operations before the deduction of interest, tax, depreciation, amortisation and exceptional items.

² Adjusted operating profit represents operating profit from continuing operations adjusted to exclude exceptional items and amortisation of acquired intangible assets.

³ Adjusted earnings per share are the earnings attributable to equity shareholders, excluding exceptional items, amortisation of acquired intangible assets and discontinued operations divided by the weighted average number of ordinary shares outstanding during the year.

⁴ Continuing operations only, excluding the Cash Processing Solutions business which was sold on 22 May 2016.

Continuing the good momentum

Introduction from the Chairman



We made good progress against the strategic plan outlined in May 2015 to transform the Group into a less capital intensive, more technology led business. The sale of the paper business was a significant milestone towards achieving this goal. The strong focus on R&D and product management in the last three years has also strengthened the Group's product portfolio and ensured a strong pipeline that will drive sustainable growth in the future.

The year under review

Although the failure to win the UK Passport contract announced in March 2018 was a blow, the Group has made good progress in the year against the strategic plan outlined in May 2015 to transform the Group into a less capital intensive, more technology led business. The sale of the paper business – Portals De La Rue – was a significant milestone towards achieving this goal. The strong focus on R&D and product management in the last three years has also strengthened the Group's product portfolio and ensured a strong pipeline that will drive sustainable growth in the future. Martin Sutherland will comment more fully on this progress in his Chief Executive Officer's review on page 23 to 28.

I am pleased to report significant progress in strengthening the Group's balance sheet. Net debt of £49.9m at the end of the period (25 March 2017 £120.9m) was the lowest in five years, benefiting from the proceeds of the sale of the paper business together with a small net cash inflow from overall trading. The deficit of the Group's UK defined benefit pension scheme reduced from £237.0m to £87.6m in the past year, mostly reflecting the change of indexation linked to future pension increases from RPI to CPI. The stronger balance sheet gives us greater flexibility in allocation of capital in order to deliver long term shareholder value.

We are proud participants of the UN Global Compact since late 2016, reflecting the alignment of our strategy and operations with its principles on human rights, labour, environment and anti-corruption, as well as the Sustainable Development Goals (SDG). We have used the UN SDG logos in the report to show this alignment. We have also made good progress in embedding broader social, ethical, and sustainable practices across our day-to-day business. Further information can be found in our responsible business section on pages 42 to 51.

The Board

The Board has undergone a few changes and added new skills and experience in the last few years and I feel that we have the right balance of capabilities, expertise and experience to support and challenge management in the most effective way.

As previously announced, Jitesh Sodha, Chief Financial Officer, decided to step down and resigned as a Director on 19 March. We are grateful for his contribution and wish him well for his future. A search has commenced to identify a suitable successor.

Our people

Our people are our greatest assets and are vital to the successful execution of our strategy and to fulfilling our purpose. They provide products and services that enable people's participation in social, economic and commercial activities in the many countries in which we operate. On behalf of the Board, I would like to express our thanks for their continuing hard work and dedication.

In its gender pay gap statistics published in January 2018, the Group reported a gender pay gap of 10%. This is less than the UK average of 17% but still far from our goal of zero. The Board has welcomed the launch of our strategy which in part aims to eliminate the gender pay gap while creating an inclusive and diverse workforce at De La Rue.

The safety and wellbeing of our people are of great importance to the Board, and we shall continue to support the efforts being made to ensure consistent improvement in the Group's performance.

Financial performance

Group revenue increased by 7%, with growth across all three segments. Adjusted operating profit* was 11% lower at £62.8m, reflecting the write off of the one off bid costs associated with the UK Passport retender, the ongoing investment programme and the relatively poor performance of the paper business, which were offset in part by additional margin from increased sales and certain provision and accrual releases, where we now have additional information as to the likelihood and amount of potential liabilities. On an IFRS basis operating profit was £123.0m, 75% higher than the prior year. This reflected the £60.9m net exceptional gain relating to the re-measurement of the pension liability

of £80.5m following the indexation change less the exceptional charges primarily relating to the paper disposal.

Adjusted basic earnings per share* were 9% lower at 42.9p due to lower adjusted operating profit in the current year. Reported basic earnings per share were up 99% to 93.7p, reflecting the impact of the significant exceptional gain explained above.

The Group delivered strong cash flows in the year with cash generated from operating activities of £73.5m, 14% higher than the prior year (2016/17: £64.3m). The lower profit in the year was compensated by the significant improvement in working capital as a result of successful inventory management and strong cash collections from debtors. Inventory and trade debtors, excluding the exited paper business, were £13m and £10m lower than the prior year.

More details of the Group's financial performance is covered in the operational and financial review on page 29 to 33.

Dividend

The Board is recommending a final dividend of 16.7p per share (2016/17: 16.7p per share). This, together with the 8.3p paid in January 2018, will make a full year dividend of 25.0p per share. Subject to shareholders' approval, the final dividend will be paid on 3 August 2018 to shareholders on the register on 6 July 2018.

Outlook

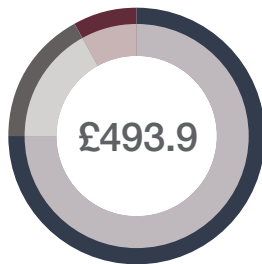
The Board was disappointed that the Group did not win the new UK Passport tender. While this clearly is a setback, it does not change the Group's goals set out in May 2015. The strong underlying performance and good strategic progress in the past three years gives the Board confidence in the future of the business. Viability assessment of the business can be found on page 41.

Philip Rogerson
Chairman

At a glance

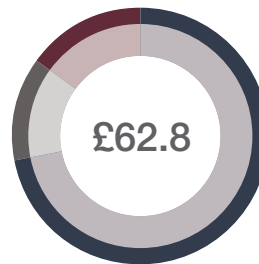
We have three key areas of focus. Currency, identity solutions and product authentication.

Revenue £m



- Currency 75%
- Identity Solutions 17%
- Product Authentication 8%

Adjusted operating profit* £m



- Currency 72%
- Identity Solutions 13%
- Product Authentication 15%

Each area shares a focus on research and development, finding effective solutions for customers, and world class manufacturing facilities.



Currency

Banknote Print

We design, manufacture and deliver banknotes to customers around the world.

Polymer

We are the only vertically integrated producer of polymer substrate and banknotes.

Security Features

We create features that underpin the integrity of our currency, identity and security label products.

7.3bn

 notes

Banknotes sold in 2017/18
(2016/17: 7.1bn notes)

810

 tonnes

Polymer substrate sold in 2017/18
(2016/17: 380 tonnes)

1.6m

 kms

Security threads sold in 2017/18
(2016/17: 1.2m kms)



Identity Solutions

We create and deliver passports and identity solutions for governments.

12.0m

Passports sold in 2017/18
(2016/17: 13.7m)



Product Authentication

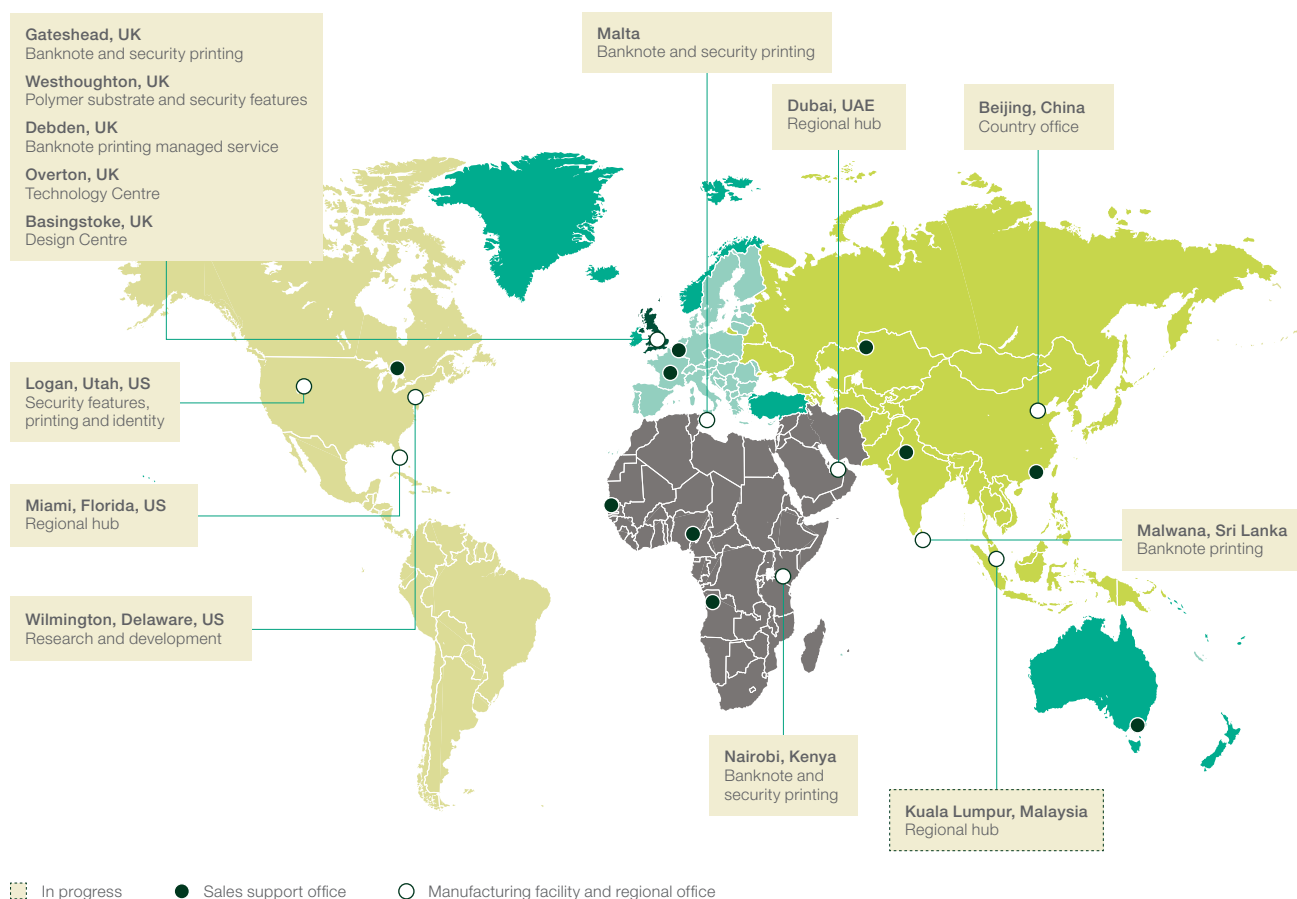
We create and deliver secure labels and track and trace solutions for governments and commercial customers.

1.6bn

Security labels sold in 2017/18
(2016/17: 1.7bn)

* This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on page 157.

Our global footprint
We have a global footprint and work with governments, central banks and commercial organisations in over 140 countries.



#1

In banknote and passport markets by volume.

158 years

Longest customer relationship (with Mauritius).

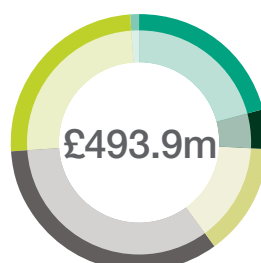
1/3

Of the world's total banknote denominations in circulation in 2017 were designed by De La Rue.

40 countries

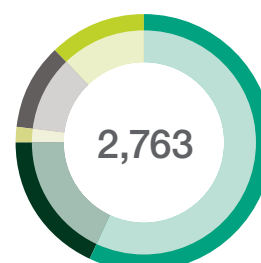
For whom we produce passports.

Revenue by region %



- UK – 21%
- Rest of Europe – 5%
- The Americas – 14%
- Middle East & Africa – 34%
- Asia – 25%
- Rest of world – 1%

Employees by region %



- UK – 57%
- Rest of Europe – 18%
- The Americas – 2%
- Middle East & Africa – 11%
- Asia – 12%



Find out more about our business
www.delarue.com/ar2018

01

02

03



OUR ROLE IN THE WORLD ECONOMY



THE FUTURE OF CASH

Q&A with **Martin Sutherland**, our Chief Executive Officer

INNOVATING A SECURE WORLD

Q&A with **Selva Selvaratnam**, our Chief Technology Officer



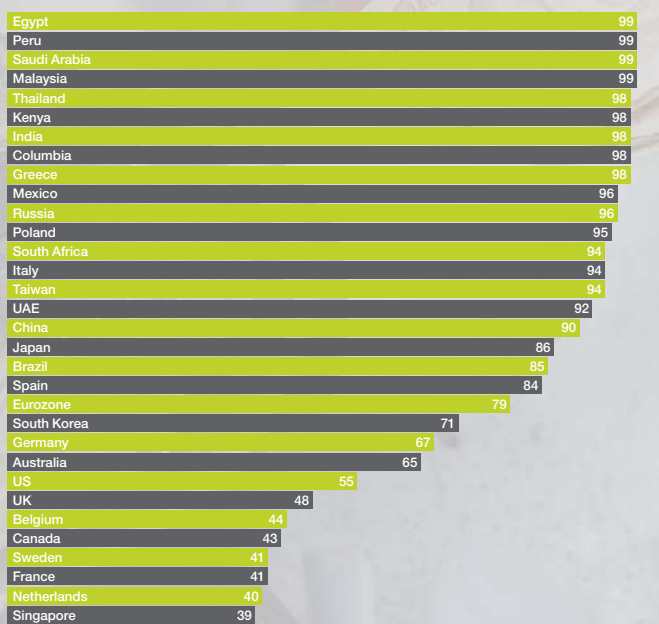
PARTNERING WITH OUR CUSTOMERS

Q&A with **Richard Hird**, our Chief Commercial Officer

01

Martin Sutherland

Our Chief Executive Officer clears up some misconceptions about cash.

**Cash to total payment transactions %**

Source: McKinsey/Mastercard Advisers

THE FUTURE OF CASH



Cash accounts for eight and a half out of every ten transactions worldwide. It remains by far the predominant method of payment.

Q: Everywhere you look, people are paying electronically. Isn't it a fact that cash is dead?

A: Absolutely and unarguably no. Have a peek outside the bubble of middle-class western democracies and you'll find that cash is still king. Seventy five per cent of the world's population live in countries where 95% of all transactions are cash based. Cash accounts for eight and a half out of every ten transactions worldwide. It remains by far the predominant method of payment.

Even in the developed world, cash plays a vital role in the payment ecosystem. Sixty per cent of European citizens don't have a credit card. Even in the UK, 7% of us don't have a bank account. Check out the queues at ATMs on any Saturday afternoon. You'll quickly understand why even in the UK and Europe cash in circulation is rising by about 5% a year. The most popular payment method in the world isn't about to curl up its toes.

Q: But why not? What's the attraction of cash in a digital world?

A: Firstly, some people don't have the choice. Thirty eight per cent of the world's population don't have a bank account. If you aren't able to open a bank account – for whatever reason – cash is your only option. It's the most universal, classless and socially inclusive payment method.

Cash is instantaneous and free to use. It's also a store of wealth that people turn to in times of trouble. One other important point: there's no hidden agenda with cash. You know that nobody is tracking your whereabouts or picking through your personal data. This is an increasingly big issue.

This isn't about cash versus the rest of the payment methods. This is about inclusivity, availability and security, but above all, freedom of choice. Cash has played an irreplaceable role in the payment ecosystem in the past and will continue to do so for many years to come.

Q: Could cryptocurrency replace cash eventually?

A: A number of central banks are exploring the possibility of creating their own cryptocurrencies. However I can envisage a number of hurdles that will need overcoming.

First of all, money needs to be a medium of exchange, a unit of account and a store of value. Cryptocurrency in its current form simply doesn't meet all the criteria. Secondly, in order for people to transact cryptocurrency requires the extensive availability of technology and infrastructure. With more than 50% of the world's population still not being connected to internet, this is a big ask. There are also questions about security. How secure can the system be under increasingly sophisticated cyber attacks? How well are your crypto assets protected from fraud and theft?

So, still early days for cryptocurrency. But one thing we can be sure about is that cash will continue to exist.

Q: How about mobile money systems such as M-Pesa?

A: M-Pesa promotes financial inclusion – and that's closely aligned with our own purpose at De La Rue and we welcome it. M-Pesa, in effect, acts as a mobile bank account and a mobile ATM. It allows users to deposit and withdraw money from a network of agents. It encourages greater usage of cash because money transfer becomes easier and faster. While the number of M-Pesa-registered users in Kenya increased from zero to 24m in the decade to 2017, Kenya's currency in circulation increased around 10% per year over the same period*. M-Pesa is in fact a great example of how cash and digital finance can co-exist to promote social and financial inclusion.

* Source: Central Bank of Kenya.



Watch video online at
www.delarue.com/ar2018

INNOVATING A SECURE WORLD



It's our intellectual property and technology that sets us apart. They underpin the products and services we offer – so that's what we're building as our platform for the future.



Q: Why is innovation important for De La Rue?

A: Innovation is nothing new at De La Rue. Going back to the envelope folding machine, the perforated stamp and the ATM, we have a long history of being first. And innovation is right at the heart of what we do and how we do it.

Why innovate? Because it's what the counterfeiters do. We need to stay ahead of them, and that requires serious investment, great people with great skills, and a lot of commitment. And as the world changes we need to invest in new products and services that our customers require. Doubling R&D spend by 2020 is our recognition that it's our intellectual property and technology that sets us apart. That's what customers pay for – so that's what we're building as our platform for the future.

Q: How is De La Rue moving to be more technology-driven?

A: Our R&D programme focuses on two areas: digital solutions and the more traditional but highly skilled area of material science which De La Rue is renowned for.

Our team of material scientists needs to continue to produce secure, distinctive and easily recognisable features. We have a systematic approach that ensures we bring new products to market faster and more regularly.

The digital innovation that is happening at De La Rue is perhaps less well known. We offer a suite of digital solutions that complement our more traditional products.

Our software development team has doubled in size this year, and we are sourcing experts and highly skilled employees around the world to ensure we deliver excellence.

We also see opportunities to accelerate our technology development through partnerships and acquisitions.

Our acquisition of DuPont Authentication and the strategic partnerships with Opalux and Optel Group, are great examples – they all have unique technologies that work well with our products.

Q: So what are the new opportunities?

A: Number one, automation. How can we use technology to improve the way we work? Clearly, there are opportunities in the manufacturing stage, especially in how we handle or finish banknotes.

We have seen a major shift in the application of data and insights. Our customers appreciate being able to work with us and draw insights from the data we generate as a business to help them make decisions. Our DLR Analytics™ software is an example of this.

Data is also enabling us to improve the way we work. Analysis of our processes helps to drive manufacturing efficiencies which also open up possibilities to save energy and resources.

Q: What's your view on disruptive technologies, such as blockchain and 3D printing?

A: We believe blockchain technology will have most impact for our product authentication customers. Why? Because it can track products from source to customer, assuring authenticity across continents through checkpoints and other interventions. Blockchain could also have implications for our identity business. We see limited application for a central bank digital currency using blockchain.

3D printing is another area where the upside is qualified by the potential downside. Yes, using it to create banknote printing plates could help us be more efficient – but if we can print our own plates, so too can others. Used unwisely, it could be a counterfeiter's dream.



02

Selva Selvaratnam

Our Chief Technology Officer explains how innovation is shaping the future of De La Rue.



PureImage™ – Our latest holographic thread based on secure and proven technology. It can integrate with covert features such as UV fluorescence and machine readable materials



Ignite™ – A new premium feature combining liquid crystal colour-shift with complex microstructures to create dynamic and distinctive effect for public authentication

03

Richard Hird

Our Chief Commercial Officer provides insight into our new approach to partnerships.



PARTNERING WITH OUR CUSTOMERS



Customers are looking for long-term strategic partnerships based on mutual respect, deep understanding and reliable, flexible support.

Q: Why do customers buy from De La Rue?

A: Our customers value partnership over a supplier relationship. We have many experiences of long term partnerships with our customers. These are defined by continued investment, dedication to their vision and our commitment to deliver on promises.

The products and services we provide are critical to our customers and we treat them with utmost respect. We deliver our high standard products along with ambitious service level agreements. A partnership approach means we work with customers from design, through to delivery and ongoing service.

A new banknote design or a new passport or identity scheme is always a high profile activity. These require public awareness and education campaign planning – extra support that we provide.

Unfortunately our customers sometimes need disaster recovery support, whether due to natural disasters or other shocks. At these times, customers need a trusted partner who delivers no matter what.

Q: Can you give practical examples of how De La Rue does that little bit more for customers?

A: There are many instances of where we've done a lot more. Sierra Leone during the Ebola crisis is a case in point. The central bank had an urgent need for currency, but no airlines were actually willing to deliver. So we chartered our own aircraft and met the bank's deadlines. Some other examples include Haiti, after the 2012 earthquake, countries needing urgent supply during times of hyper-inflation and South Sudan during independence; the list is endless throughout our 200 year history.

We're creative, flexible and reliable no matter what the challenge – that's why customers trust us and want to work with us.

Our industry needs to be built on trust and integrity. De La Rue's strong ethics, our embedded values-driven culture and our awareness and engagement in sustainable development efforts by countries means that we are a partner they can really trust to achieve their social and economic goals.

Q: So what's new about the approach to partnership?

A: Firstly, we see ourselves as a strategic partner of our customers to help them achieve their own social and economic goals, whether that's social inclusion, building capacity of local staff, economic stability, establishing nationhood or tackling counterfeit currency and goods. Our joint venture partnership with the Government of Sri Lanka, and the partner programme in Rwanda and Sierra Leone are excellent examples of that.

We've reshaped our sales organisation to transform the way in which we engage with customers. We're reducing our reliance on third party partners, replacing them where possible with a more dynamic, more focused De La Rue hired and trained sales team that reflects the diversity of our customers in terms of language, ethnicity and cultural outlook. This team is now working out of a series of regional hubs, so we stay as close as possible to our customers.

Innovation is another way in which we're getting closer to customers. The Cash Cycle Partnership programme powered by our latest software product DLR Analytics™ helps central banks to better understand their cash cycles and forecast cash demands so they don't need to worry about running out of cash. It is a great example of how providing better service to customers with data insight goes hand in hand with driving better quality revenue.



Watch video online at
www.delarue.com/ar2018

Our markets

We operate in three main markets – currency, identity and product authentication, all of which have strong prospects for long term sustainable growth.



Currency market



The total amount of cash in circulation has been growing at c3% a year globally over the past decade and is expected to continue to increase at a similar rate in future years.

The total amount of cash in circulation has been growing at c3% a year¹ globally over the past decade and is expected to continue to increase at a similar rate in future years. Population growth and increasing number of ATMs are amongst the main drivers for cash growth.

Most banknotes and the substrates on which they are printed are produced by state print works (SPWs) and state paper mills (SPMs) of the respective issuing countries. The rest of the demand is fulfilled by commercial banknote printers and paper or alternative substrate makers. This situation has remained relatively stable over the past decade.

While many customers buy finished banknotes from one supplier, some follow a multi-supplier model which involves disaggregating their note buying into individual components: substrate, security features and printing.

Global banknote issuance

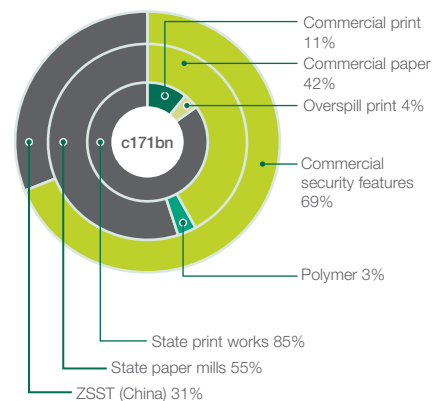
Billions of notes

2021E	194	CAGR 3%
2020E	192	
2019E	183	
2018E	178	
2017E	174	CAGR 3%
2016	171	
2015	168	
2014	157	
2013	157	
2012	153	

Source: De La Rue estimates

Commercially available markets

%



Source: De La Rue estimates

Commercial print market by volume %



- De La Rue – 27%
- G&D – 23%
- Oberthur – 17%
- Crane – 7%
- Goznak – 7%
- Other – 19%

Source: De La Rue estimates. Excluding overspill orders

Printing

The number of countries outsourcing their banknote production has been stable in the past decade and this is expected to remain unchanged in the near future. Around 11% of the c171bn banknotes issued globally¹ in 2017 were commercially available. The commercial banknote print market is highly concentrated, with four major operators sharing two thirds of the market. De La Rue is the market leader, with 27% market share.

While the increase of cash in circulation drives growth in the commercial banknote printing market, the timing of orders can be unpredictable. The degree of uncertainty is exacerbated by overspill caused by the SPWs being unable to meet internal demand. Overspill orders typically account for 2% to 4% of the total banknote market and therefore have a noticeable effect on the commercial print and paper markets.

Polymer substrate

Of the banknotes in circulation, c3% are printed on next generation substrates such as polymer¹. As central banks seek to reduce the 'cost of cash', polymer is becoming more popular due to its durability, sustainability and greater security².

More economies are switching or considering switching paper banknotes to polymer notes. Thirty eight countries have already issued or are about to issue one or more denominations on polymer. We expect the market to double in size in the next five years¹.

Currently there are only two commercial suppliers of polymer substrate. Although second to the market, De La Rue has been growing fast and has 11% share by volume¹. Polymer also offers opportunities to access the countries printing their own banknotes but sourcing substrate from the commercial market, thus increasing the size of its addressable market.

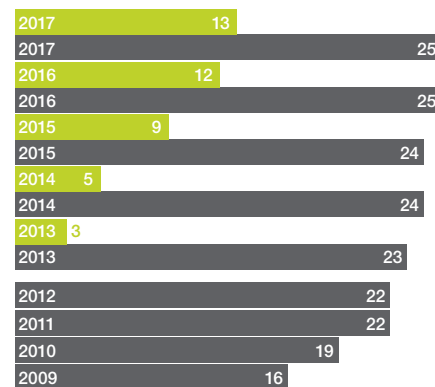
Security features market by volume %



- De La Rue – 7%
- ZSST (China) – 31%
- Crane – 17%
- G&D – 12%
- Kurz – 5%
- Fabiano – 3%
- Generic/Other – 25%

Source: De La Rue estimates

Polymer market by number of issuing authorities No.



- De La Rue
- CCL

Source: De La Rue estimates

Polymer market by volume %



- De La Rue – 11%
- CCL – 89%

Source: De La Rue estimates

Security features

While pricing in print and paper remains stable, customers are increasingly seeking to access the benefits of added-value security features such as threads and holograms and this is making the ownership of such innovations an attractive opportunity.

Almost all countries buy security features or IP licences on the commercial market. Some 90% of the c171bn banknotes issued in 2017 incorporated security threads, while only 13% included features such as holographic patches and stripes. However, we believe growth in holographic features will accelerate as the polymer banknote adoption rate increases.

Compared to print and polymer, the security features market is fragmented, with more than a dozen suppliers ranging from banknote printers to pure play security features firms. De La Rue is the third largest commercial supplier of security threads and the fourth largest of holographic features.

¹ De La Rue estimate.

² According to the Bank of England's study in 2013, polymer notes are more secure and last 2.5 times longer than cotton-based banknotes.

Our markets continued



Identity market



The global identity market is valued at around £3.9bn today and expected to grow at c6% a year.

Against a background of increasing population and greater globalisation, demand for identity products and services continues to rise as governments increasingly focus on improving border security, authentication and their citizens' access to services.

While physical tokens such as passports and ID cards are important, there is a growing emphasis on end-to-end solutions that combine secure tokens with systems and services which help to create and validate unique, trusted legal identities.

The global identity market, including passports, ID cards, and the associated digital solutions, is valued at around £3.9bn today and expected to grow at

c6% a year¹. Although many countries have in-house security print capabilities, many still choose to source printing or individual components from the commercial market. More than half of the identity market is available to commercial manufacturers.

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

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

¹ De La Rue estimate.

Global passport market £bn

2020E	3.2
2019E	3.0
2018E	2.9
2017	2.7
2016	2.6

Passport: 8% CAGR

Source: De La Rue estimates

Global identity card market £bn

2020E	1.5
2019E	1.4
2018E	1.3
2017	1.2
2016	1.1

National ID: 5% CAGR

Source: De La Rue estimates

Commercial passport market by volume %



- De La Rue – 32%
- Gemalto – 12%
- CBN – 12%
- IDEMIA – 9%
- G&D – 8%
- Other – 27%

Source: De La Rue estimates



Product authentication market



The global market for brand protection is forecast to grow at 16% a year, rising to \$4.2bn in 2020.

Globally, the significant increase in counterfeit goods and illicit trade means that governments are losing billions of dollars in tax revenues. Legitimate businesses and brand owners are being undermined. Consumer confidence is being eroded and their health put at risk.

Excisable fast moving consumer goods such as tobacco and alcohol are widely recognised to be among the most illegally traded products in the world. One in every 10 cigarettes lit up in the world is illicit, valued at almost \$40bn, with an equivalent tax loss to global governments¹. The need for protecting tax revenue, together with continuing changes to government policy worldwide driven by international treaties such as the WHO Framework Convention on Tobacco Control, remain the key drivers for growth in the tax stamp market.

The rise of counterfeit goods, unauthorised production and sales channel diversion also means that businesses and brand owners are losing revenue and brand equity. The rapid growth of eCommerce and easy global

Global brand protection market \$bn

2020E	4.2	
2017	2.7	CAGR 16% ↑
2010	2.1	CAGR 9% ↑

Source: The Future of Anti-Counterfeiting, Brand Protection and Security Packaging to 2020, Smithers Pira

shipping have exacerbated the problem, with 90% of online retailers having experienced up to a 10% loss of revenue due to online counterfeit sales². The total value of counterfeit and pirated goods globally is expected to be \$2.8tr in 2022, a 150% increase from 2013³. The global market for brand protection is forecast to grow at c16% a year, rising to \$4.2bn in 2020⁴.

Both the tax stamp and brand protection markets are highly fragmented, with most operators offering only partial solutions such as serialised labels and tamper-evident packaging. However, there is a growing trend towards integrated, end-to-end solutions that provide a combination of highly secure labels and unique ID together with systems that can track, trace and authenticate products throughout the supply chain. As technologies advance and costs reduce, features such as printed electronics and RFID⁵ tags in packaging and labels are gaining popularity. Online shopping is also driving authentication through a touchpoint of consumer smartphones.

¹ Euromonitor International.

² Global Online Shopping Report.

³ The Economic Impacts of Counterfeiting and Piracy, Frontier Economics.

⁴ The future of anti-counterfeiting, brand protection and security packaging to 2020, Smithers Pira.

⁵ Radio Frequency Identification.

Our business model

We create value by providing solutions to our customers' unique challenges. This is driven by our focus on innovation, our expertise and our manufacturing skills.

The resources we rely on

2,763 skilled employees

Our people

We have 2,763 dedicated and passionate employees across four continents and we are moving to be closer to our customers.

1,000+ patents

Intellectual property and shared knowledge

Our knowledge is underpinned by over 200 years of continuous innovation. Ideas that derive from our R&D are patented and applied across the various services and products we offer.

7 centres of excellence

Manufacturing excellence

Our seven centres of excellence give us a global presence with consistent operating experience at the highest quality, health, safety, security and management standards.

1 global supply chain

Suppliers and partners

We work with suppliers and partners all over the world to ensure sustainability and reliable delivery to our customers. We hold these suppliers and partners to the same high ethical standards that we adopt ourselves.

£73.5m cash flow

Financial strength

We generated cash flows from operating activities of £73.5m in 2017/18. This allows us to invest in new technology and machines, fund potential strategic acquisitions and support business operations to secure long term value for shareholders.

Our customers and what they buy from us



Central and commercial banks
need a supplier they can trust to provide data-driven insights and to design and manufacture secure currency

Our products and services



Currency

Banknote printing
Paper and polymer substrate
Security features
Cash cycle analytics

Our solutions

Intellectual property

We have invented over 100 security features for currency and register around 30 patents per year. Our security features are embedded in more than 25% of the world's circulating denominations.

Digital solutions

Our end-to-end digital solutions for identity management and product track and trace give our customers strong infrastructure, governance frameworks and flexibility to meet their individual needs.

Training

We provide our customers and their stakeholders with supporting services such as counterfeit analysis, public education and awareness campaigns, technical workshops and training courses.

Our values



drive change
and innovate



act with
integrity





Governments

increasingly need to monitor, validate and control identity to improve security, social inclusion and domestic and international trade



Brand owners/ governments/ tax authorities

need to protect tax revenues and brands from illicit trade and counterfeit and harmful goods



Identity Solutions

Physical identity documents
Software systems



Product Authentication Solutions

Tax revenue protection
Brand protection
Software systems

Data analytics

We use analytics and intelligence derived from our award winning software to deliver insight to support customers' decision-making.

Design

Our 50-strong design team is recognised as the best in class. Its banknote and passport designs have won 14 international awards since 2007. We work with over 140 countries on designing and producing banknotes and passports.

Consulting

We help countries with our expertise in cash cycle management, physical and digital security, and operational excellence.

The value we create

The world around us



Enabling everyone's secure participation in the economy



Helping deliver confidence in the economy by ensuring a secure cash cycle



Supporting social and financial inclusion by securing legal identities and providing currency



Contributing to economic growth and stability by protecting tax revenues and tackling illicit trade

Our people



Engaging and developing a world class workforce



Building local skills and capabilities with strong partnerships in key countries

Our business

£62.8m

Adjusted operating profit*

42.9p

Adjusted basic earnings per share*

25.0p

Full year dividend

* This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on page 157.



take
responsibility



excel in
what we do



work
together

The resources we rely on

The business model on the previous pages shows how we provide solutions to our customers' challenges. Here, we look in more detail at the resources and relationships we rely on to do so.

Our people



Our business depends on the skills, experience and commitment of over 2,760 employees at 20 locations. We're careful to maintain a mix of 'home-grown' talent that we've developed ourselves with people from outside the industry. Such individuals bring with them a range of skill sets and perspectives that add a new dimension to our business.

We hire talented people and reward them through a performance-based incentive scheme. Every employee is offered the opportunity to grow his or her knowledge and abilities.

We invest in training and development programmes to help our people be the best they can be. We encourage them to strive for and attain ambitious goals and to be passionate about both our company and our local communities. This approach can only flourish in a supportive, transparent and collaborative working environment. We have high ethical standards, extensive health, safety and wellbeing programmes.



Find out more about our employees
www.delarue.com/ar2018

Intellectual property and shared knowledge



Innovation is the driving force behind De La Rue. Over 200 years, we've amassed a huge store of expertise in how to stay ahead of the counterfeiter, whether through physical security or digital solutions. And we're adding to that resource every day – we've committed to doubling our R&D spend by 2020 and have more than 1,000 current patents, with another 500 pending. Our increased investment and focus on R&D means that we're launching more products and services, faster and more regularly. Product development is also accelerated through partnerships and, where appropriate, mergers and acquisitions.

We aim to develop once and use multiple times, deploying a platform-based approach to share technologies across our three segments – which means that all our customers can benefit from De La Rue's innovation. We also share our expertise with customers, regulators and policymakers through international forums such as ICAO¹, WCO², the Global Compact for Migration, through industry affiliations such as the Secure Identity Alliance and through collaborations such as our Joint Charter with the Bank of England. This creates a more secure world for everyone.



Find out more about innovation
www.delarue.com/ar2018

¹ ICAO – International Civil Aviation Organisation.

² WCO – World Customs Organisation.

Manufacturing excellence



We manufacture through seven centres of excellence on three continents. Our objective is to maintain stable and flexible operations in order to manage factors such as fluctuations in demand and product mix.

We continue to invest in our manufacturing capabilities. In the last two years, we've invested more than £20m in new machinery and equipment, including a polycarbonate line and security print line in our Malta plant and a banknote varnishing line in our Kenya plant. We also work closely with our manufacturing partners to ensure high quality products and efficient delivery.

Each site maintains strict international health and safety standards to support employees, and in October 2017 we launched a new SAFE campaign to increase safety awareness across the business. Quality is assured by ISO standards and common working practices which are shared across all operations and which have established De La Rue as a beacon of manufacturing excellence. Our plant in Kenya is the only site in Africa to have achieved ISO14298 – the highest possible level of secure printing accreditation.



Find out more about our capability
www.delarue.com/ar2018

Financial strength

We are a cash generative business with a five year cash conversion average standing at 135%. The business has generated cash flows of £323m over the last five years and our net debt/EBITDA is at 0.66x versus our bank covenant of 3.0x. During the last year we sold our paper business and improved our cash flow through better cash management – together, these have reduced our net debt by £71m.

£323m

Cash flow generated over the last five years

We use our financial strength to support business operations, fund strategic acquisitions such as the purchase of DuPont Authentication in 2017, and enable us to deliver on our commitment to double R&D spend by 2020.



Find out more about our financials
www.delarue.com/ar2018

Suppliers and partners



We depend on suppliers to provide timely and cost-effective delivery of high quality components for banknotes, ID documents and product authentication labels. We secure these supplies by entering into strong and long-lasting relationships with trusted suppliers and other partners, all of whom we expect to comply to our ethical and environmental standards.

We recognise the value of close partnerships and work with our industry's leading suppliers to encourage and support innovations that lead to benefits for society at large. For example, we operate

technical partnerships with ink suppliers and manufacturers of printing equipment to develop secure print features and identify efficiency savings.

We also collaborate with our manufacturing and commercial partners to ensure that we provide the best quality products and services to our customers. Just as suppliers and partners support our aims, so we support theirs – sharing best practice in order to boost efficiency and achieve common goals. All our suppliers and partners are required to adhere to our Code of Business Principles.



Find out more about our supply chain
www.delarue.com/ar2018

Our Plan

In May 2015 we set out a plan to transform the business. As this plan has unfolded, we have simplified and rationalised our goals into four strategic priorities:



Optimise and Flex

Improve efficiency and drive flexibility in the business lines that face unpredictable markets, such as Banknote Print, or slow growth prospects, such as Banknote Paper

Currency

Banknote Print



Invest and Build

Invest in the business lines that are exposed to high growth markets, namely Polymer, Security Features, Identity Solutions and Product Authentication



Identity Solutions




Polymer
Security Features

Product Authentication

Our strategic priorities


2020 goals

1 Deliver operational excellence

 Find out more
See page 24


- Divest non core business
- Limit exposure to volatile paper market
- Reduce banknote print volatility
- Drive efficiency
- Standardised footprint with flexibility to deal with demand surges
- Improved return on capital employed (ROCE)
- Better quality of earnings

2 Invest for growth

 Find out more
See page 26


- Invest in skills and new capabilities
- Invest in new technologies and service solutions
- Accelerate growth through partnerships and acquisitions
- Mid-single digit revenue growth 2015–2020 CAGR
- More diversified revenue streams
- Double R&D investment by 2020

3 Strengthen balance sheet

 Find out more
See page 27

- Manage working capital more efficiently
- Maintain prudent capital investment
- Manage pension deficit effectively
- Improved cash flow
- Reduced pension deficit

4 Drive culture change

 Find out more
See page 27

- Improve performance management
- Training and development
- Dynamic, high performing culture
- Diverse skilled workforce with high ethical standards

Chief Executive Officer's review



We have made good progress against our strategic objectives.

Martin Sutherland
Chief Executive Officer

An overview

In May 2015, we announced a five year plan to transform De La Rue into a less capital intensive, more technology led security product and services provider, with a more balanced business portfolio that will deliver growth, improve quality of earnings as well as reduce volatility in the business. I identified two areas that required attention. We had to 'Optimise and Flex' the parts of the business facing unpredictable markets or slow growth. At the same time, we needed to 'Invest and Build' in the areas where we saw high growth opportunities.

We are half way through our plan and, despite some headwinds along the way such as the ending of a material contract at the end of 2015, we have made good progress in delivering our strategic objectives. Excluding the exited paper business, Group revenue and adjusted operating profit have been growing on average at 3% and 4% a year, respectively. We have also made good progress in diversifying our revenue streams and improving business mix over the last three years. The 'Invest and Build' product lines now contribute around a third of the Group's revenue and half of its operating profit.

The four strategic priorities shown opposite will guide us towards completing the plan by 2020, in line with our targets. On the following pages, I review each priority in detail and outline some examples that show our progress.



Watch the interview with CEO Martin Sutherland
<https://www.delarue.com/investors/new-investors-report>

Chief Executive Officer's review continued

1

Deliver operational excellence

This priority is about optimising and flexing those elements of our business that present the greatest downside risk. We sold the underperforming Cash Processing Solutions business in 2016. During the last 12 months our attention turned to our Banknote Paper and Banknote Print businesses – and we have made good progress in both areas.

Finding a long term solution for our paper business was one of our top strategic priorities. The sale of our paper business – Portals De La Rue Limited – and a ten year supply agreement have reduced our exposure to the volatility of the oversupplied paper market, as well as secured paper supply for our print business over the long term. The capital investment related to the paper business can now be redeployed. This, combined with the cash proceeds from the transaction, gives us greater flexibility in allocating capital in order to generate better returns and drive sustainable growth.

There is more to do regarding our print business, where we are exposed to market volatility. Here, again, we can report steady progress. We've reconfigured our manufacturing footprint in the last two years. Although machine upgrades are still ongoing in Kenya and Sri Lanka, our production capacity is now more closely aligned with average annual demand. Working with our external partners gives us the flexibility we need to cope with additional demand, and it's already working well – over the last year we outsourced over 100m notes to our long term partners. In short, we're now able to do more with less. In 2017/18 we produced more banknotes with fewer print lines than we managed in the previous years, and we expect this trend to continue.

Additionally, DLR Analytics™ launched in May 2017 helps central banks to better understand their cash cycle and requirements. The new module released in May 2018 will help them to forecast future demands, thus reducing the peaks and troughs on demand side.



1

**Securing a strategic relationship for our paper business**

In February, we agreed to sell our paper business Portals De La Rue, comprising both the Overton and Bathford mills, to private equity house Epiris Fund II for around £61m.

The banknote paper market has been oversupplied for a number of years, a factor that we expected to continue. While we pursued cutting production costs and driving efficiencies as short-term fixes, we continued to explore other more strategic options during the year – culminating in the deal with Epiris.

This is a significant milestone in delivering our strategy to transform De La Rue into a less capital intensive, more technology led product and service provider. It limits our exposure to the volatility of the paper market, strengthens our balance sheet and enables further investment in innovative technology solutions for the currency, identity and brand protection markets.

At the same time, we secured the long term paper supply for our print requirements with a ten year supply contract.

All affected staff were transferred in accordance with TUPE regulations and rights.



Find out more about us
www.delarue.com



2



Collaborating to stay ahead of the counterfeiters

In order to stay ahead of the counterfeiters, we seek to accelerate technology and product development through partnerships and acquisitions. In October 2017, we teamed up with Opalux to create a strategic partnership that will add new capabilities to our security features portfolio. Together, we're going to explore product development and sales opportunities across the world.

Opalux develops and manufactures tunable photonic crystals, smart materials that change colour in response to external stimuli.

We anticipate that the first product developed by our new partnership will be launched later in 2018.

In April 2018, we entered into a strategic partnership with another Canadian technology firm Optel Group, a market leader in track and trace technology which is used for supply chain management as well as brand protection in a number of industries, including pharmaceutical and health care. We will closely collaborate in product development and sales. This partnership will enhance our product offering and extend our market reach in our Product Authentication business.

We are working hard to improve efficiency in our factories as well as at the corporate level so that we can remain price competitive while protecting margins.

During the year, we have reassessed our supply chain management and launched a procurement transformation programme. The goal is to build a strong supply chain through forming strategic partnerships with our key suppliers. In addition, we've introduced an advanced manufacturing engineering function to reduce cost of quality and the time it takes to bring new products to market over time.

We are making progress in driving efficiency and reducing costs across our factories, but recognise that there is more to do in meeting our goal of being a world class manufacturer. We plan to roll out monitoring and note inspection systems into all sites in the next 18 months in order to improve quality and reduce wastage. In the meantime, we are exploring opportunities of automating certain processes to improve operational efficiency.

We are investing in new IT infrastructure to improve the way we work. This has begun in the Finance function, where we are half way through a transformation programme which will see SAP implementation across the Group. The programme will continue in the coming year, which will drive efficiency and improve decision making once complete.



Find out more about our partnerships
www.delarue.com

2

Invest for growth

Our second strategic priority is to invest in order to drive our future growth, and here we see opportunities in four key areas: in security features and polymer for the Currency market; and also across our Identity Solutions (IDS) and Product Authentication & Traceability (PA&T) businesses.

Innovation is a key differentiator for us – we aim to counter the counterfeiters at every turn, and that means having access to the best technology. We continue to invest product management, R&D and sales, with R&D investment up 13% in FY17/18. We are on track to double our R&D investment which is up 74% since 2015. The investments and improved focus in R&D have increased the number of patents filed and granted last year to 33 and 46, respectively. In addition to the six new products launched last year, the Group introduced two more in May 2018 – Ignite™ and PureImage™. We launched more products in the last two years than the previous five years combined.

In May 2017, our significant and ongoing investment in digital expertise led to the launch of DLR Analytics™, which in January 2018 won the 5th Central Banking Awards for Consultancy and Advisory Services. DLR Analytics™ provides analysis on banknote lifespan and distribution trends, which helps central banks to better understand what is happening within their cash cycles. Such data allows institutions to make better-informed decisions on their banknote issuance policy, such as switching from paper to polymer or withdrawing high-denomination banknotes. For us, the advantages go beyond providing better customer service. DLR Analytics™ takes a little more volatility out of the market – because an improved understanding of upcoming needs means that we can plan our resources more effectively. This will support our drive to generate recurring revenue by building longer term partnerships. To date, 70 issuing authorities – almost half of the world's total – have signed up to DLR Analytics™, one third of which are new to De La Rue.



Tracking the supply chain, from manufacturer to consumer

We are proud to be providing the first tax stamp solution to meet the demanding criteria of the WHO's Framework Convention on Tobacco Control (FCTC). Set to be implemented by the UAE in early 2019, this highly secure label and track and trace system comply with the FCTC's strict protocol to eliminate all forms of illicit trade in tobacco products. The FCTC aims to achieve this via several ways, in particular the establishment

of an international tracking and tracing system. Our technology supports this capability in full, enabling the tobacco to be tracked from manufacturer right through to consumer, thereby giving governments the tools to ensure that the relevant tax revenue is collected. In short, we are well-positioned to capture the growth opportunities in this market.



Find out more about our products
www.delarue.com

The trend towards polymer banknotes is a good example of innovation driving growth as we continue to take share in this fast growing market. Our volumes of polymer more than doubled to 810 tonnes in the year, with future growth underpinned by new contracts including with the Bank of England for the new £20 note which is due to be issued in 2020. Including the notes on order, our polymer substrate Safeguard® has now been adopted by 24 out of 38 polymer note issuing authorities.

We also see opportunities to accelerate technology development through partnerships and acquisitions. In October 2017, we entered into a strategic partnership with Opalux, a Canadian authentication firm, to explore its tunable photonic crystals technology for the identity market. And in April 2018, we partnered with another Canadian technology firm Optel Group, a market leader in track and trace technology, further enhancing our product offering.

The acquisition of DuPont Authentication in 2017 brought world-leading Lippmann hologram technology into De La Rue. Currently being applied in the identity and product authentication sectors, we are now working hard to modify this technology for the currency market.

We are putting more efforts in sales and marketing in the growth areas, particularly in IDS and PA&T. Since 2016 sales investments in these two segments are up 79% and 47%, respectively. Given the typical 18-24 months sales cycle of public services contracts, early signs of returns on these investment have just started to emerge. Order intakes in IDS excluding the UK Passport contract increased by 117% and in PA&T by 97% in FY17/18, including some long term contracts. Implementation of some of these contracts is expected to start in the second half of FY18/19, which will generate stable revenue and profit from FY19/20 onwards.

3

Strengthen our financial position

We are committed to strengthening our financial position through improving profit and managing cash prudently.

The additional effort put into managing cash better has borne fruit. During the year, inventory and trade debtors, excluding the exited paper business, reduced by £13m and £10m, respectively. The £60.3m cash proceeds from the sale of Portals De La Rue completed on 29 March 2018 has further reduced our net debt at the year end to £49.9m (25 March 2017: £120.9m), the lowest in five years. Cash conversion rate in the year was 163% (2016/17: 114%).

The year on year increase was driven by lower inventory due to structural changes and a focus on inventory management, and lower account receivable on strong cash collections in the last two months of the year. See more details on page 34.

In November 2017, we announced that the Group's pension trustee had decided to change indexation linked to future pension increases from RPI to CPI for our UK defined benefit pension scheme. This change has reduced the pension liabilities and the corresponding deficit by £80.5m. The pre-tax pension deficit at the year end was £87.6m, substantially lower than the £237.0m a year ago.

The stronger balance sheet gives us greater flexibility in allocating resources and enables us to continue investing for growth. We are sharpening our focus on the deployment of capital. Our disciplined approach to capital investments means our capex programme is more targeted.

The purchase of DuPont Authentication has already proved to be a successful transaction for us. It's given us market-leading and differentiating technology, and a great team of skilled people who are making a real difference across the organisation.

The Group's return on capital employed in the year was 36% (2016/17: 39%), demonstrating our ability to generate good returns on our investments. See more details on page 34.

4

Drive culture change

Our culture underpins every aspect of our business. It's the strategic priority that enables all the other priorities to be delivered effectively.

When I joined in 2014, I quickly learnt that De La Rue was a great organisation with a long history of quality service that had led to enduring customer relationships, some of which went back – and still do – well over a century. But I also realised that things had to change. There was a clear disconnect between the strategy we needed to pursue and how people here were actually working. De La Rue simply couldn't do what it needed to do without a dramatic shift in culture – so we set a goal of creating a high performance, accountable and results-based culture.

Today, De La Rue is a business transformed. Every individual but one of my Executive Leadership Team is new in the last two or three years. Among the senior leadership team, we have seen turnover of around 50% over the same period and a fall in numbers too, which has helped us on the cost side. The sales force is also unrecognisable from its composition in 2015, with around 40% being relatively new faces.

But a change in culture needs more than just new faces, some nice values, mugs and mousemats. It needs solid foundations. We now have a marked emphasis on performance. Our people have objectives aligned to the strategy, and we have refreshed the entire incentive framework.

We are also investing in training and development. These place a key role in identifying and supporting internal talent pools so we can reach the point where 80% of management positions are filled by internal candidates. At the same time, our salesforce is being upskilled to help them focus on the ID and product authentication sectors where the sales process is more consultative.



Reducing our liabilities

Addressing the Company's pension deficit has played a key role in strengthening our financial position. Our Pension Trustee has agreed that from April 2018, the indexation for future increases in the Group's UK defined benefit pension scheme should be changed from RPI to CPI. This has the effect of reducing the scheme's liabilities and corresponding deficit by £80.5m, which is reflected in the full year financial accounts. See more details on pages 143 to 146.

At the time of its last triennial valuation in April 2015, the scheme's underlying actuarial funding deficit had increased to £252m, £92m higher than in 2012, despite contributions of around £70m being made by the company in that period. Clearly this was unsustainable – the change in indexation has reduced risks for the members and put the scheme on a stronger footing, while helping to secure pensions for current and deferred pensioners. At the same time, it will enable us to continue to invest in jobs and R&D and attract sufficient investment for the long-term growth of the business.



Find out more about our employees
www.delarue.com

Chief Executive Officer's review continued



Valuing and respecting our people

We know that diverse organisations perform better and are more engaging places to work.

During the year, we launched our first inclusion and diversity strategy, which aims to ensure that all our people feel they have a perspective that is valued and a voice that is listened to and respected. Our first action was to increase awareness of unconscious bias – what it is, why we have it, and where we see it in De La Rue. Among other initiatives, we've also identified and implemented changes in our recruitment methods to remove barriers to inclusion. For example, we've started to reviewed job descriptions and adverts to remove any language or tone that may create a barrier.

We have a number of specific programmes around gender diversity, including a target that women should account for 25% of our senior leadership team by 2020. For the last financial year, that figure was 18%. We've also established a Women's Network to explore potential benefits of greater inclusion. Specific initiatives include: supporting managers to enable them to champion flexible working; reviewing our existing flexible working policies; and establishing a culture of flexible working through our employee value proposition to attract talent to De La Rue.

We recognise that we're just starting out on this journey – as we learn we'll develop our strategy further.

 Find out more about our employees
www.delarue.com

It almost goes without saying that ethics are absolutely central to what we do and how we do it. We apply the highest standards and expect our supply chain to follow our lead, at all times and without exception. De La Rue has always worked like this – but we are strengthening our emphasis on ethics to ensure we maintain the full respect of the banks and leading organisations we work with.

We are also supporting a drive towards a more diverse workforce – more aligned with the cultural and ethnic diversity of our customers. We launched an inclusion and diversity strategy in October 2017, encouraging inclusivity through changes in recruitment practices

and training programmes. In addition, we've moved away from an agent-led sales function towards a more direct approach, with locally based sales teams who understand the local markets and cultures, working out of regional hubs. We have already opened hubs in Dubai and Miami and are close to doing the same in Kuala Lumpur.

It's been a long and at times challenging journey, for the Company and for our people. But there is evidence that it has been worthwhile – the latest employee engagement survey indicated a shift in culture. People have bought into what we are doing. They appreciate reward and thank you programmes.

They acknowledge the work we are doing to reduce the gender pay gap, which at 10% is good but needs to be zero. And they see all the other good work taking place around diversity, health and wellbeing.

Looking ahead

While losing the new UK Passport tender was disappointing, it does not change our goals. We will continue to seek out every opportunity to improve operational efficiency during the year ahead, while investing in the innovation that will keep our business one step ahead of the counterfeiters as well as the competition. This twin-track approach will be supported and enabled by our ongoing focus on strengthening our financial position and driving a positive, results-led culture.

The strong 12 month order book gives good revenue coverage for the year ahead. Operating profit is expected to be in line with FY17/18 as we continue to invest in R&D and sales to drive long term sustainable growth.

The sale of the paper business and the associated long term paper supply agreement have reduced our exposure to the volatility of the oversupplied paper market, while securing the surety of supply for our print business. Through this, and good cash generation from the business, we have significantly strengthened our balance sheet with net debt now at its lowest in five years. The stronger balance sheet provides the Group with greater flexibility to allocate capital to deliver long term shareholder value.

Martin Sutherland
Chief Executive Officer

Operational and financial review

Operational review

Banknote print volume

Billion notes

2018	7.3
2017	7.1
2016	7.1
2015	6.5
2014	6.2

Polymer volume

Tonnes

2018	810
2017	380
2016	100

Currency revenue

£m

2018	371.8
2017	349.5
2016	352.5
2015	317.1
2014	340.8

Currency adjusted operating profit*

£m

2018	45.1
2017	50.3
2016	55.1
2015	50.5
2014	61.0

Group revenue increased by 7% to £493.9m, with solid performance across all three segments. Adjusted operating profit was 11% lower at £62.8m.

A significant reduction in the profitability of the paper business was the major factor causing the profit decline, with the write off of the UK Passport bid costs as well as planned investments in R&D and sales being offset in part by additional margin from increased sales and certain provision and accrual releases, where we now have additional information as to the likelihood and amount of potential liabilities.

Excluding the exited paper business, Group revenue was up 4% to £426.4m and adjusted operating profit was up 7% to £56.9m.

Currency

The Currency business comprises Banknote Print, Banknote Paper, Polymer and Security Features.

The Currency business delivered 6% growth in revenue to £371.8m (2016/17: £349.5m), benefiting from the high volumes from Banknote Print, Banknote Paper as well as Polymer. Adjusted operating profit was £45.1m (2016/17: £50.3m). A significant reduction in the profitability of the paper business was the major factor causing the profit decline, offset in part by additional margin from increased sales and certain provision and accrual releases, where we have additional information as to the likelihood and amounts of potential liabilities.

Excluding the exited paper business, revenue was up 2% to £312.0m and operating profit was 11% higher to £40.5m.

Banknote Print

Banknote Print volume increased by 3% to 7.3bn notes (2016/17: 7.1bn), and revenue was up 5%, reflecting both the higher volumes and higher average price. The manufacturing footprint programme completed its second year, with refurbishment of banknote print lines in Kenya and Sri Lanka progressing slower than expected. A new varnishing line which makes printed banknotes more durable has been added to the Kenya factory, providing more operational flexibility in line with other sites.

In FY17/18, we outsourced the printing of 115m banknotes and are expecting the outsource volume to increase in the current financial year. Separately, a plan to roll out quality control systems, including note inspection machines, to improve quality and reduce costs is now in place.

Banknote Paper

Banknote Paper revenue grew by 5%, driven by the higher volumes of 12,200 tonnes (2016/17: 11,700 tonnes). However high raw material cost, compounded with production issues, resulted in a decline in profitability. Banknote Paper, as part of Portals De La Rue, was sold on 29 March 2018.

Polymer

Polymer volumes more than doubled to 810 tonnes (2016/17: 380 tonnes) in the year. In January 2018, we helped Botswana transition its 10 Pula note from paper to polymer, which was also designed and printed by De La Rue. Following the award of the milestone contract in October 2017 to supply polymer substrate for the Bank of England's new £20 note, we also secured a contract to provide polymer substrate to a state print works of a West African country.

Security features

Security thread volume was up 23% year on year. There was good uptake on Kinetic StarChrome™ launched in 2014 with multiple wins, including the Macedonia 2000 Denar and the Bangladesh 100 and 500 Taka. We also secured the first order of Starchrome Portrait™, one of the four new features launched in May last year. In addition, we have further strengthened our product portfolio through the launch of two new features in May 2018 – Ignite™ and PureImage™.

A number of joint development projects with customers and partners are underway, including the personalisable security feature for identity products with Opalux, which is expected to launch within the current financial year.

At the year end, the 12 month order book for Currency excluding the paper orders was £272m (2016/17: £265m).

* This is a non-IFRS measure. See further explanations and reconciliations to the comparable IFRS measures on page 157.

Operational and financial review continued

Identity Solutions

Identity Solutions performed as expected, with revenue up 2% to £82.0m (2016/17: £80.6m). Adjusted operating profit was 27% lower than the prior year due to the £3.7m write off of the bid costs associated to the UK Passport retender. Excluding the bid costs, operating profit was up 5%.

Excluding the exited paper business, revenue was up 4% to £76.4m and operating profit was 20% lower to £7.1m, or 21% higher excluding the one off UK Passport bid costs.

We have made good progress in our core markets as countries are switching from Machine Readable Passport to ePassport. During the year, we helped Kenya to launch its first polycarbonate ePassport with production starting in January 2018. It was the first adoption amongst the East Africa Community members. The momentum continued with two new wins in East Africa transitioning to ePassport, as well as a new eID end-to-end solution contract with the Government of Malta.

The project with Note Printing Australia to design and develop Australia's next generation passport due to be launched in 2020 is progressing well.

While losing the new UK Passport tender will not affect the financial performance of this segment in the next 18 months as we will continue to fulfil our existing ten year contract with Her Majesty's Passport Office and assist with transitioning to the new supplier, we are reassessing our capabilities and cost base in order to remain competitive in this market.

Product Authentication & Traceability

Product Authentication & Traceability (PA&T) continued to perform well. Revenue increased by 27% to £40.1m (2016/17: £31.6m), driven by De La Rue Authentication Solutions (DAS, previously DuPont Authentication). Adjusted operating profit in the period was up 4% to £9.4m (2016/17: £9.0m). Increased investment in sales and R&D, particularly software solutions, resulted in a lower margin.

Excluding the exited paper business, revenue was up 31% to £38.0m and operating profit was 16% higher at £9.3m.

We made good progress in the government revenue services (GRS) area, winning a contract with an initial five year term under a build, operate, transfer model to implement a full FCTC compliant track and trace tax stamp solution for the Federal Tax Authority in the UAE. The scheme is expected to roll out in early 2019, initially applying to the tobacco industry. Successful implementation will give us an excellent reference in the Gulf Cooperation Council region.

On brand protection, DAS exceeded management's expectations in the first year post-acquisition, with both revenue and operating profit ahead of plan. Operating costs of £3m were in line with plan and the business benefited from the investment and sales synergy of being part of the Group.

To enhance our product and service offering, we have partnered with Canadian firm Optel Group, one of the leaders in track and trace technology being used in pharmaceutical and health care industries, the most mature and regulated brand protection market. The two groups will closely collaborate on product development and sales to accelerate growth.

Identity Solutions revenue¹

2018	82.0
2017	80.6
2016	76.5
2015	75.9
2014	87.1

Identity Solutions adjusted operating profit^{*1}

2018	8.3
2017	11.4
2016	8.3
2015	12.2
2014	21.9

Product Authentication & Traceability revenue¹

2018	40.1
2017	31.6
2016	28.8
2015	32.7
2014	36.7

Product Authentication & Traceability adjusted operating profit^{*1}

2018	9.4
2017	9.0
2016	7.0
2015	6.4
2014	10.6

* This is a non-IFRS measure. See further explanations and reconciliations to the comparable IFRS measures on page 157.

¹ The Group reclassified the results of one of its manufacturing sites in FY2016/17 in order to align the external and internal reporting. The historic revenue and operating profit numbers (except 2014 adjusted operating profit) in IDS and PA&T have been adjusted to reflect this change.

Financial review

Underlying effective tax rate (before exceptional items) %

2018	15.5
2017	15.8
2016	14.7
2015	17.6
2014	19.5

Bank covenants Times

2018	14.0
2017	16.1

2018	0.66
2017	1.27

- Adjusted EBIT/net interest covenant ≥ 4.0
- Adjusted net debt/EBITDA covenants ≤ 3.0

Financial performance

Overview

The Group has made good progress in improving working capital management during the year with successful initiatives in inventory management and strong cash collections. We have also significantly strengthened our balance sheet following the receipt of £60.3m for the disposal of the Portals De La Rue paper business which has resulted in significantly lower net debt of £49.9m compared to £120.9m last year. Finally, following the indexation change from RPI to CPI on the Group's UK defined benefit pension scheme, the liability has substantially reduced to £87.6m from £237.0m last year. The Group generated revenues of £493.9m which was a 7% increase on last year. Adjusted operating profit was £62.8m which was down on the £70.7m in the prior year. A number of factors have impacted operating profit during the year and further details on these are set out below. All figures and commentary in this section are for continuing operations only unless otherwise stated.

Revenue and profit

Group revenue was £493.9m representing a 7% increase over the prior year (2016/17: £461.7m). Good growth was generated by the Currency division with revenue up £22m in particular relating to banknote sales due to both higher volumes and average price. The PA&T and IDS divisions both saw revenue growth following the acquisition of DuPont Authentication Inc in January 2017 of £8.5m and £1.4m respectively.

Adjusted operating profit was £62.8m, down from the £70.7m last year. The reduction was due to the write-off relating to capitalised bid costs for the UK Passport retender of £3.7m, the impact of the poor performance of the paper business in addition to the impact of higher operating costs due to planned increases in sales and marketing and research and development activity as we invest in the business for the future. During the year adjusted operating profit also benefited from certain provision and accrual releases where we now have additional information as to the likelihood and amount of the potential liabilities.

Adjusted EBITDA was £87.3m down from £97.4m in 2016/17.

Operating profit on an IFRS basis was higher at £123.0m compared to £70.2m in 2016/17 as the impact of lower adjusted operating profit was offset by the £80.5m gain on the re-measurement of the pension liability following the change in indexation from RPI to CPI. This gain was partly offset by the impairment of the disposal group relating to the sale of the paper business (Portals De La Rue) of £9.3m in addition to costs associated with the transaction and higher site relocation and restructuring costs in the current year.

See commentary below for further details on exceptional items.

Adjusted profit before tax was lower than the prior year at £53.4m (2016/17: £58.7m) as the impact of lower adjusted operating profit was partially offset by lower net finance expense of £9.4m compared to the prior year (2016/17: £12.0m) primarily due to a lower IAS 19 interest charge. Profit before tax on an IFRS basis was £113.4m (2016/17: £58.2m).

Profit from continuing operations on an IFRS basis was £96.8m compared to £49.5m in the prior year the increase being accounted for by the credit of £60.9m on exceptional items.

Finance charge

The Group's net interest charge was £3.8m a reduction on the prior year. The reduction was due to a release of accruals for potential interest charges relating to tax liabilities. The IAS 19 related finance cost, which represents the difference between the interest on pension liabilities and assets was £5.6m (2016/17: £7.4m). The charge is lower in the current year reflecting the fall in the pension liability which was effective from November 2017 when the Trustees of the main scheme agreed to the change in indexation method from RPI to CPI.

Operational and financial review continued

Exceptional items relates to the disposal of Portals De La Rue

In March 2018 the Group disposed of the Portals De La Rue paper business for cash consideration of £60.3m. In addition the group received further consideration in the form of loan notes valued at £3.8m and holdings of shares in parent company of Portals De La Rue valued at £2.8m. In accordance with IFRS 5 prior to the sale an impairment of the disposal group of £9.3m was recorded representing the difference between the carrying value of the assets and liabilities of the disposal group and the fair value less costs to sell.

Costs associated with the transaction of £4.2m were also recorded primarily relating to advisor and professional fees. In addition a loss of £0.9m was incurred relating to the early close out of some derivatives prior to the sale.

The Group has entered into a relationship agreement with Portals De La Rue which provides guaranteed supply to meet our paper needs going forwards.

Other exceptional items

Excluding items related to the paper disposal the group incurred other exceptional items, which on a net basis totalled a gain of £75.3m (2016/17: net charges of £0.4m).

Exceptional items comprise: A gain of £80.5m on the revaluation of the defined benefit pension scheme liability following the change of indexation from RPI to CPI. Costs of £1.0m were also recorded relating to professional advisor and other costs directly associated with this change.

Site relocation and restructuring costs of £4.0m (2016/17: £0.2m) which relate the manufacturing footprint review announced in December 2015 of £1.8m and costs relating to the upgrading of our finance systems and processes of £2.2m.

Costs of £0.2m have been incurred during the year in relation to the acquisition of DuPont Authentication Inc in January 2017.

See note 4 “exceptional items” for further details.

Taxation

The net tax charge in respect of continuing operations for the year was £16.8m (2016/17: £8.7m). The effective tax rate before exceptional items and tax on the movement of acquired intangibles was 15.5% (2016/17: 15.8%).

A net tax charge relating to exceptional items, on continuing operations, arising in the period were £9.7m (2016/17 credit of £0.6m).

Earnings per share

Adjusted basic earnings per share was 42.9p compared to 47.1p in 2016/17 lower due to lower adjusted operating profit in the current year.

Reported basic earnings per share were 93.7p compared to 47.2p in 2016/17 due to the impact of the gain of £80.5m on the re-measurement of the defined benefit pension scheme following the change in indexation.

Loss from discontinued operations

The loss from discontinued operations in the year was £1.8m and included charges of £3.6m relating to costs incurred on a loss making contract which the Group had to retain post the disposal of the Cash Processing Solutions (CPS) business and other costs associated with the closure of the business. These charges were offset by the receipt of £1.4m in further consideration for sale of CPS for which a receivable was not recorded due to the likelihood of this amount being paid.

A net tax credit on discontinued operations of £1.2m.

Dividend

The Board is recommending a final dividend of 16.7p per share (2016/17: 16.7p per share). Together with the interim dividend paid in January 2018 of 8.3p per share, this will give a total dividend for the year of 25.0p per share (2016/17: 25.0p per share). Subject to approval by shareholders, the final dividend will be paid on 3 August 2018 to shareholders on the register on 6 July 2018.

Capital expenditure relative to depreciation

£m

2018	19.9	25.2
2017	24.0	26.8
2016	25.0	26.2

● Capital expenditure
● Depreciation and amortisation

Group trade working capital*

£m

2018	68.5
2017	83.6
2016	71.1
2015	96.1
2014	94.0

* Trade working capital comprises inventories plus trade receivables less trade payables and advance payments. Amounts stated for 2018 are before the impact of the portals disposal. 2013-15 comparatives have not been restated for discontinued operations.

Financial position

Cash generation and cash conversion

The group delivered strong cash flows in the year with cash generated from operating activities of £73.5m higher than the £64.3m recorded in 2016/17. The increase was due to a significant reduction in inventory holdings compared to the prior year (a £13m benefit excluding the impact of the disposal of Portals De La Rue) due to successful initiatives to manage inventory holdings and strong cash collections from debtors (a £10m benefit in the year). Cash generated from operating activities is also stated after special pension funding payments of £13.5m.

Cash conversion ratio for the year was 163%. The improvement resulting from the improvement in working capital levels during the year which more than offset the lower adjusted operating profit reported in the year. Cash conversion is the ratio of adjusted operating profit adjusted for depreciation, amortisation and the movement in working capital over adjusted operating profits.

Investing and financing cashflows and net debt

In addition to the £60.3m proceeds received from the sale of Portals De La Rue, £3.0m was also received in relation to the sale of the CPS business. These amounts related to £0.8m of deferred consideration which was payable on the first anniversary of the transaction in May 2017 and £0.8m working capital adjustment. These were in addition to the £1.4m received in the current year as referred to in the discontinued section above.

These proceeds in addition to the strong operating cashflows generated in the year have resulted in us being able to repay £67.0m of debt and invest £24.7m in capex. The Group ended the year with substantially lower net debt of £49.9m down by £71.0m from £120.9m at 25 March 2017.

The Group utilises a £275m revolving credit facility which expires in December 2021. The Group has operated well within the key financial covenants on this facility. These are that the ratio of EBIT to net interest payable be greater than four times and the net debt to EBITDA ratio be less than three times. At the period end the specific bank covenant tests were as follows: EBIT/net interest payable of 14.0 times and Net debt/EBITDA of 0.66 times.

Pension deficit and funding

In November 2017 it was announced that the Group's pension trustee had decided to change the indexation of future increases from RPI to CPI for its UK defined benefit pension scheme effective from April 2018. At the time of the Group's last triennial in April 2015, the Scheme's underlying actuarial funding deficit increased to £252m, £92m higher than in 2012 despite c£70m contributions made to the scheme by the Group in that period. The funding plan agreed in June 2016 to eliminate the deficit over a 12 year period will remain in place until the conclusion of the next triennial review commencing in April 2018. The agreed funding plan was for payments of £13.5m in 2018, increasing to £20.5m in 2019 and then rising by 4% per annum to 2022. It will be frozen at £23.0m per year between 2023 and 2028.

On a pre-tax basis the net pension deficit was £87.6m (25 March 2017: £237.0m). The decrease results primarily from the change in indexation method which has accounted for £80.5m of the reduction in the pre-tax pension deficit. However in addition the scheme benefited from positive investment returns on assets and favourable changes in assumptions for the long term rate of inflation and life expectancy which resulting in an actuarial gain of £58.8m presented within reserves.

The charge to operating profit in respect of the UK defined benefit pension scheme in 2017/18 was £2.3m (2016/17: £1.5m). This amount was higher due to costs associated with the indexation change. The element of the £2.3m which directly relates to the indexation change (£1.0m) has been recorded in exceptional items consistent with where the gain on re-measurement has been recorded. In addition, under IAS 19 there was a finance charge of £5.6m arising from the difference between the interest cost on liabilities and the interest income on scheme assets (2016/17: £7.4m). This charge was lower following the reduction in the pension deficit following the CPI change becoming effective in November 2017.

Capital structure

At 31 March 2018 the Group had net liabilities of £20.7m (25 March 2017 (restated): £142.8m). The significant reduction reflects the fall in the pension deficit recognised during the year.

The Company had shareholders' funds of £210.5m (25 March 2017: £230.5m) and had 102.4m fully paid ordinary shares in issue (26 March 2017: 101.4m) at the year end.

How we performed

We measure our performance using both financial KPIs and strategic indicators that we believe provide a meaningful assessment of our performance against our strategy.

Financial KPIs

Revenue

£m

2018	493.9
2017	461.7
2016	454.5
2015	422.8
2014	460.1

£493.9m

Revenue demonstrates our ability to deliver growth. Revenue increased by 7% in the year, with solid growth across three segments. Excluding the paper business sold on 29 March 2018, revenue was up 4% to £426.4m.

Adjusted operating profit²

£m

2018	62.8
2017	70.7
2016	70.4
2015	69.1
2014	93.4

£62.8m

Adjusted operating profit was 11% lower than the prior year, reflecting the £3.7m write off of the UK Passport bid costs, the planned investment programme, and the poor performance in the paper business. Excluding the exited paper business, adjusted operating profit was up 7% to £56.9m.

Return on capital employed⁴

%

2018	36
2017	39
2016	42
2015	39
2014	56

36%

Return on capital employed shows how efficiently and effectively we use our assets and resources to generate return for shareholders. The year on year decline was primarily driven by lower adjusted operating profit in year.

Adjusted EBITDA¹

£m

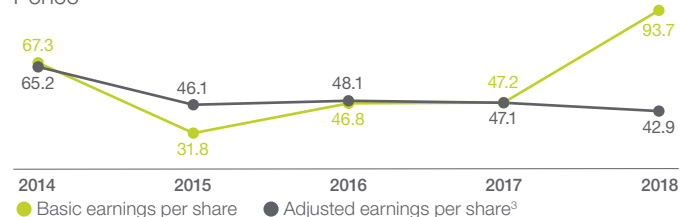
2018	87.3
2017	97.4
2016	96.4
2015	93.8
2014	117.7

£87.3m

Adjusted EBITDA provides an underlying picture of our performance by excluding the non-operating factors such as financing and changes to tax environment. The year on year decline was due to lower adjusted operating profit as well as lower depreciation and amortisation in the current year.

Basic earnings per share

Pence



Growth in earnings per share demonstrates our ability to create value for our shareholders. The year on year decrease in adjusted earnings per share was due to decline in profit. The year on year increase in basic earnings per share was due to the £60.9m exceptional gain relating primarily to the pension indexation change.

Cash conversion⁵

%

2018	163
2017	114
2016	160
2015	123
2014	111

163%

We are focusing on better managing our cash through effective inventory planning and credit control. The year on year increase was driven by lower inventory due to structural changes and a focus on inventory management, and lower account receivable on strong cash collections in the last two months of the year.

¹ Adjusted EBITDA represents earnings before the deduction of interest, tax, depreciation, amortisation and exceptional items.

² Adjusted operating profit represents operating profit adjusted to exclude exceptional items and amortisation of acquired intangible assets.

³ Adjusted basic earnings per share are the earnings attributable to equity shareholders excluding exceptional items, divided by the weighted average number of ordinary shares outstanding during the year.

⁴ ROCE is calculated as the ratio of adjusted operating profit over average capital employed (where capital employed equals net assets excluding liabilities for pension, tax interest and long term liabilities).

⁵ Cash conversion is the ratio of operating cash flow (adjusted operating profit plus depreciation and amortisation and working capital movement) divided by the adjusted operating profit.

See page 157 for further explanations of non-IFRS measures and reconciliations to comparable amounts.

Linking to performance



Performance measures which directly affect the remuneration of our Directors



See Directors' remuneration report on [pages 74 to 94](#)

Strategic measures

Adjusted EBITDA margin¹

%

2018	17.7
2017	21.1
2016	21.2
2015	22.2
2014	25.6

17.7%

This measurement provides an underlying picture of our performance by excluding the non-operating factors such as financing and accounting decisions, or tax environments. Adjusted EBITDA margin decline due to the higher revenue combined with the decline in profit.

Identity Solutions revenue

£m

2018	82.0
2017	80.6
2016	76.5
2015	75.9
2014	87.1

£82.0m

Identity Solutions is one of our key growth product lines in which we are investing to build capabilities and focusing resources. Revenue grew by 2% year on year primarily driven by increasing sales from existing customers as well as the acquisition of DuPont Authentication Inc completed in January 2017.

Percentage of revenue from long term agreements (LTAs)

%

2018	51
2017	44
2016	35

51%

Increasing long term recurring revenues as a proportion of total sales enables us to improve the visibility as well as the quality of earnings. LTAs are contracts that have a duration of two or more years and a regular call-off value. This was a new measure in 2017 and therefore historic data are not available.

Group 12 month order book

£m

2018	363
2017	341
2016	365
2015	226
2014	283

£363m

Group 12 month order book is a record of received customers' orders that are due to be delivered in the next 12 months following the reporting date. The numbers include committed orders and regular call-off orders on contracts. Excluding the paper orders, Group 12 month order book increased by 6% year on year.

Net debt/EBITDA covenant ratio

Times

2018	0.66
2017	1.27
2016	1.25
2015	1.23
2014	0.83

0.66

Net debt/EBITDA is a bank covenant which excludes pension liabilities. The year on year decrease was primarily due to a lower net debt of £50.0m (25 March 2017: £120.9m), reflecting the £61m cash proceeds from the disposal of the paper business as well as favourable working capital movement as result of good cash management.

Product Authentication & Traceability revenue

£m

2018	40.1
2017	31.6
2016	28.8
2015	32.7
2014	36.7

£40.1m

Product Authentication & Traceability is one of our key growth product lines in which we are investing to build capabilities and focusing resources. Revenue was up 16% year on year, reflecting the acquisition of DuPont Authentication Inc completed in January 2017.

Total number of patents granted

Number

2018	46
2017	26
2016	22
2015	29
2014	18

46

We have a strong track record of innovation, with more than 1,000 granted patents and 500 pending applications. Our commitment to double our R&D investment in the five years to 2020 will ensure a strong product pipeline and enhance differentiation.

¹ Adjusted EBITDA margin represents adjusted EBITDA as a percentage of sales.

Risk and risk management

How we manage our principal risks and uncertainties

How we manage risk

Risk management is the responsibility of the Board, supported by the Risk Committee which comprises members of our Executive Leadership Team (ELT). The Risk Committee is accountable for identifying, mitigating and managing risk. Further details about the Committee can be found on page 70. Our formal risk identification process evaluates and manages our significant risks in accordance with the requirements of the UK Corporate Governance Code. Our Group risk register identifies the risks, their potential impact and likelihood of occurrence, the key controls and management processes we have established to mitigate these risks, and the investment and timescales agreed to reduce the risk to an acceptable level within the Board's risk appetite.

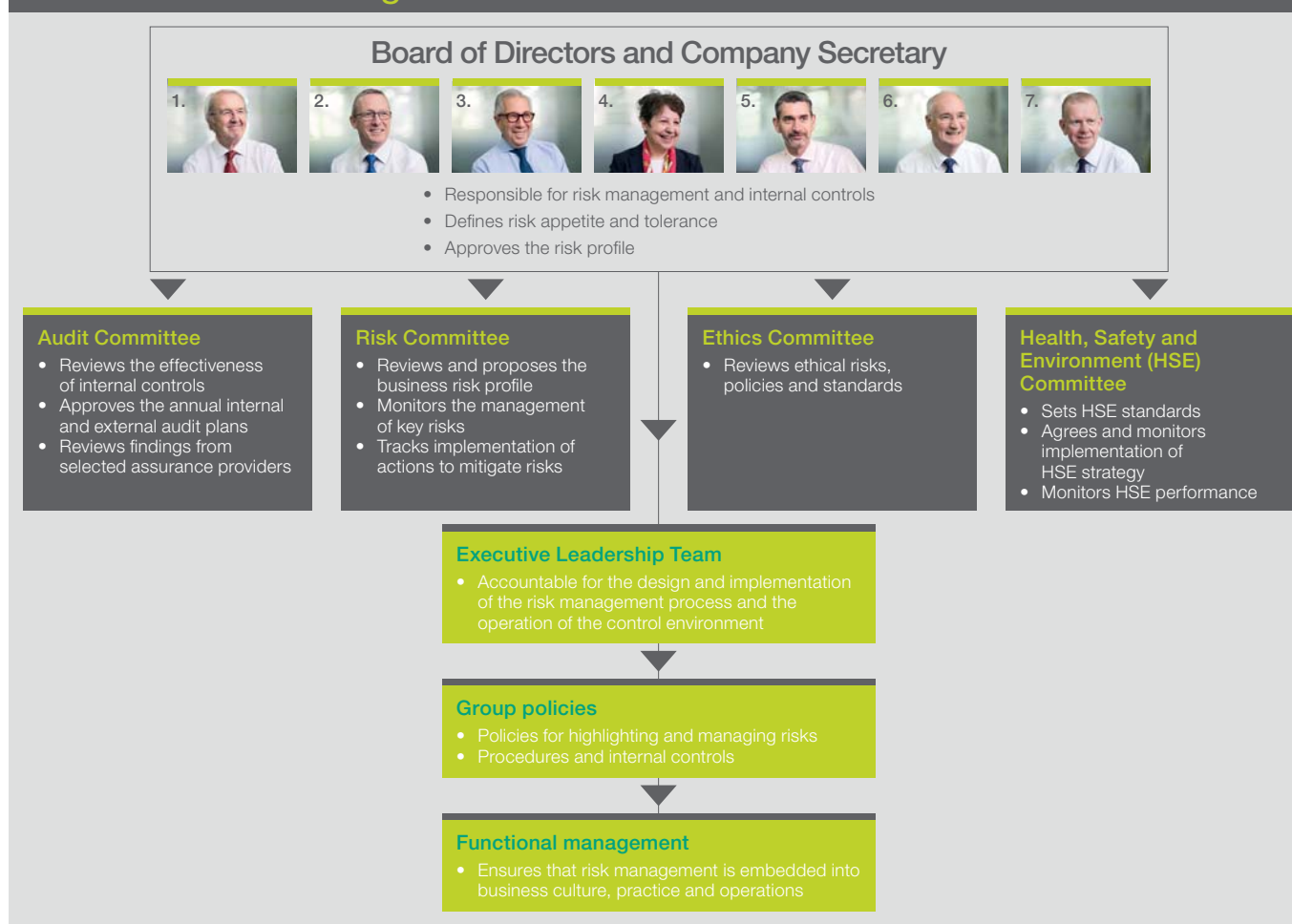
The Risk Committee meets twice a year to review risk management and monitor the status of key risks as well as the actions we have taken to address these at both Group and functional level. Any material changes to risk are highlighted at the monthly ELT meetings, while the Audit Committee also reviews the Group's risk report. The ELT undertakes a risk workshop each year to challenge whether it has identified the principal risks that could impact the business in the context of the environment in which we operate.

Management is responsible for implementing and maintaining controls, which have been designed to manage rather than eliminate risk. These controls can only provide reasonable but not absolute assurance against material misstatement or loss. See page 68 for further information regarding internal controls.

Principal risks and uncertainties

The following pages set out the principal risks and uncertainties that could crystallise over the next three years. The Board has undertaken a robust risk assessment to identify these risks, which are listed in order of potential impact. There may be other risks that we currently believe to be less material. These could become material, either individually or simultaneously, and significantly affect our business and financial results. We have modelled potential scenarios of these risks crystallising to support the disclosures in the Viability Statement and assess the Group's risk capacity. See page 41 for further details. Due to the nature of risk, the mitigating factors stated cannot be viewed as assurance that the actions taken or planned will be wholly effective.

De La Rue's risk management framework



Risk appetite

The Board has reviewed our principal risks and considered whether they reflect an acceptable level of risk. Where this is not the case, the Board has also considered what further investment is being made to reduce the likelihood and potential impact of the risk. The Board either approves the level of risk being taken, or requires management to reduce the risk exposure.

For core areas of the business, the Board uses a number of methods to ensure that management operates within an accepted risk appetite. These include delegated authority levels, the approval of specific policies and procedures and the approval of the annual insurance

programme. The Board receives regular feedback on the degree to which management is operating within acceptable risk tolerances.

This feedback includes regular operational and financial management reports, internal audit reports, external audit reporting and any reports to the whistleblowing hotline. All members of the ELT have individual ownership for one or more of the principal risks. Management of those risks forms part of their personal objectives.

Key for strategic focus

- 1 Deliver operational excellence
- 2 Invest for growth
- 3 Strengthen balance sheet
- 4 Drive culture change

Key for risk outlook

- ↑ Increasing
- No change
- ↓ Decreasing

Principal risks and uncertainties ranked by net predicted impact

Risk	Exposure	Impact	Mitigation	Impact on strategy	Outlook
Breach of legal and regulatory requirements	It is possible that our employees or overseas representatives, either individually or in collusion with others, could act in contravention of our stringent requirements in relation to bribery and corruption, anti-competitive behaviours and management of third party partners (TPPs).	Major reputational and financial damage. A successful prosecution under Anti-Bribery legislation could see the Company barred from participating in major tenders.	We are accredited to the Banknote Ethics Initiative, which provides governments and central banks with assurance regarding our ethical standards and business practices. Our commitment to ethical standards is articulated in the Code of Business Principles. This is supported by underlying policies which are reviewed regularly and enforced robustly. Where necessary, non-compliance is dealt with through disciplinary procedures. We have a particular focus on raising awareness as well as training on anti-bribery and corruption, and competition law. Our policies and processes are independently audited. Our process for the appointment, management and remuneration of TPPs operates independently of the sales function. The behaviours of TPPs are strictly monitored and the TPP process is overseen by the General Counsel and Company Secretary, who reports directly to the Board on these matters. To reduce the exposure of TPPs, we are working on migrating them to employee relationships. Our whistleblowing policy and associated procedures are integral aspects of the compliance framework.	4	—
Mergers and Acquisitions	We are seeking to grow our business both organically and through appropriate partnerships and acquisitions.	Acquiring or partnering with third parties carries a level of inherent risk that the transaction may not achieve the expected business benefits over the medium to long term.	We have a controlled process for reviewing all opportunities that have to meet certain criteria before being able to progress to full due diligence and offer stage. The Board has to approve all such transactions before they can proceed.	2	↑

Risk and risk management continued

Principal risks and uncertainties ranked by net predicted impact

Risk	Exposure	Impact	Mitigation	Impact on strategy	Outlook
Failure to maintain and exploit competitive and technologically advanced products, services and manufacturing processes	We operate in competitive markets. Our products and services are characterised by continually evolving industry standards and changing technology, driven by the demands of our customers. Longer term threats could include the growth of eCommerce, the emergence of cashless societies and lower barriers to manufacturing.	Failure to maintain and exploit technical innovation and intellectual property may result in lower demand, loss of market share and lower margins.	<p>We maintain sustained levels of investment in research and development to ensure a steady flow of ideas into our innovation pipeline. Our product roadmaps are designed to meet our customers' needs. Our materials science expertise and software science team are centralised in the UK. These teams follow defined technology management processes, which include regular pipeline and portfolio reviews.</p> <p>We continue to invest in new technologies to enable us to advance our R&D and manufacturing capabilities, and have increased our focus on digital technologies since the strategy review in 2015.</p> <p>We aim to double our R&D investment in the five years to 2020.</p>	2	—
Quality management failure	Each of our contracts has a unique specification on product quality and delivery. Some of these contracts demand a high degree of technical specification.	A shortfall in quality management may expose us to additional cost to remake as well as to any associated fines or warranty costs.	<p>We operate an established quality management system across all production sites. All major sites are certified to ISO9001 quality management standards.</p> <p>In 2012, we introduced an Operational Excellence programme to further drive continuous improvement across our manufacturing sites. In 2017-18, we introduced further capital and operational investment to increase quality management in response to increasing quality standards demanded by our customers.</p>	1	—
Supply chain failure	<p>We have close trading relationships with a number of key suppliers, including unique producers of specialised components that we incorporate into our finished products.</p> <p>With the sale of Portals De La Rue Limited, our paper supplier now moves to become a third party supplier.</p>	Failure of a key supplier, the inability to source critical materials or poor supplier performance in terms of quality or delivery could disrupt our supply and ability to deliver on time and in full.	<p>Where we rely on external supply, we have established procedures for identifying possible risks for each supplier. Key suppliers are managed through a supplier relationship management programme. This incorporates checks on their financial strength and their ability to deliver to our quality standards and security, as well as their business continuity arrangements. Key suppliers are audited on a rotational basis.</p> <p>As a contingency, alternative suppliers are pre-qualified wherever possible and where necessary we retain higher levels of stocks.</p>	1	↑
Unpredictability in the timing and size of substantial contract awards	Political and other factors can delay government procurement decisions for sensitive products such as banknotes and passports.	The timing and size of contract awards is often uncertain. Delays lead to volatility in our order book and variance against our predicted financial performance.	<p>We maintain close and regular contact with customers so that any changes in timing and requirements are recognised promptly.</p> <p>We monitor our sales activity, order pipeline and forward order book to optimise production planning and ensure that delivery to customers is on time and in full.</p> <p>We also monitor any delays in order confirmation on a weekly basis. This enables us to maintain flexibility in the supply chain as far as possible, and to accommodate any changes to production planning.</p> <p>To minimise future unpredictability, we proactively pursue longer term commitments from customers. We also aim to grow recurring revenues by expanding our digital and service offerings.</p>	1 3	—

Principal risks and uncertainties ranked by net predicted impact

Risk	Exposure	Impact	Mitigation	Impact on strategy	Outlook
Failure to win or renew a material contract	While we operate globally and have a diversified geographic, product and customer profile, we rely heavily on a small number of medium and longer term material contracts.	Failure to win or renew a key contract could restrict growth opportunities and have a material impact on our financial performance and reputation.	<p>Our business involves tendering for long term contracts on a constant basis. We have dedicated bid specialists and where necessary contract in additional resources for the largest strategic bids. We employ complex sales methodologies to identify and qualify opportunities. These measures, along with our focus on customer service and quality mean that we are well positioned to win or renew strategic or significant contracts.</p> <p>We are focused on retaining key contracts, as and when they fall due for renewal, and on winning new opportunities as they arise. However, as the UK Passport contract award announced in March 2018 shows, there can be no certainty that we will win all major contract tenders.</p> <p>Our order book as at March 2018 was 6% above that of March 2017.</p>	<p>1</p> <p>2</p>	—
Capacity for change	Our business has seen a considerable level of organisation change over the last three years. The Board expects there to be a similar level of change over the next two to three year period.	All grades of staff may become demoralised by the level of constant change in the organisation. Processes, procedures, and control environments may suffer as the ELT continues to implement change.	Our change goals are incorporated into the annual objectives each year, so that all staff understand and are familiar with our priorities. All change initiatives are reviewed and approved by the ELT following risk analysis. All change initiatives are managed through programme managers with progress monitored and reported to the ELT and Board.	4	↑
Pension fund deficit	The Group's UK defined benefit pension scheme (the Scheme) is in deficit. As at 31 March 2018 the deficit as accounted for under IAS 19 was £87.6m (25 March 2017: £237.0m).	We have created a joint working group with the pension trustees to proactively manage our pension obligations. If at the next triennial valuation in 2018 the deficit increases further under actuarial valuation, the future cash flow commitments may put future capital investment and dividends at risk.	We continue to work with the pension trustees to explore methods of improving the return of the Scheme's assets and reducing the Scheme's liabilities. As announced in November 2017, the trustees changed the primary index for increased Scheme benefits to the Consumer Prices Index. The movements in the assets and liabilities as measured under IAS 19 are in note 24 of the financial statements.	3	↓
Loss of a key site	All our manufacturing sites are exposed to business interruption risks.	The total loss of any one of these sites could have a major financial impact, particularly where the site represents a single source of supply.	<p>Our head office and the banknote production operations in Debden and Gateshead UK are both accredited to the ISO22301:2012 Business Continuity standard.</p> <p>We maintain a degree of interoperability across our banknote production and security printing sites. We aim to minimise risk by adopting the highest standards of risk engineering in our production processes.</p> <p>In recognition of our customers' increasingly high requirements regarding business continuity, we continue to enhance the resilience of our major facilities in line with the ISO standard.</p>	<p>1</p> <p>2</p> <p>3</p>	—

Risk and risk management continued

Principal risks and uncertainties ranked by net predicted impact

Risk	Exposure	Impact	Mitigation	Impact on strategy	Outlook
Health, safety or environmental failure	All of our activities are subject to extensive internal health, safety and environmental (HSE) procedures, processes and controls. Nevertheless, there is a risk that any failure of an HSE management process could result in a serious incident.	Failure of an HSE management process could lead to a serious injury or an environmental breach.	<p>At all major facilities, we have a robust HSE management system which is internally audited and certified to the OHSAS18001 and ISO14001 standards.</p> <p>All of our activities are subject to extensive internal HSE procedures, processes and controls.</p> <p>The Group HSE Committee regularly reviews HSE performance. This is also monitored by the Chief Operating Officer's leadership team and reported to the Board monthly.</p> <p>Each manufacturing facility has clear HSE action plans which are prioritised, monitored and subject to review by local senior management to ensure that health and safety standards are maintained.</p>	1 2 3	—
Functionality and information security risk	Increasingly, our business involves providing software to customers. Poor quality of the functionality and information security built into the software and associated hardware could affect the confidentiality and integrity of our customer, employee and business data. Factors that could potentially impact functionality and information security include human error, ineffective design or operation of key data security controls, or the breakdown of IT control processes.	Any compromise in the software functionality or confidentiality of information could impact our reputation with current and potential customers.	<p>Our corporate information systems are accredited to the ISO27001 Information Security standard. We strengthened governance processes in 2017 with the introduction of an Information Security Steering Group.</p> <p>We maintain a strict control environment to enforce disciplined software development and information security practices and behaviours. A number of key technical controls are in place to manage this risk, including agile software development techniques, quality reviews, regular testing, network segregation, access restrictions, system monitoring, security reviews and vulnerability assessments of infrastructure and applications.</p> <p>We regularly review all aspects of information security arrangements, and our employees undertake mandatory information security e-learning.</p>	1 2	—
Product security	Loss of product or high security components from a manufacturing site could occur as a result of negligence or theft. Loss of product while in transit, particularly during transshipment, through the failure of freight companies or through the loss of an aircraft or vessel as a result of an accident or natural disaster, is also possible.	Any loss of product or high security components has the potential to cause reputational and financial damage. In certain circumstances, customer contracts may mean that we are liable for those losses.	We have robust physical security and materials control procedures at our production sites, which reduce the risk of inadvertent loss or theft during manufacturing. We apply stringent operational procedures – and use carefully selected carriers and personnel – to handle movements of security materials between our sites and onward delivery to customers. All movements are risk managed and monitored globally on a 24/7 basis. We also maintain a comprehensive global insurance programme.	1 2	—

Risks and uncertainties where the net impact has reduced since prior year, and which are no longer regarded as principal risks and uncertainties

Risk	Exposure	Impact	Mitigation
Cultural change	In order to ensure our continued success and growth, an internal organisational redesign took place in 2015/16. The focus is on achieving sustained cultural change in our organisation to be able to adapt to a rapidly changing market environment.	Without the culture change we seek to achieve, we may not be able to execute the strategy laid out in May 2015.	As reported in 2017, our 2016/17 leadership training built on the 2015/16 strategic leadership skills with a focus on cross functional working, especially in the areas of influencing and managing competing interests. The strategic plan envisaged a three year programme of training, communication and recruitment to fill capability gaps. The outcome is expected to be a change in behaviours and skills that will allow De La Rue to be a more dynamic, agile and high performing organisation. The plan remains on track and has delivered substantial cultural change. The Executive Leadership Team now considers change fatigue to be a greater risk to the business. Consequently this risk is no longer seen as a principal risk, although it continues to be monitored at a functional level.
Failure to secure a partner for the banknote paper business, or a strategic print partner for the Banknote print business	Our ability to address the material issues of volatile demand in banknotes and over capacity in the banknote paper business will not be achieved without third party agreements.	Predictability of future revenue streams and the ability to increase the ROCE may be compromised.	The sale of Portals De La Rue Limited to Epiris has mitigated this risk such that it is no longer a principal risk.

Viability statement

The Directors have considered the longer-term viability of De La Rue plc in line with the recommendations under the UK Corporate Governance code.

While the Group has a five-year strategic planning horizon, our financial performance is inherently less predictable in years four and five because good visibility of the order book is over a shorter-term horizon. Therefore, the Directors believe that an appropriate period to consider the Group's viability is over three years.

In assessing the viability of the Group, the Directors have reviewed the principal risks as set out in pages 37 to 40 and considered foreseeable scenarios of one or more of the principal risks crystallising in the same time period in the context of our strategic plan. The scenarios have been modelled on year end net debt as well as forecast average net debt over the next three fiscal years.

The forward looking financial information upon which the impact of the risks was modelled, accounted for the loss of the UK Passport contract and the sale of Portals De La Rue paper business announced in March 2018.

The Directors have focused on principal risks that could plausibly occur and result in the Group's future operational results, financial condition and future prospects differing materially from current expectations, including the ability to maintain a dividend, meet current investment plans and comply with liquidity ratios.

Scenarios that the Directors see as implausible (or outside of the Group's control e.g. a terrorist attack or an event of nature) have not been modelled, nor have all potential mitigating responses. The Directors have assumed that the current revolving credit facility remains in place with the same covenant requirements through to December 2021.

The outcome of modelling the principal risks crystallising in a plausible combination showed that the Group's credit facilities were not exhausted. The Board also considered a reverse stress test; the extent of EBITDA the Group would have to lose against its strategic plan forecast in order to breach its credit facilities.

The result of reviewing plausible scenarios and the reverse stress test is that the Directors have a reasonable expectation that the Group is viable and will be able to meet its obligations as they fall due up to March 2021.

A responsible business

De La Rue provides governments with the products, services and insights to enable participation, protection and the implementation of standards.



Martin Sutherland
Chief Executive Officer

Sustainable development lies at the heart of our business – to enable everyone to participate securely in the global economy. We provide governments and commercial organisations with the products and services that enable countries to trade, companies to sell, economies to grow and people to move securely around an ever-more connected world.

We increasingly hear from our customers that we can achieve the greatest impact on sustainable development efforts by active collaboration. We can amplify the impact of our sustainability initiatives while supporting the highest standards of governance and ethics.

As part of our continued commitment to the UN Global Compact and its principles, we have assessed our

materiality against the UN Global Compact Sustainable Development Goals (SDGs) with some of our key partners and stakeholders and gained a detailed understanding of where we have most impact, both positive and negative. The following illustrates our SDG alignment. I am proud to acknowledge the fundraising and charitable giving of employees around the world. This has a great impact on our local communities.



Being responsible is at the core of our business.



Find out more about UN Global Compact
www.unglobalcompact.org.uk/



Lead

SDGs where our impact is significant and where we will continue to lead



Focus and Improve

SDGs where we have the opportunity to improve and achieve great impact



Maintain Momentum

SDGs where we must maintain our strategies in order to ensure we continue to make an impact



Maintain Foundations

SDGs which we continue to support



Watch the interview about responsible business
www.delarue.com/ar2018

Enabling participation

Financial and social inclusion are two of the biggest challenges today. According to the World Bank, 38% of the world's population do not have a bank account. Eighty five per cent of worldwide payments are still made with cash. One in six women say that a lack of identity documents is the reason why they can't open a bank account.¹

In 2017, there were an estimated 258m international migrants² globally. 665.6m people were forcibly displaced, of which 22.5m were refugees³. International cooperation and trust in legal identities has never been more important to ensure that people's human rights are protected wherever they are.

Now more than ever, it is critical for governments to be able to support their populations with robust and efficient cash cycle logistics and legal identity management systems. These systems enable participation in society and protection from fraud and mistreatment. Accessibility of cash and the provision of secure and trusted legal identities underpin the integrity of society and enable it to function efficiently. We, at De La Rue,

- work to ensure banknotes are secure, trusted and available for use in 140 countries around the world
- have provided 22m people with identity documents this year, enabling secure, safe and orderly migration as well as access to services
- provide the largest food agency in the world with secure food vouchers which enable humanitarian rations to be delivered
- work with ICAO⁴, UNHCR⁵ and IOM⁶ on international standards and approaches to migration and documentation

Over the last year, we have created new tools and products which equip governments to understand the needs of their populations and to make decisions based on data. You can read more in our case studies on DLR Analytics™ and new civil registration system for Antigua and Barbuda.

¹ The World Bank.

² International Migration Report 2017, UN DESA.

³ UNHCR figures.

⁴ ICAO – International Civil Aviation Organisation.

⁵ UNHCR – United Nations High Commissioner for Refugees.

⁶ IOM – International Organisation for Migration.



Award winning DLR Analytics™

Access to trusted banknotes whether in a rural location or in a city, is critical for those who rely on it. This is particularly evident in times of crisis when people require humanitarian aid. However, even in stable environments, cash always enables economic growth, stability and financial inclusion, particularly for women, who are less likely to have a bank account. Making sure that cash is available and of an acceptable quality is essential. De La Rue has a long history of helping central banks in times of crisis, whether it is after the fall of an old regime or the emergence of a new state. The cash cycles and factors impacting the demand for cash are hugely complex to monitor and manage. In 2017 De La Rue launched DLR Analytics™, which helps issuing authorities improve demand forecasting and budget

planning. This service standardises the language and calculations behind cash cycle analytics, enabling issuing authorities to more directly learn from the experiences of others. DLR Analytics™ can help issuing authorities ensure that banknotes are available and consequently that businesses can continue to participate in both the local and the global economy. Analytics also offers central banks the opportunity to be transparent and to qualify their decision-making regarding their cash cycle management.

Helping our customers with forecasting and analytics also helps our business. We are able to plan resources more effectively because we can analyse trends in the whole market. To date, 70 issuing authorities have signed up to DLR Analytics™ – almost half of the world's total.



Find out more about the Future of Cash
[See page 08](#)



Enabling participation through identity

The Government of Antigua and Barbuda has decided that it would like to make it simpler for people in the country to interact with the government and to improve the ease of doing business. To do this, they have chosen to work with De La Rue and a local IT company (ACT) to transform the Civil Registration and Vital Statistics system. This will provide people with a trusted legal identity from

birth. Midwives will be able to notify the government that a birth has taken place on mobile technology and the birth will be verified and registered centrally. With their legal identity, people will be able to access key services, pay taxes and set-up businesses more easily. De La Rue and local firm ACT have based the solution on local laws and are proud to be able to build and deploy replicable models in the region and globally, bolstering Antiguan skills and industry.



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A responsible business continued

Enabling protection

Illicit trade is a hindrance to economic growth. One in ten cigarettes consumed globally are thought to be illicit and cost governments billions in lost tax revenue. Counterfeit goods are on the rise. The estimated value of the global counterfeit market is expected to reach \$2.8tr in 2022. The consequences of illicit trade are far reaching and damaging for society. They include the stunting of socio-economic growth, increased risk to citizens' health, the fuelling of criminal activity and damage to brand reputations. To combat illicit trade, the authenticity of products needs to be guaranteed from source to consumption.

Differing tobacco and alcohol taxation levels across regions and borders leads to tax evasion and avoidance. Worldwide tax non-compliance has been estimated to cause 164,000 premature deaths a year¹. The World Bank states that new consensus seems to be emerging to globally enforce corrective tax instruments, on goods whose consumption creates social negative externalities, such as tobacco².

De La Rue has a long established history of combating illicit trade and tax evasion:

- We secure \$30bn of commercial supply chain goods each year with some of the world's biggest brands
- We produce 1.6bn uniquely traceable identifiers each year enabling governments and organisations to trace goods around the world
- We work with governments to implement product authentication and traceability solutions to reduce the volume of illicit dangerous cigarettes and alcohol available to buy in the country
- A tax stamp scheme on tobacco in Kosovo recouped \$12m in tax and reduced smuggling by 61% in the first year of implementation



Raising charitable funds through innovation with Disney and the UK Government's GREAT Campaign

The release of Star Wars: The Last Jedi caused great public interest during 2017. To celebrate this event while showcasing the best of British innovation and raising funds for a worthwhile cause, we teamed up with the UK Government's GREAT campaign and the Walt

Disney Company. We produced 1,000 limited edition and 50 premium exquisitely designed Star Wars™ commemorative banknotes, which were sold and auctioned for £186,000. All proceeds were donated to Together for Short Lives, a UK-based charity which supports children's hospices and the 49,000 children with life-threatening and life-limiting conditions in the UK, and their families.



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Enabling protection through track and trace solutions

Our authentication and traceability solutions help governments clamp down on illicit trade of tobacco, alcohol and other goods, and effectively recover tax from the sale of genuine products in their country. We have worked hard to create both a product and commercial solution that offer sustainability for our customers. The approach we have come up with requires no upfront capital investment from the government and ensures that proceeds of the scheme are reinvested into the solution and its expansion. This in turn helps the government collect more tax revenue. We also make sure that the implementation causes minimal disruption across the tobacco and alcohol organisations that are



impacted and provide transparent reporting mechanisms to build trust between government, De La Rue and product suppliers.

¹ Joossens L, Merriman D, Ross H, et al. How eliminating the global illicit cigarette trade would increase tax revenue and save lives. Paris: International Union against Tuberculosis and Lung Disease, 2009.

² The World Bank



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Implementing standards



Edward Peppiatt

Company Secretary and
General Counsel

ELT sponsor for responsible business

At De La Rue, we recognise the importance of integrating sustainability into daily businesses. This is the only way to achieve the UN's SDGs. Over the last year, we engaged our employees, customers, investors and suppliers in order to help understand our impacts, our responsibilities, our associated risks and opportunities. We have begun incorporating our sustainability thinking into different functional teams and are working to measure and report our impact and actions to meet both statutory and non-statutory requirements.

Last year's materiality assessment enabled us to identify that we can have significant positive impacts in delivering strong institutions (SDG16) and Quality Education (SDG4). Alongside these, we recognised we had to focus and improve in the areas of Health and Wellbeing (SDG3), Gender Equality (SDG5) and Innovation (SDG9). We committed to maintaining momentum across the environmental goals and providing decent work and economic growth (SDG8), and to acting as a responsible producer and consumer (SDG12). Collaborating for the goals (SDG17), to end poverty (SDG1) and reduce inequalities (SDG10) remain the foundations of our business.

Over the next pages, we offer some highlights of our activities and our statutory reporting in areas including human rights, labour rights, the environment and anti-corruption.



Watch the full interview with
Edward Peppiatt here
www.delarue.com/ar2018

As the largest commercial security printer in the world, we take our responsibility seriously. We recognise that our influence can help ensure that international standards and best practice become the norm. Being a member of the Banknote Ethics Initiative (BnEI) as well as the

Secure Identity Alliance provide us with platforms to drive positive changes in our industries towards the highest product and ethical standards. Below are a couple of examples of the work we have done this year.



Working with our suppliers to understand ethics in our supply chain

We conducted a key supplier survey with PricewaterhouseCoopers LLP to identify the level of understanding of social, economic and environmental impacts in our supply chain. We evaluated their approach to ethics so that we could fully understand any issues and drive responsible business activity in our supply chain. Suppliers were assessed for their understanding of Corporate Social Responsibility

(CSR). A series of questions helped determine the suppliers' understanding of CSR, the KPIs or metrics they used to assess their impact, and how they control their supply chain – as well as their policies and procedures on slavery and human trafficking. Based on our findings, we are creating a specific De La Rue supplier CSR policy, and will embed this into our procurement governance processes. This robust approach is supported by building awareness of sustainability issues in the procurement team.



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BANK OF ENGLAND

JOINT CHARTER | STRENGTH IN PARTNERSHIP



DeLaRue

Working with the Bank of England on Responsible business activities

Through our Joint Charter with the Bank of England, we have identified opportunities for collaboration at our Debden manufacturing facility over the coming 12 months.

These include medium-term plans to share knowledge about sustainability, to work together to engage our people in wellbeing initiatives, and to protect the environment by introducing joint energy reduction plans and waste management strategies.



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A responsible business continued

Implementing standards

**Richard Hird**Chief Commercial Officer
ELT sponsor for inclusion & diversity

Our products and services provide trust and security to billions of people around the world. We must ensure that we provide that same sense of trust and security to our staff and those helping to deliver our products and services within our supply chains. We are continuously striving to ensure that wellbeing, human rights and labour rights are protected in our supply chain, in our business and in our customer solutions.

**Jo Easton**

Group Director of Human Resources



Watch the full interview with
Richard Hird and Jo Easton here
www.delarue.com/ar2018

Human Rights

We treat our employees fairly and equally irrespective of their gender, transgender status, sexual orientation, religion or belief, marital status, civil partnership status, age, colour, nationality, national origin, disability or trade union affiliation. Our focus this year has been on deepening our understanding of what inclusion and diversity means in practice and how it impacts our business. We have also concentrated on identifying why getting this right is so critical to wider society as well as our business, and on providing our managers with further tools and training to recognise and be ready to respond to any issues.

Our aspiration, as detailed last year, is to have an inclusive and diverse workforce. We aim to:

- **employ a diverse workforce which reflects our communities and customers**
By working with our recruitment partner Optamor we have introduced changes to our recruitment process, which seeks to remove bias. For example, CVs are now provided to our managers absent of details not relevant for the role, such as gender and name. By working with Optamor we are also starting to see a richness of management information allowing us to assess our talent acquisition process and start using data to inform decisions.
- **benefit from advantages of a diverse workforce, where inclusion becomes the normal way of working**
The De La Rue Board, the Executive Leadership Team, Senior Leaders, HR Managers, Union Representatives and Ethics Champions have all received an introductory training session on unconscious bias. In addition to this we have run a number of open sessions across the organisation which will continue over the coming year.

We have also provided an infographic on unconscious bias that is accessible to all employees. We view this training as a key step in developing an inclusive culture but acknowledge that the true value comes from exploring our organisational biases and putting in place action plans to remove any barriers.

- **celebrate diversity by recognising that everyone is an individual and has a contribution to make**

We have held a number of Women's Network Events this year, providing both men and women with the opportunity to hear external speakers, create informal networks with colleagues and to discuss and debate topical issues relating to inclusion. De La Rue uses Insights Colourworks profiling which helps our employees to understand themselves and the teams that they work within. This enables employees to recognise the value of diversity of thought and communication style and improve their ability to communicate with others.

- **eliminate the gender pay gap**

As at 5 April 2017, we had a gender pay gap of 10.04% (mean) or 9.74% (median). This is better than the UK figure of 17.4% (ONS provisional mean, October 2017), but far from our goal of zero. As part of our Inclusion and Diversity Strategy we have a long-term commitment to eliminate this gap. We can confirm that the data published in our report satisfied the requirements of the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.

De La Rue has ambitions to improve female representation at senior and executive management levels of the business to 25% by 2020. As at the end of this financial year, the percentage was 18%.

We fully support the principles set out in the UN Declaration of Human Rights, in particular with regards to equal opportunity and freedom from discrimination. We have effective management systems in place to protect human rights. Our Code of Business Principles (see our Corporate Governance report on page 72) covers human rights issues including employment principles, health and safety, anti-bribery and corruption and the protection of personal information. The Code also embraces whistleblowing – we seek to provide an environment where employees can raise concerns via a variety of mechanisms, including a CodeLine which is managed by an external third party, an internal Ethics Committee to which issues can be flagged and a network of Ethics Champions across the Group where issues can be raised in confidence.

Every manager and employee has responsibility for the implementation of our equal opportunity policy and training is provided to employees and newly appointed line managers in equal opportunities and associated policies and procedures such as stress management, grievance and anti-harassment.

On a regular basis we conduct employee surveys. We work closely with the relevant trade unions and other employee representatives and report to all employees the outcomes of these meetings.

We communicate all relevant news, business and financial updates. To do this we hold regular town hall meetings, conduct conference calls, update our Sharepoint intranet, send email blasts and publish monthly site magazine style news updates. These are adapted to the audience, whether all staff, a country, a site or department.

The business has remedial processes in place should there be any human rights' infringements. These include claims procedures and trade union engagement procedures.

Gender diversity as at 31 March 2018	Female	Male	Female	Male
Employees	845	1,874	31%	69%
Senior Management	7	30	19%	81%
Executive Management	1	6	14%	86%



Accessible training and support for our employees around the world

Within 2017/18, we have broadened our educational offering to all levels in the business. We have rolled out unconscious bias awareness sessions across the business to help our people understand more about themselves and how they can reinforce inclusivity through their actions. Other new courses included storytelling, presenting

with charisma, influencing and stakeholder management skills. In 2018 we will continue the offering and focus on team and individual performance. We will build technical skills and capability through utilisation of the apprenticeship levy where practical. A big focus will be the implementation of a Learning Management System and an increase in bite-sized learning which will improve the accessibility of content for all employees.



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Understanding migrant rights

As a specially accredited organisation, De La Rue participates in the preparatory process for the Global Compact for Safe, Orderly and Regular Migration. In July 2017, we took part in a panel discussion on International Cooperation

and Governance of Migration in the Trusteeship Council Chamber at UNHQ in New York. We continue to help identify best practice approaches to create secure and accessible identities across borders.



View our accreditation at
www.delarue.com/ar2018

A responsible business continued

Implementing standards



Bryan Gray

Chief Operating Officer
ELT sponsor for labour rights

We directly employ over 2,700 people and provide livelihood to thousands more indirectly across our global supply chain. Improving health and safety and protecting labour rights for people in our supply chain as well as in our business is a priority for us. We are proud that we have the highest health and safety standards and that we can influence our local communities by sharing best practice on labour rights.

We are pleased to report that we achieved the following health and safety objectives for 2017/18:

- To maintain a world class Lost Time Injury Frequency Rate per 200,000 worked hours below 0.62 (LTIFR)
- To continue to demonstrate manufacturing site improvements within our internal HSE audit levels programme
- To continue to drive a good level of health and safety training across all employee levels within our business including NEBOSH certificates, IOSH Managing Safely and more Making Good Safety Decisions modules
- To ensure that all new machinery meets good safety standards prior to use. In addition, ensure that all machines being moved or refurbished as a result of the footprint restructuring project undergo independent safety assessments, with safety upgrades as required

The following objective is in progress to complete by the end of 2019:

- To bring all the manufacturing sites under the central OHSAS18001 certification

During the year, we experienced zero prosecutions for infringing health and safety laws or regulations. All our main manufacturing sites have maintained OHSAS18001 certification for their health and safety management systems, following external audits by accredited providers. More details on our Company policies and procedures around health and safety and wider labour rights can be found on our website.

We have set the following new objectives for health and safety and labour rights for 2018/19:

- To maintain a world class LTIFR per 200,000 worked hours of less than 0.6
- To maintain our strong HSE training delivery performance of over 2,000 man-days per year
- To achieve >92% of conformance to our Zone 'SAFE' EHS inspections programmes
- To cascade more certified (e.g. NEBOSH, IOSH) health and safety training and deliver four 'SAFE' training modules

Labour Rights

Zero tolerance of modern slavery and human trafficking

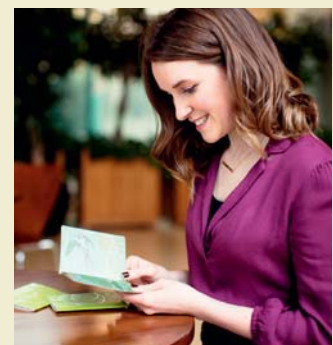
Recognising that our responsibilities extend beyond our own organisation, we work closely with main suppliers and contractors to ensure that their health and safety processes are robust.

We take a firm approach to slavery and human trafficking. We are absolutely committed to preventing slavery and human trafficking in our corporate activities, and in our supply chains. Our Modern Slavery Transparency statement sets out our stance in compliance with the Modern Slavery Act 2015. Suppliers are obliged to abide by the United Nations Convention on the Rights of the Child and International Labour Organisation Conventions 138 and 182. As part of our ongoing procurement programme, we monitor our key cotton comber and linter suppliers.



SAFE campaign promotes health and mental wellbeing

As per our strategy, we focused on building greater understanding of health and wellbeing. Education has centred on two principal themes: musculoskeletal (keeping active) and mental wellbeing. Events have varied by site, led by the local management teams, understanding what it is most relevant to their employees. Activities such as 'Working body' seminars led by a physiotherapist at our Overton site, supporting care of the musculoskeletal system and line manager workshops at our Gateshead site to help identify mental wellbeing issues and how to support employees. We held an outdoor team building event promoting activity at our site in Kenya and 16 people across



our UK sites have also been accredited as Mental Health First Aiders. We will look to raise further awareness in the coming year, as part of our journey towards greater integration of both physical and mental wellbeing in our health and safety policy and practices.



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Collective bargaining in Malta

During the year, we successfully concluded an agreement with the local trade union in Malta regarding our employees. This agreement

ensures a further three years of good working conditions and higher than local average wages for our people, as well as a positive outcome for our organisation.

**Bryan Gray**

Chief Operating Officer
ELT sponsor for environment

By planning ahead, we are able to minimise risk and our impact on our local environment, while ensuring the sustainability of the products we offer and securing the future of our manufacturing sites.

Protecting the environment

Delivering against objectives:

We were pleased to have met the following 2017/18 environmental objectives:

- To continue with our ISO14001 certification alignment for all manufacturing sites to ensure all sites are covered by the central certificate and one external audit process. Apart from Sri Lanka & Kenya which are scheduled for end of 2019, all sites have the central certificate. We will be meeting the new ISO14001:2015 standard as recommended for transition
- To reduce our greenhouse gas emissions in tCO₂e related to output by 2% per annum over a three year period ending 2017/18
- To reduce solid waste sent to landfill by 2% related to output per annum over a three year period ending 2017/18
- To develop a wider sustainability programme covering HSE, tracked by KPIs. We are now tracking several environmental KPIs and working to set new science-based targets at end of 2018/19



Polymer vs cotton: Measuring the environmental footprint of the new £5 and £10 with the Bank of England

The Bank of England is taking steps to reduce the environmental impact of banknotes, including recycling the vast majority of banknotes that are no longer fit to use. The Bank's decision to move to polymer banknotes will have lasting environmental benefits.

In 2017, we helped the Bank obtain independent certification from the Carbon Trust on the carbon reduction delivered by switching £5 and £10 banknotes from paper to polymer. We continue to work in partnership with the Bank on other responsible business activities.



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Our goals/objectives for 2018/19 are:

- To measure key environmental KPIs in the changed business during the year to enable the business to set science-based targets that are realistic for the next two to three years
- To review all products and main processes, identifying all significant carbon impacts in order to drive an investment and change programme
- To review our supply chain in order to improve our sustainable procurement and reduce carbon impact
- To include Sri Lanka and Kenya in our ISO14001:2015 Group Certification by the end of 2019

Energy saving at Gateshead

At our Gateshead site, we have commenced a £1.9m five year energy saving contract with Siemens. Covering chillers, compressed air systems, lighting, boilers and building management system improvements, the agreement will deliver an estimated 5MWh energy saving each year from year two onwards, based on predicted electricity and gas usage.

A responsible business continued

Greenhouse gas emissions year on year comparison for FY 2017/2018

Type of emissions	Activity	2017-18		2016-17		% Difference in emissions
		tCO ₂ e	% of total	tCO ₂ e	% of total	
Direct (Scope 1)	Natural gas	26,156	32.2	39,240	37.6	(33.3)
	Other fuels	707	0.9	888	0.9	(20.5)
	Process emissions	1,197	1.5	1,197	1.1	0.0
	Fugitive emissions	393	0.5	75	0.1	422.2
	Owned vehicles	99	0.1	119	0.1	(16.8)
	Subtotal	28,552	35.2	41,520	39.8	(31.2)
Indirect (Scope 2)	Electricity	30,350	37.4	36,084	34.6	(15.9)
	Subtotal	30,350	37.4	36,084	34.6	(15.9)
Indirect other (Scope 3)	Rail travel	5	0.0	5	0.0	(0.9)
	Air travel	6,961	8.6	7,426	7.1	(6.3)
	Non-owned vehicles	0	0.0	0	0.0	
	Water	1,538	1.9	1,900	1.8	(19.1)
	WTT all scopes	13,801	17.0	17,357	16.6	(20.5)
	Subtotal	22,306	27.5	26,689	25.6	(16.4)
Total gross emissions (tCO ₂ e)		81,208		104,294		(22.1)
Renewable electricity (tCO ₂ e)		0		0		
Electricity exported to grid (tCO ₂ e)		238		949		(74.9)
Total net emissions (tCO ₂ e)		80,970		103,345		(21.7)

Intensity metric

	2017-18	2016-17	% Difference
Total gross emissions (tCO ₂ e)	81,208	104,294	(22)
Total net emissions (tCO ₂ e)	80,970	103,345	(22)
Revenue (£m)	474,000,000	461,800,000	3
Tonnes of gross CO ₂ e per million GB £ turnover	171	226	(24)
Tonnes of net CO ₂ e per million GB £ turnover	171	224	(24)

The numbers have been re-based following best practice.

Methodology: The table and the calculations has been created using the most recent DEFRA emission factors and complies with DEFRA mandatory greenhouse gas reporting guidelines.

Scope 1, 2 and significant Scope 3 emissions have been calculated and reported. To comply with recent changes to DEFRA 2014 emission factors guidelines we have also provided a breakdown of 'well to tank' emissions that fall into an additional Scope 3 category. Emissions associated with water consumption have also been calculated. All raw data, calculations and emissions factors have been internally audited by Carbon Clear.

Further environmental stewardship

As a business, we take a precautionary approach to environmental challenges:

- We are aiming towards zero to landfill
- We have delivered consistent 2% reduction strategies and are now moving towards science based goals where possible
- We have a Group HSE Sustainability policy and ISO 14001 certification

We undertake initiatives to promote greater environmental responsibility:

- We install LED lighting at sites as we refurbish our facilities
- Our research and development function reviews and assesses environmental impacts of new products being developed according to a technical manual. Examples exist but due to commercial sensitivities are not available for disclosure

- Instead of shredding and incinerating our Safeguard® polymer notes we provide our customers with the opportunity to recycle them with Yes Recycling Ltd

For further details about our ongoing environmental stewardship and accreditations can be found at www.delarue.com

Implementing standards



Selva Selvaratham
Chief Technology Officer

We help to build strong institutions, creating trust and encouraging inclusive and fair societies. It's what we do and have done for over 200 years.

Anti-corruption and ethics

We continue to support Global anti-corruption efforts through the provision of our core products and services. In order to function, central government cash, identity and authentication services require integrity, robustness and trust to be built-in. This not only determines how we act as a supplier, but also means that we strive to design solutions that can be implemented by the customer. Whether digital services or physical documents, our solutions have anti-corruption and anti-counterfeit features built into their core.

Our membership of the UNGC helps us to amplify our efforts with our customers as well as our ethical behaviour in our business, our industry and our supplier base. Membership helps to ensure that governance and ethics remain at the heart of the products and services we provide to customers.

Further examples of anti-corruption and ethics

- We are members of the International Chamber of Commerce Anti-corruption Committee and the Banknote Ethics Initiative (BnEI). We regularly participate in high level round table discussions with the UK Government to discuss how they can work more effectively and collaboratively with UK businesses to tackle corruption associated with exports to countries with high ratings on the corruption index (SDG 16 and 17)
- We work to ensure that we drive best practice in our industry through our board memberships of the BnEI and the Secure Identity Alliance. Both have strong codes of conduct and we will continue to use our influence to push for further transparency and accountability in our sector
- We are working in collaboration with the Bank of England to align and improve the implementation of our approaches to embed sustainability principles in our supply chains, as part of our Joint Charter (SDG 12)
- Goals and objectives for the BnEI, and for our own ethics management
- Continue to advocate for better collaboration between UK Government and businesses to tackle corruption and to export British integrity standards
- Advocate for countries to include weighted ethical requirements and support of relevant SDGs in their central government tender processes
- Help central banks implement DLR Analytics™ to enable accurate data-driven forecasting and procurement
- Implement an Anti-Bribery and Corruption annual affirmation to be conducted by the Senior Leadership Group and customer facing personnel. The aim is to remind people of their obligations and confirm that they comply with legislation and our Code of Business Principles
- Create and roll-out a Supplier Code of Conduct

Full details of our ongoing governance and anti-corruption activities, our policies, procedures and legislative alignment can be found at www.delarue.com



Transforming our sales partner remuneration

We are now three years into a five year programme to change the way our sales partners are remunerated. Our aim is to reduce risk to the business while recognising all the work carried out by our partners. A rolling Agent Transition Plan is being

implemented to change partner remuneration as agreements become due for renewal. The majority of partners are now engaged under the new scheme, which is based on the Banknote Ethics Initiative commitments – and we believe that we are one of the Initiative's leading members in this respect.



Visit us online
www.delarue.com/ar2018

Corporate governance

Chairman's introduction



Philip Rogerson
Chairman

Dear Shareholder

At De La Rue we believe that establishing and maintaining the highest standards of corporate governance is vitally important to the long term success and sustainability of the business. The Board recognises that good governance is about more than just compliance with rules and regulations; it is about culture, behaviours and how we do business and the Board is therefore committed to ensuring that the Group's values and high standards are set from the top and embedded throughout the Group. We are committed to having best in class corporate governance and our Board is structured to provide shareholders with a strong voice. Integrity and accountability are at the heart of everything that we do and I believe that this, together with our robust governance framework, allows the Board to lead the Company in the right direction as we pursue our strategy, while ensuring that good governance principles and practices are adhered to.

Last year we submitted our remuneration policy to the vote at the AGM in July 2017. We consulted extensively with our largest shareholders and their representative bodies and this resulted in our policy being approved by an overwhelming majority at the AGM. Details of the policy and how it was applied during the period are set out in the Directors' remuneration report on page 74.

Succession planning

Succession planning is an important element of good governance, ensuring that we are fully prepared for planned or sudden departures from key positions throughout the year. During the period, the Nomination Committee reviewed the succession plans for the Board, the Executive Leadership Team and other key roles within the organisation. This review also provided visibility of the Group's talent pipeline and the leadership development programme in place to ensure we are maximising the potential of our people. The Nomination Committee has started the search for a Chief Financial officer following the resignation of Jitesh Sodha.

Board effectiveness

As detailed on page 62, an externally facilitated evaluation of the Board and its Committees was once again undertaken during the year and I am pleased to report that as a result of the evaluation, the Board concluded that both it and its Committees continue to operate effectively. The Board continues to work closely with the executive management team and offers support and robust challenge as appropriate. All Directors play an active role in overseeing management of the business.

The Board agenda will continue to balance the need to improve oversight and governance of all aspects of the business with the ability to debate and examine forward looking strategy, including changes to the business environment and markets in which we operate and compete.

Structure of the corporate governance statement

The Company is subject to the Financial Reporting Council's (FRC) UK Corporate Governance Code (the 'Code'), which was last updated in April 2016. The Code contains broad provisions together with more specific provisions which set out standards of good practice in relation to Board leadership and effectiveness, accountability, remuneration and relations with shareholders.

The report that follows provides an overview of the work undertaken by the Board and its Committees in fulfilling our governance responsibilities and describes how the principles of the Code have been applied during the period to 31 March 2018. The Code is issued by the FRC and is available for review on the FRC website: <https://www.frc.org.uk>

Philip Rogerson
Chairman
30 May 2018

Compliance statement

The Board encourages a culture of strong governance across the business, and continues to adopt the principles of good governance and adhere to requirements of the UK Corporate Governance Code. The Board considers that it and the Company has, throughout the period to 31 March 2018, complied in all respects with the provisions of the Code. The Company's auditors, Ernst and Young LLP, are required to review whether this statement reflects the Company's compliance with those provisions of the Code specified for their review by the Financial Conduct Authority's Listing Rules.

Board composition

As at 31 March 2018, the Board was made up of six members comprising a Chairman, Chief Executive Officer and four independent Non-executive Directors. Rupert Middleton, our former Chief Operating Officer, stepped down from the Board following the conclusion of the Company's AGM on 20 July 2017. Jitesh Sodha, Chief Financial Officer, resigned from the Board on 19 March 2018. Brief biographies and skills and experience of the Board are contained on pages 54, 55 and 57 and the roles of the Board is on page 59. None of the Company's Non-executive Directors had any previous connection with the Company or its Executive Directors on appointment to the Board and all of them are considered by both the Board and the criteria set out in the Code to be independent. Philip Rogerson was considered independent at the date of his appointment. His external appointments are set out on page 54. The Chairman and each of the Non-executive Directors have a breadth of strategic, management and financial experience gained in each of their own fields in a range of multinational businesses. In accordance with the terms of the Code, each of the Directors will be subject to re-election at the forthcoming AGM.

The Board encourages a culture of strong governance across the business, and continues to adopt the principles of good governance and adhere to requirements of the UK Corporate Governance Code.

We are committed to the highest standards of corporate governance:



Leadership

The Board sets the tone at the top of the Company through:

- A clear definition of the roles of the individual members of the Board
- A comprehensive corporate governance framework
- Defined processes to ensure the independence of Directors and the management of conflicts of interest



Find out more on leadership
see pages 54 to 61



Accountability

The Board delegates some of its detailed work to the Board Committees:

- Each Committee meets regularly
- The terms of reference of each Committee may be found on the Company's website at www.delarue.com
- A report from the Chairman of each Committee is included in this annual report



Find out more on accountability
see pages 66 to 73



Effectiveness

The Board carries out its duties through:

- Regular meetings focusing on the oversight of strategy, risk (including viability) and succession planning
- An annual review into the effectiveness of the Board



Find out more on effectiveness
see pages 62 to 65



Relations with shareholders

Maintaining strong relationships with both private and institutional shareholders is crucial in helping us achieve our aims. We hold events throughout the year to maintain an open and transparent dialogue with them.



Find out more on relations with shareholders
see page 63



Remuneration

The Remuneration Committee ensures that there is a formal and transparent process for determining and reporting on the pay of our Executive Directors:

- The remuneration policy was approved by shareholders at the 20 July 2017 AGM
- The Remuneration Committee ensures that: performance measures are linked to our strategic priorities; there is alignment between executive and shareholder interests; and our arrangements are simple to understand



Find out more on remuneration
see pages 74 to 94

Corporate governance continued



Leadership Board of Directors



1 Philip Rogerson
Chairman

Appointment to the Board

Appointed to the Board on 1 March 2012 and became Chairman on 26 July 2012.

Committees

- Ethics Committee (Chairman)
- Nomination Committee (Chairman)
- Remuneration Committee

Current directorships and business interests

- Bunzl plc, chairman
- Blancco Technology Group plc, non-executive director (senior independent director)
- Advisory Board of the North and East London Commissioning Support Unit (NELCSU) of the NHS, chairman



2 Martin Sutherland
Chief Executive Officer

Appointment to the Board

Appointed to the Board on 13 October 2014.

Committees

- Nomination Committee
- Risk Committee

Current directorships and business interests

- International Currency Association, board member
- Forterra plc, non-executive director



3 Sabri Challah
Independent Non-executive Director

Appointment to the Board

Appointed to the Board on 23 July 2015.

Committees

- Audit Committee
- Ethics Committee
- Nomination Committee
- Remuneration Committee (Chairman)

Current directorships and business interests

- CogitalGroup Limited, deputy chairman
- Robert Kime, advisor
- Contemporary Art Society, trustee
- Actis, senior advisor



4 Maria da Cunha
Independent Non-executive Director

Appointment to the Board

Appointed to the Board on 23 July 2015.

Committees

- Audit Committee
- Ethics Committee
- Nomination Committee
- Remuneration Committee

Current directorships and business interests

- British Airways, director of people and legal
- Community Integrated Care, trustee



5 Nick Bray
Independent Non-executive Director

Appointment to the Board

Appointed to the Board on 21 July 2016.

Committees

- Audit Committee (Chairman)
- Ethics Committee
- Nomination Committee
- Remuneration Committee

Current directorships and business interests

- Sophos Group plc, chief financial officer



6 Andrew Stevens
Senior Independent Non-executive Director

Appointment to the Board

Appointed to the Board on 2 January 2013.

Committees

- Audit Committee
- Ethics Committee
- Nomination Committee
- Remuneration Committee

Current directorships and business interests

- CAE Inc., non-executive director
- Hèroux-Devtek Inc., non-executive director
- Praesidiad Group Limited, non-executive director/Chairman
- Erpe Topco Limited, non-executive director



7 Edward Peppiatt
General Counsel and Company Secretary

Appointment to the Board

Appointed as General Counsel on 1 March 2009 and as Company Secretary with effect from 1 April 2009.

Committees

- Risk Committee (Chairman)

Corporate governance continued



Leadership Board of Directors

Governance principle

The Board is collectively accountable to the Company's shareholders for good corporate governance and all Directors are responsible for complying with their legal and fiduciary obligations. The Board is committed to ensuring the highest standard of corporate governance which is critical to creating value. The diverse range of experience offered by the Chairman and the Non-executive Directors means that they are well qualified to scrutinise performance, assess the Group's risk management and control processes, provide constructive challenge and to support the Executive Directors.

Diversity

The Board recognise the importance of having an inclusive culture and the value that diversity brings to De La Rue. We aim to reflect this within the composition of the Board. The Chairman seeks to ensure that the composition of the Board includes individuals whose varied backgrounds, experience, knowledge and expertise bring a wide range of perspectives to the business.

Following the departure of Rupert Middleton and Jitesh Sodha, and as at 31 March 2018, the percentage of women on the Board was 16.7%.

The Group's inclusion strategy is discussed further on page 46.

The role of the Board

The Board is ultimately responsible to shareholders for the direction, management, performance and long term success of the Company. It sets the Group's strategy and objectives and oversees and monitors internal controls (in conjunction with the Audit Committee), risk management, principal risks, governance and viability of the Company. In doing so the Directors comply with their duties under section 172 Companies Act 2006.

To ensure Directors maintain overall control over strategic, financial, operational and compliance issues, the Board meets regularly throughout the year and has formally adopted a schedule of matters which are required to be brought to it for decision.

Matters reserved for the Board's decision

- Group strategy, long term objectives, annual budgets
- Approval of the annual and interim results
- Acquisitions, disposals
- Approval of risk appetite
- Ensuring that a sound system of internal control and risk management is maintained
- Changes to the Group's capital structure
- Approval of dividend policy
- Changes to Board composition

The Board has established certain principal Board Committees to assist it in fulfilling its oversight responsibilities, providing dedicated focus on particular areas, as set out on pages 64 to 94. The Board Committees play an important governance role through the work they carry out to fulfil the responsibilities delegated to them. The matters reserved to the Board and the terms of reference for each of its Committees, which are reviewed on an annual basis, can be found on the Company website at www.delarue.com. These were last reviewed on 21 March 2018.

Executive Leadership Team (ELT)

Matters that are not reserved to shareholders, the Board or one of its Committees are the responsibility of the Chief Executive Officer who has established and maintains a schedule of delegations of authority to members of the ELT and other management as approved by the Board.

The Chief Executive Officer reports on the activities through his (and the Chief Financial Officer's) regular reports to the Board. The Board and each Committee receives sufficient, reliable and timely information in advance of meetings and are provided with access to all necessary resources and expertise to enable them to fulfil their responsibilities and undertake their duties in an effective manner. The ELT comes together to communicate, review and agree on issues and actions of Group-wide significance. It develops, implements and monitors strategic and operational plans, and considers the continuing applicability, appropriateness and impact of risk. It leads the Group's culture and aids decision-making of the Chief Executive Officer in managing the business in the performance of his duties.



1 Philip Rogerson Chairman

Career, skills and experience

Philip was an executive director of BG plc (formerly British Gas plc) from 1992 to 1998, latterly as deputy chairman. Since then he has been both a non-executive director and chairman of a number of companies.



2 Martin Sutherland Chief Executive Officer

Career, skills and experience

Martin joined De La Rue from BAE Systems Applied Intelligence, where he was managing director since its acquisition by BAE Systems in 2008. At BAE Systems Applied Intelligence (formerly Detica), Martin was responsible for the strategic expansion of the business internationally through both organic growth and acquisitions. Prior to joining Detica in 1996, Martin worked for Andersen Consulting (now Accenture) and British Telecom.



4 Maria da Cunha Independent Non-executive Director

Career, skills and experience

Maria has spent her career in a range of legal roles as a solicitor and in-house at Lloyds of London and since 2000, with British Airways where she is director of people and legal and is a member of the executive board and corporate security board. Maria is experienced at working with international regulators and governments and has a deep understanding of operational risk, including cyber security, data and mobile risk. She also has significant geo-political, multi-channel distribution, acquisition and post-merger integration experience.



6 Andrew Stevens Senior Independent Non-executive Director

Career, skills and experience

Andrew has extensive international experience in the technology and engineering sectors, having spent over 30 years operating across the globe, including in North America, Europe, the Middle East and Asia. He was a director of Cobham plc between 2003 and 2012, where he held a range of positions, becoming chief executive in 2010 until stepping down from that role in June 2012. Before that he held senior positions in Rolls Royce, Messier Dowty International and Spirent plc.



3 Sabri Challah Independent Non-executive Director

Career, skills and experience

Sabri was a Partner at Deloitte from 1991 to 2013, where he had a varied career. He served as a member of both the Deloitte UK board, where he acted as chairman of the remuneration committee, and the Deloitte Global board, where he was chairman of the succession planning committee. Sabri was also chairman of Igneus UK Limited, a leading provider of welfare to work services. Sabri has significant and wide ranging experience in organisational design, change management, strategy, and corporate development.



5 Nick Bray Independent Non-executive Director

Career, skills and experience

Nick has extensive international experience in the technology and information security industries and for the last six years has been chief financial officer of security software firm, Sophos Group plc. Before joining Sophos, he was chief financial officer at Micro Focus International plc, Fibernet Group plc, and Gentia Software plc. Prior to that, he held various senior financial positions at Comshare Inc. and Lotus Software.



7 Edward Peppiatt General Counsel and Company Secretary

Career, skills and experience

Edward has many years of experience as a general counsel and company secretary in publicly quoted businesses and his roles in the past have included responsibility for risk, security, insurance, HSE and HR. He was previously general counsel and corporate secretary of Christian Salvesen PLC and prior to that practised as a corporate lawyer at Stephenson Harwood. He is a qualified solicitor and holds an MBA from Cranfield School of Management.

Corporate governance continued



Leadership Our governance framework

Certain Board responsibilities are delegated to formal Board Committees which play an important governance role through the work they carry out:





Leadership Board roles

Board composition and roles

The following table summarises the role and responsibilities of the different members of the Board:

Chairman

- Providing leadership to the Board, setting its agenda, style and tone to promote constructive debate and challenge between Executive Directors and Non-executive Directors
- Ensuring good information flows from the Executive Directors to the Board, and from the Board to its key stakeholders
- Supporting and advising the Chief Executive Officer, particularly in the development of strategy
- Chairing the Nomination Committee and building an effective and complementary Board, regularly considering its composition and balance, diversity and succession planning
- Ensuring high standards of corporate governance and probity throughout the Group are established and maintained

Chief Executive Officer

- Maintaining a senior leadership team with the appropriate knowledge, experience, skills, attitude and motivation to manage the Group's day-to-day activities
- Exercising personal leadership and developing, on an ongoing basis, a management style which encourages excellent and open working relationships at all levels within the Group
- Ensuring, through the Chief Financial Officer, the implementation, control and coordination of the Group's financial and funding policies approved by the Board
- Ensuring that the Group has in place appropriate risk management and control mechanisms
- Setting the operating plans and budgets required to deliver the agreed strategy
- Implementing and reviewing health, safety and environment policy and, supported by the Executive Leadership Team, overseeing improvements and performance
- Identifying acquisitions and monitoring competitive forces

Other Executive Directors

The Chief Financial Officer supports the Chief Executive Officer and is responsible for managing the Group's finance strategy, financial reporting, risk management and internal controls, investor relations programme and the leadership of the finance function.

Senior Independent Director

A key role of the Senior Independent Director is to be available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer has failed to resolve or for which such contact is inappropriate. The Senior Independent Director is also available to the other Directors should they have any concerns which are not appropriate to raise with the Chairman or which have not been satisfactorily resolved by the Chairman.

Independent Non-executive Directors

The Non-executive Directors play a key role in corporate governance and accountability through their attendance at Board meetings and their membership of Board Committees. The Non-executive Directors bring a broad range of business and financial expertise to the Board which complements and supplements the experience of the Executive Directors.

General Counsel and Company Secretary

The General Counsel and Company Secretary advises the Board on matters of corporate governance and supports the Chairman and Non-executive Directors. He is also the point of contact for investors on matters of corporate governance and ensures good governance practices at Board level and throughout the Group.

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer, which is set out in writing and has been agreed by the Board.

Executive and Non-executive Director balance No.



Executive Directors	1
Independent Non-executive Directors	4
Chairman	1

Board tenure No.



More than 5 years	2
3 to 5 years	1
1 to 3 years	3

Gender of Board No.



Male	5
Female	1

Corporate governance continued



Leadership The Board's area of focus

Board activity during the year

The Board has a programme of meetings during the year and also meets on an ad hoc basis as required. In the period under review, the Board's focus has been on progress with strategy and ensuring that the structures, capabilities and reports are in place to support the Group strategy. The Board has received regular reports from both the Chief Executive Officer and the Chief Financial Officer.

In particular the Board:

Strategy	<ul style="list-style-type: none"> Received presentations from different parts of the business on progress with agreed strategy and opportunities Held the annual strategy review meeting in October 2017 Approved updated budget and medium term plans in the context of the agreed strategy Reviewed progress with implementation of the strategy through regular reports from the Chief Executive Officer Approved the strategic paper partnership Reviewed the manufacturing footprint restructuring programme Considered the Kenya joint venture Received presentations on technology and innovation and on cyber security 	 For more information on our strategy see page 22
Shareholder engagement	<ul style="list-style-type: none"> Reviewed reports from brokers on shareholder feedback following meetings with the Chief Executive Officer and Chief Financial Officer during the period Received presentations from brokers on the market perception of De La Rue plc Consulted with shareholders and proxy voting bodies on resolutions put to the AGM 	 For more information see page 63
Performance monitoring	<ul style="list-style-type: none"> Reviewed performance reports from the Chief Executive Officer and Chief Financial Officer Reviewed reports on the Group's financial position Reviewed the year end and interim results 	 For more information see pages 34 to 35
People	<ul style="list-style-type: none"> Visited the Malta and Sri Lanka sites during Board meetings in March 2017 and September 2017 respectively Reviewed progress on the culture change journey Received presentations from the Group Director of Human Resources on succession planning Reviewed the operation of the apprenticeship levy 	
Governance and risk	<ul style="list-style-type: none"> Received reports from the Director of Audit, Risk and Assurance Approved principal risks and the risk appetite for those risks Discussed the results of the Board performance evaluation Received reports from the Chairs of the Audit, Remuneration, Ethics and Nomination Committees Approved changes to composition of the Board Carried out the annual corporate governance review 	 For more information on principal risks see pages 36 to 41  For more information on Board Committee reports see pages 64 to 94
Other	<ul style="list-style-type: none"> Approved the 2017 annual report and accounts and the 2017 notice of AGM Approved the 2017/18 annual budget Reviewed the Group's insurance programme renewal Reviewed HSE performance Approved capital expenditure projects and other matters reserved for the Board Approved Non-executive Directors' fees Received an update on the proposed changes to pension fund indexation 	



Leadership Board attendance

Board and Board Committee meetings

The Board and Board Committee attendance during the year is shown in the table below. In addition to the schedule of Board meetings, the Board meets for dinners that give the Directors additional time together to discuss issues more broadly. For further information regarding when the Board members joined or stepped down from Committees during the year, please refer to the relevant Board Committee report.

Directors' attendance 2017/18 ¹	Board ²	Nomination Committee	Ethics Committee	Audit Committee	Remuneration Committee
Nick Bray	14(15)	0(1)	2(2)	5(5)	5(6)
Sabri Challah	13(15)	1(1)	2(2)	5(5)	6(6)
Maria da Cunha	12(15)	1(1)	2(2)	3(5)	6(6)
Rupert Middleton (stepped down from the Board 20 July 2017)	4(4)	–	–	–	–
Philip Rogerson	15(15)	1(1)	2(2)	–	6(6)
Jitesh Sodha (resigned from the Board on 19 March 2018)	13(14)	–	–	–	–
Andrew Stevens	14(15)	1(1)	2(2)	5(5)	6(6)
Martin Sutherland	14(15)	1(1)	–	–	–

Notes

¹ Figures in brackets denote the maximum number of meetings that could have been attended.

² Of the meetings detailed within the table, six Board meetings were convened on an ad hoc basis to consider matters in between scheduled Board meetings.

Unscheduled meetings

The unscheduled meetings of the Board during the year were to discuss the strategic paper partnership and the resignation of the Chief Financial officer.

Non-attendance

Some Board members were unable to participate in Board and Board Committee meetings due to these being held at short notice as noted in the table above. If any directors are unable to attend a meeting they communicate their opinions and comments on the matters to be considered via the Chairman of the Board or the relevant Board Committee Chairman.

Corporate governance continued



Effectiveness

Conflicts of interests and independence

The Board has established a process to review at least annually and, if appropriate, authorise any conflict of interest and has carried out such a review during the year and authorised all Directors' situational conflicts. Any transactional conflicts are reviewed as they arise. Directors are asked to review and confirm reported conflicts of interests as part of the year end process.

Culture and values

The Board considers leadership, culture and good governance as essential considerations in the Group's ongoing transformation. As the business seeks to build a high performance culture across the Company to deliver our strategy, the Board recognises the role it plays in providing leadership and tone from the top. The Board is developing a framework through the Executive Leadership Team for regular oversight of the culture within the Company. The intention is to ensure the De La Rue values are integral to the performance management of the senior leadership group and other employees and that the incentive structure in place supports and encourages behaviours consistent with those values.

Performance evaluation

The Board and its Committees undertake an annual evaluation of their effectiveness. In 2017, the performance evaluation involved the use of an external independent facilitator, Lintstock Limited.

The review process involved completion of online questionnaires which focused on Board composition, expertise and dynamics, quality of decisions made, Board support and processes, structure, behaviours and other key issues such as strategy and succession. The review also addressed delivery of the Board's objectives and any issues identified during the previous review or which became relevant during the year. A report on the performance of the Board and each of the principal Committees was compiled by Lintstock. The results of the questionnaire as they applied to the Board were discussed collectively and it was concluded that the Board worked well with a good breadth of skills, backgrounds and experience. The culture was open and collaborative and the Board meetings

covered the right topics across the annual cycle. The administrative support was welcomed.

The Chairman and each Committee Chairman have discussions with each Director or Committee member based on the responses. The Senior Independent Director is responsible for appraising the Chairman's performance in discussions with the Non-executive Directors and the Executive Directors in the absence of the Chairman. The Chairman holds one-to-one meetings with all Directors.

The reviews undertaken in the year have concluded that the performance of the Board, its Committees and individual Directors was effective. A number of positive points were noted as well as areas for improvement and focus for the coming year, which will be monitored and progressed at the Board meetings scheduled for the year.

Whistleblowing

A whistleblowing telephone hotline – CodeLine service allows De La Rue employees to raise concerns in relation to dishonesty or malpractice on an entirely confidential basis. The hotline is operated by a third party which is independent of De La Rue. Incoming reports are provided to the General Counsel and Company Secretary who ensures that the matters are appropriately investigated. The Ethics Committee and the Audit Committee receive regular reports on any matters raised through the hotline and monitor the use throughout De La Rue.

Induction and professional development

All new Directors receive a tailored induction on joining the Board, including meetings with senior management and visits to some of the Group's locations. They also receive a detailed information pack which includes details of Directors' duties and responsibilities, procedures for dealing in De La Rue plc shares and a number of other governance related issues. Directors are continually updated on the Group's businesses and their markets and changes to the competitive and regulatory environments in which they operate. All Directors are encouraged to undertake additional training where it is considered appropriate for them to do so and to visit the Group's facilities on an ongoing basis.

Risk management and internal control

The Board retains overall responsibility for identifying, evaluating, managing and mitigating the principal risks faced by the Group and for monitoring the Group's risk management and internal control systems. However, such systems are designed to manage rather than eliminate the risk of failure to business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. In accordance with principle C.2 of the Code and the related guidance, the Company has established the procedures necessary to ensure that there is an ongoing process for identifying, evaluating, managing and mitigating the principal risks it is willing to take to achieve its strategic objectives (its risk appetite). The Directors confirm that such procedures have been in place for the period ended 31 March 2018 and up to the date of approval of these financial statements and that the Group's risk management and internal control systems have been monitored during the period. Further details on the ongoing risk management and internal control systems can be found in both the risk management section of this annual report and the Audit Committee report on pages 36 to 41 and pages 66 to 69 respectively.

This review does not extend to associated companies or joint ventures where the Group does not have management control.

Assessment of the prospects of the Company and its viability statement

In accordance with provision C.2.2 of the Code, the Directors set out on page 41 how they have assessed the prospects of the Company, over what period the prospects have been assessed, and the Company's formal viability statement.

Relations with shareholders

As required by the relevant laws and regulations the Company reports formally to its shareholders twice a year, with the half year results announced normally at the end of November and the annual results normally at the end of May. In addition, the Board continues to value the importance of building strong investor relations, delivered through an active investor relations communication programme. We have significantly enhanced disclosure and transparency through improved reporting in the last two years.

In the reporting period, our engagement programme has focused on improving investors' understanding of the Company's strategy, operations and performance, in particular the latest development on products and technology.

During the period, an extensive investor programme has been undertaken involving formal events, including site visits. The Chief Executive Officer, Chief Financial Officer and Head of Investor Relations have regular calls and one-to-one investor meetings with representatives of institutional shareholders and potential investors. On governance-related matters there was a very significant consultation programme in advance of the remuneration policy vote at the AGM in July 2017.

The Chairman, Senior Independent Director and other members of the Board make themselves available to meet with institutional investors when requested.

All holders of ordinary shares may attend the Company's AGM at which the Chairman presents a review of the key business developments during the year. This year's AGM will be held at 10:30 on Thursday 26 July 2018 at The Hampshire Court Hotel, Centre Drive, Great Binfields Road, Chineham, Basingstoke, RG24 8FY. The notice of AGM accompanies this annual report. Shareholders can ask questions of the Board on the matters put to the meeting, including the annual report and the running of the Company generally. All Directors are invited to attend each AGM and all Committee Chairmen will be present to take questions at the AGM.

The Company sends the notice of AGM and relevant related papers to shareholders at least 20 working days before the meeting. The notice of AGM is available to view on the Group's website.

A poll is conducted on each resolution at all Company general meetings. All shareholders have the opportunity to cast their vote in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and are made available on our website.

Information in the Directors' report

Information fulfilling certain requirements of the corporate governance statement can be found in the Directors' report and is incorporated into this corporate governance section by reference.

For reference, relevant sections of the directors' report are:

- Substantial shareholdings
- Deadlines for voting rights
- Amendment of the Company's articles of association
- Appointment and replacement of Directors
- Powers of Directors
- Authority to issue shares
- Repurchase of shares

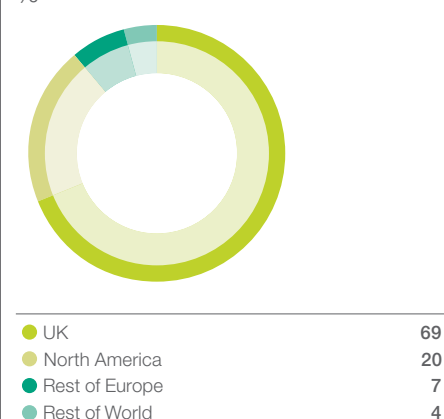
By order of the Board

Edward Peppiatt
Company Secretary
30 May 2018

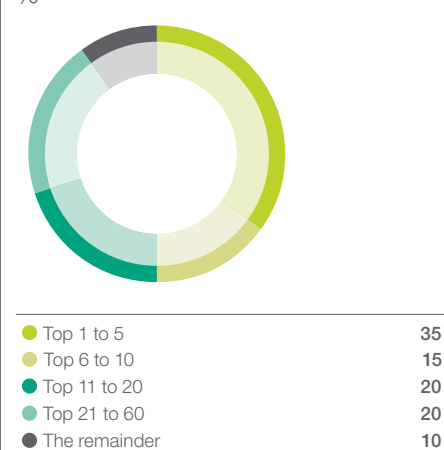


The Board values the importance of building strong relationship with shareholders and investors.

Shareholders by location



Shareholders concentration



Corporate governance continued



Effectiveness Nomination Committee

Philip Rogerson
Chairman of the
Nomination Committee



The Nomination Committee ensures that the Board and its Committees maintain the appropriate balance of skills, knowledge, experience and diversity to ensure compliance with all legal and fiduciary obligations and to deliver value to shareholders and other stakeholders.

Dear Shareholder

I am pleased to present the 2018 Nomination Committee report.

Composition of the Committee

Member	Date of appointment to Committee	Directors' attendance 2017/18
Philip Rogerson (Chairman)	1 March 2012	1(1)
Martin Sutherland	13 October 2014	1(1)
Nick Bray	21 July 2016	0(1)
Sabri Challah	23 July 2015	1(1)
Maria da Cunha	23 July 2015	1(1)
Andrew Stevens	2 January 2013	1(1)

Note

Figures in brackets denote the maximum number of meetings that could have been attended.

Biographical details of the members of the Board who held office up to the date of this report can be found on pages 54, 55 and 57.

Activities during the period

This year the Committee's main activity was focused on Board succession planning, which it did through formal meetings and frequent informal exchanges.

Other areas of focus included:

- Review of the composition of the Board and the range of skills and experience on the Board
- Board and management succession
- Review of Board diversity
- Non-executive Directors' periods of appointment and confirmation that all should stand for election and re-election at the AGM following a formal performance appraisal process
- Review of senior leadership talent, succession and development
- Review of the composition of Board Committees
- Evaluation and effectiveness review
- External commitments

Principal responsibilities

The key areas of responsibility of the Committee are:

- To review the structure, size and composition of the Board and its Committees, to ensure they remain appropriate, and to make recommendations to the Board
- To consider succession plans for Directors and senior executives
- To review the time commitment required of Non-executive Directors at least once a year
- To review the independence of the Non-executive Directors

Operation of the Committee

The Committee leads the process for nominations to the Board, making recommendations to the Board as appropriate. It gives full consideration to the composition of the Board and succession planning for Directors and senior executives. The Chairman and the independent Non-executive Directors together with the Chief Executive Officer are members of the Committee.

Committee meetings

The Committee is required, in accordance with its terms of reference, to meet at least once a year, and it did so during the year.

The Committee's annual evaluation involved the use of an external independent facilitator, Lintstock Limited. It was concluded that the Committee continued to operate effectively.

Diversity policy

The aim this year has been to deepen understanding in our organisation of what inclusion and diversity means in practice, how it is advantageous to our business and why getting this right is so critical for our business and to wider society. In considering appointments to the Board and to senior executive positions, it is the policy of the Committee to evaluate the skills, experience and knowledge required by a particular role with due regard for the benefit of diversity. We will continue to aim to ensure the strength of the Board's composition is maintained having regard to all the different stakeholders that the Group has as a global organisation, while ensuring that the Board members are able to provide a range of perspectives, insights and challenge to support effective decision-making.

The Group has formally approved an Inclusivity policy describing De La Rue's commitment to a working environment where all people feel valued and respected as individuals. The policy includes detailed requirement and elements of diversity.

As at 31 March 2018, the Company has one female Non-executive Director on the Board.

Further details on the Group's approach to inclusion and diversity and the gender pay gap are set out on pages 46 and 47.

Succession planning and talent

The Committee recognises that having the right Directors and senior management is crucial for the Group's success and a key task of the Committee is to ensure that there is a robust and rigorous succession process to ensure that there is the right mix of skills and experience as the Group evolves. During the period, the Chief Executive Officer and Group HR Director led a comprehensive talent review and succession planning presentation to the Board. The review focused on the executive pipeline from which future leaders of the Company were likely to emerge, both at Executive Leadership Team level and other key management areas. Strong successors and a diverse pipeline of 'ready later' emerging talent have been identified.

The Board meets ELT members and other key managers formally and informally to exchange views and ideas.

Board changes

Rupert Middleton stepped down from the Board at the conclusion of the 2017 AGM and the Board decided that the Chief Operating Officer replacement would not be a Board appointment. Jitesh Sodha resigned from the Board on 19 March 2018 and in its search for a replacement for Jitesh Sodha, the Board retained Russell Reynolds Associates, an independent executive search firm which does not have any other connections with the Company. The Committee agreed the process, timetable and mandate for Russell Reynolds Associates.

Election and re-election

As in previous years, and in accordance with the UK Corporate Governance Code, all Directors will stand for re-election at the AGM.

The Board, having carried out the effectiveness and evaluation process, considers the performance of each of the Directors standing for re-election at this year's AGM to be fully satisfactory and is of the opinion that they have demonstrated ongoing effectiveness and continued commitment to the role. The Board strongly supports their re-election and recommends that shareholders vote in favour of the resolutions at the AGM.

Philip Rogerson

Chairman of the Nomination Committee
30 May 2018

Corporate governance continued



Accountability Audit Committee

Nick Bray

Chairman of the
Audit Committee



The Audit Committee provides an independent overview of the effectiveness of the internal financial control systems and financial reporting processes.

Dear Shareholder

I am pleased to present the 2018 Audit Committee report. This report describes the Committee's ongoing responsibilities and key tasks as well as its major activities in the period ended 31 March 2018.

Composition of the Committee

Member	Date of appointment to Committee	Directors' attendance 2017/18
Nick Bray	21 July 2016	5(5)
Sabri Challah	23 July 2015	5(5)
Maria da Cunha	23 July 2015	3(5)
Andrew Stevens	2 January 2013	5(5)

Note

Figures in brackets denote the maximum number of meetings that could have been attended.

Activities during the period

During the period, the Audit Committee met on five occasions and dealt with the following matters:

- Group half year results
- Group preliminary announcement and annual results
- Principal judgemental accounting matters affecting the Group based on reports from management and the external auditors
- External audit plans and reports
- Risk and assurance plans and reports including:
 - Group risk profile
 - Internal audit plan
 - Internal audit reports
 - Follow up of internal audit recommendations
 - Annual review of the system of internal controls
 - Quality and security internal assurance reviews
 - Internal control self assessment review
 - HSE legal assurance and compliance audits
- Group disclosure and whistleblowing policy
- Review of controls concerning the management of capital expenditure proposals
- Going concern and viability assessment
- External auditor effectiveness, independence, and fees
- Review of the new regulatory requirements regarding external audit firm and audit partner rotation
- Audit Committee effectiveness

Principal responsibilities

- The appointment of the external auditors including the agreement of the terms of engagement at the start of each audit, the audit scope and the external audit fee
- Monitoring and reviewing the effectiveness of internal financial controls and internal control and risk management systems and the effectiveness of the internal audit function
- Reviewing the integrity of the interim and full year financial statements
- Reviewing significant financial reporting issues and judgements contained in the financial statements
- Reviewing and monitoring the external auditor's effectiveness, independence and objectivity including the nature and appropriateness of any non-audit fees
- Reviewing reports on the effectiveness of the Group's whistleblowing procedures and arrangements, details of which are set out on page 62
- Advising the Board on whether taken as a whole, the annual report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy

The terms of reference of the Audit Committee are available on the Group's website.

All members of the Committee are Independent Non-executive Directors. The Board is satisfied that the membership of the Audit Committee meets the requirement for relevant and recent financial experience.

I have continued with the practice of inviting the Chairman, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, General Counsel and Company Secretary, Director of Audit, Risk and Assurance and the external and internal auditors to join meetings of the Committee. The Director of Audit, Risk and Assurance, who is the chief internal auditor, and external auditors each meet the Committee without Executive Directors or other employees being present.

Significant accounting matters

The Audit Committee is responsible for reviewing whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements in the preparation of the financial statements. In respect of the financial statements for the period ended 31 March 2018, the significant issues reviewed and how these issues were addressed is summarised below:

Revenue recognition in the Currency division

The Committee considered the Group's revenue recognition and contract accounting policies and procedures to ensure that they remained appropriate and that the Group's internal controls were operating effectively in this area. Feedback was also sought from the external auditors over the application of the revenue recognition policy including a specific review of shipments pre and post year end. Following a review of the varied sources of information received, the Committee concluded that the accounting treatments were reasonable and appropriate.

Post-retirement benefit obligations

The Committee received and considered reports from management and the external auditors in relation to the valuation of the defined benefit pension scheme and challenged the key actuarial assumptions used in calculating the scheme liabilities, especially in relation to discount rates, RPI and CPI inflation rates and mortality.

The Committee discussed the reasons for the decrease in the net pension deficit and was satisfied that the assumptions used were appropriate and were supported by independent actuarial specialists. Details of the key assumptions used are set out in note 24.

Valuation of inventory in Currency

The Committee reviewed the Group's policies and procedures over the valuation and recoverability of inventory in Currency (£24.7m). The Committee received confirmation that the valuation principles had been consistently applied and noted that the majority of inventory items were made to order rather than held for generic stock and hence the recoverability risk was low. Accordingly, the Committee concluded that the accounting treatments were reasonable and appropriate.

Estimation of accruals and provisions

The Group holds a number of provisions relating to warranties including present obligations for defective products and known claims as well as anticipated claims that had not been reported at the balance sheet date. The Committee reviewed and discussed reports from management and the external auditors concerning the significant provisions held for such matters including any provisions with notable movements. The Committee considered the background to all material accruals and provisions and challenged management over the judgements applied in determining the value of provisions required. The Committee enquired of management and the external auditors as to the existence of other matters potentially requiring a provision to be made. The Committee concluded that it was satisfied with the value of accruals and provisions carried.

Classification of exceptional items

As part of the Committee's deliberations over whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, the Committee also considered the amounts disclosed as exceptional items. The nature of the items classified as operating exceptional items during the period is described in note 2 and 4.

In particular, the Committee reviewed the accounting treatment of the £79.5m net gain from the re-measurement of pension liabilities following the decision by the Trustees of the scheme to use CPI as the indexation measure from 1 April 2018.

The Committee considered the accounting treatment and disclosure of these items in the financial statements including seeking the views of the external auditors. On the basis of this review, the Committee concluded that the accounting treatment and disclosures in relation to these items were appropriate.

Disposal accounting following the disposal of Portals De La Rue Limited

The Committee reviewed the disposal accounting following the disposal of Portals De La Rue Limited. The Committee reviewed the:

- assessment of discontinued operations treatment
- critical accounting estimates used in the estimate of potential recompense of consideration
- accounting treatment for the "disposal group" under IFRS 5
- appropriate accounting treatment for the remaining interest De La Rue has in the disposal group

Following presentations by management and discussions with the external auditors, the Committee was satisfied with the disclosures relating to the disposal of Portals De La Rue Limited.

Independence and objectivity of external auditors

The Committee ensures that the external auditors (Ernst & Young LLP) remain independent of the Group. The Audit Committee has a detailed policy covering:

- Choosing the statutory auditors and approving the audit fee
- Commissioning non-audit work
- Defining circumstances in which it is appropriate or inappropriate for incumbent auditors to be allowed to provide or be prohibited from providing non-audit work
- De La Rue's procedures for procuring non-audit services from external sources, which specifically prohibits Ernst & Young LLP from undertaking certain types of service (including but not limited to services where it would audit its own work, where it would act in an advocacy role for the Group or where it would participate in activities normally undertaken by management)



Accountability Audit Committee continued



The Audit Committee believes that this annual report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

However, it may be cost-effective for Ernst & Young LLP to perform certain non-audit services, in particular where the skills and experience required make Ernst & Young LLP the most suitable supplier. Certain categories of non-audit services, including corporation tax compliance and due diligence services must be subject to competitive tender unless it is justifiable in the circumstances not to do so. Areas which would not normally be acceptable non-audit services but in exceptional circumstances may be considered appropriate, such as litigation and compliance services, require my prior approval. The selection criteria include detailed proposals, timescales, local resource, cost and the safeguards put in place by Ernst & Young LLP to avoid conflicts of interest or loss of independence. In addition, the Group's policy is for any individual assignment to be undertaken by Ernst & Young LLP where the fee is likely to be in excess of £50,000 to be approved by me prior to commencement of work. During 2017/18 the amount of non-audit fees paid to Ernst & Young LLP was £0.3m.

The safeguards Ernst & Young LLP put in place avoid compromising their objectivity and independence. They provide a written report to the Audit Committee on how they comply with professional and regulatory requirements and best practice designed to ensure their independence. Key members of the Ernst & Young LLP audit team rotate and the firm ensures, where appropriate, that confidentiality is maintained between different parts of the firm providing services to De La Rue.

The Audit Committee places great emphasis on the objectivity of the Company's auditors, Ernst & Young LLP, in reporting to shareholders.

The Ernst & Young LLP audit partner is present at Audit Committee meetings to ensure communication of matters relating to the audit. The Audit Committee has discussions with the auditors, without management being present, on the adequacy of controls and on judgemental areas and receives and reviews the auditors' highlights reports and management letters, which are one of the main outputs from the external audit.

The scope and key focus of the forthcoming year's audit is discussed with, and approved by, the Audit Committee.

Appointment of auditors

The Audit Committee assesses annually the qualification, expertise, resources and independence of the external auditors and the effectiveness of the audit process. The Audit Committee's assessment is performed by an audit satisfaction questionnaire completed by the Chairman, relevant senior management and Audit Committee members.

Following the conclusion of the tender process reported in last year's Annual Report and Accounts, the Board confirmed its intention to propose to shareholders, for approval at the 2017 AGM, to appoint Ernst & Young LLP as the Group's auditor. Ernst & Young LLP were subsequently appointed.

Internal control and risk management

As noted above, the Committee is responsible for reviewing, on behalf of the Board, the effectiveness of the Group's internal financial controls and the assurance procedures relating to the Group's risk management systems. These controls and procedures are designed to manage, but not eliminate, the risk of failure of the Group to meet its business objectives and, as such, provide reasonable but not absolute assurance against material misstatement or loss. The key elements of the Group's risk management framework and procedures are set out on pages 36 to 41. The Committee reviews these topics at each meeting and considers that none of the areas identified for enhancement during the year constituted a significant failing or weakness for the Group.

Internal audit

Assurance over the design and operation of internal controls across the Group is provided through a combination of techniques. The Board, through the Audit Committee, monitors the effectiveness of internal control systems through reports received from the internal audit function during the period. The internal audit function has been outsourced since 2009. PricewaterhouseCoopers LLP have performed this role since the start of 2013/14.

Internal audit continued to ensure that their efforts were better aligned to the operational risks that the Group faces while maintaining an emphasis on reviewing the adequacy and effectiveness of general finance and IT controls across the Group on a cyclical basis. In addition to internal audit work, there is a system of self assessment internal control reviews by which management are required to detail and certify that controls are in operation to ensure the control environment in their business areas is appropriate. Actions agreed are followed up by senior management to ensure that satisfactory control is maintained. The internal audit plan is set and reviewed by the Audit Committee. Additionally, the Audit Committee reviews reports from the external auditors on internal control matters noted as part of their audit work.

The 2018/19 Internal Audit plan was approved by the Committee in April 2018.

Fair, balanced and understandable view

At its May 2018 meeting, the Committee reviewed the content of this annual report and accounts and advised the Board that, in its view, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

In making its recommendation to the Board the Committee continued its robust existing governance arrangements by:

- Comprehensive Group and subsidiary accounts process, with written confirmations provided by business unit senior management teams on the health of the financial control environment
- Reviews of the annual report undertaken at different levels of the Group and by the senior management team that aim to ensure consistency and overall balance
- External audit review
- Clear guidance and instruction of the requirement provided to contributors
- Written confirmation that information provided by executive management has been done on a fair and balanced basis
- Additional reviews by the Audit Committee Chairman of the draft annual report in advance of the final sign-off in the context of the Code provision

Final sign-off is provided by the Board, on the recommendation of the Committee.

Nick Bray

Chairman of the Audit Committee
30 May 2018

Corporate governance continued



Accountability Risk Committee

Edward Peppiatt
Chairman of the
Risk Committee



The Board has delegated to the Risk Committee the responsibility for identifying, evaluating and monitoring the risks facing the Group and for deciding how these are managed.

Dear Shareholder

On behalf of the Risk Committee, I am pleased to present the 2018 Risk Committee report. This report sets out the composition, role and activities of the Committee in the period ended 31 March 2018.

Composition of the Committee

Member	Date of appointment to Committee	Members' attendance 2017/18
Edward Peppiatt (Chairman)	20 October 2009	1(1)
Steve Brown	22 September 2015	1(1)
Jo Easton	22 September 2014	1(1)
Richard Hird	22 September 2015	1(1)
Rupert Middleton (stepped down from the Board 20 July 2017)	20 March 2012	0(0)
Selva Selvaratnam	22 September 2015	0(1)
Jitesh Sodha (resigned from the Board 19 March 2018)	10 August 2015	1(1)
Martin Sutherland	13 October 2014	1(1)
Martin Sutton	22 September 2015	1(1)

Note

Figures in brackets denote the maximum number of meetings that could have been attended.

A meeting which was scheduled to take place in March 2018 had to be moved to April 2018 and therefore fell outside of the period ended 31 March 2018.

Activities during the period

During the period, the Risk Committee considered reports on:

- The principal risks of the Group (see the risk and risk management report on pages 36 to 41)
- Risk appetite
- Outputs from executive and functional risk workshops
- Specific operational risks of concern and the mitigations in place
- General Data Protection Regulation requirements

Principal responsibilities

- Recommend the risk management policy and strategy
- Oversee development and maintenance of a Group-wide risk management framework for identifying and managing risks
- Identify and review all major risks faced by the Group and ensure that appropriate controls are in place to manage those risks
- Review the Group's ability to identify and manage new types of risks
- Promote a risk management culture and control environment
- Review the effectiveness of the Group's non-financial internal control systems in the management and reporting of risks

The Committee comprises all Executive Directors of the Board, the rest of the Executive Leadership Team members including Customer and Commercial Officer, Chief Operating Officer, Chief Technology Officer and Group Director of Human Resources, and Group Director of Audit, Risk and Assurance, as well as Group Director of Security. The Committee meets and reports to the Board at least annually.

Any Director may attend meetings and the Board may direct other members to join.

The Directors acknowledge that they have overall responsibility for the Group's system of internal control for managing risks associated with the business and markets within which the Company operates. Further details relating to how the Directors maintain overall control of significant strategic, financial, operational and compliance issues is set out in the risk and risk management report on pages 36 to 41.

In addition, the Board has delegated to the Risk Committee the responsibility for identifying, evaluating and monitoring the risks facing the Group and for deciding how these are managed.

At the period end, following review by the Audit Committee of internal controls and of the processes covering these controls, the Board evaluates the effectiveness of the risk management procedures conducted by senior management.

The Committee is assisted by Group Committees, which deal with specific areas of risk, such as health, safety and environment and security.

The Committee met once during the year.

Edward Peppiatt
Chairman of the Risk Committee
30 May 2018



Accountability Ethics Committee

Philip Rogerson
Chairman of the
Ethics Committee



The Committee is responsible, on the Board's behalf, for reviewing compliance with the Group's Code of Business Principles (CBP). The Committee considers ethical matters and makes recommendations to the Board on how they should be addressed and reinforces the Group's commitment to ensuring business ethics are a fundamental and enduring part of the Group's culture.

Dear Shareholder

I am pleased to present the 2018 Ethics Committee report.

Composition of the Committee

Member	Date of appointment to Committee	Directors' attendance 2017/18
Philip Rogerson (Chairman)	27 September 2012	2(2)
Nick Bray	21 July 2016	2(2)
Sabri Challah	23 July 2015	2(2)
Maria da Cunha	23 July 2015	2(2)
Andrew Stevens	2 January 2013	2(2)

Note

Figures in brackets denote the maximum number of meetings that could have been attended.

Activities during the period

During the period to 31 March 2018 the Committee focused on the following activities:

- Key updates and trends in business ethics
- Status of the restructuring of the management of third party partners (TPPs) programme
- CBP activity update
- Review of incidents with an ethical dimension
- Review of the internal audit findings of the implementation of actions arising from the Banknote Ethics Initiative (BnEI) re-accreditation confirmed in 2017
- Review of the gift register for Executive Directors
- Evaluation and effectiveness review
- Review of reports on issues raised through the whistleblowing hotline – CodeLine and other channels and review of results of any investigations into ethical or compliance breaches or allegations of misconduct

Principal responsibilities

The main responsibilities of the Ethics Committee are to:

- Assist the Board in fulfilling its oversight responsibilities in respect of ethical matters
- Ensure that De La Rue conducts business with integrity and honesty and in accordance with relevant legislation and regulations
- Advise the Board on the development of strategy and policy on ethical matters
- Advise the Board on steps to be taken to embed a culture of integrity and honesty in all of the Group's business dealings
- Oversee the development and adoption of Group policies and procedures for the identification, assessment, management and reporting of ethical risk
- Oversee the investigation of any material irregularities of an ethical or non-financial fraudulent nature and review subsequent findings and recommendations

Corporate governance continued



Accountability Ethics Committee continued

De La Rue's ethical framework

The Group delivers high profile security print products and services to customers across the world. It is essential that the Group conducts its business with integrity, honesty and transparency to maintain the trust and confidence of its customers, and everyone it deals with both inside and outside the Group.

The Group has clear core values and principles which govern how all employees and business partners must behave and we believe that by committing to these values the business will be well placed to deliver its strategic objectives with the expected behaviours.

We recognise that our business is exposed to risks of unethical conduct because of the nature and value of many of our contracts and because the standards of integrity may not be consistent across all the countries in which we operate. We have a robust compliance programme in place which allows us to manage these risks effectively as explained below.

The Group's ethical framework is supported by the standards, policies, internal controls and communication as highlighted on page 73. We expect all our employees, consultants and those acting on our behalf to adopt these standards. We are participants of the UN Global Compact initiative which we are using as a guide to align our Company strategies and operations with business principles on human rights, environment and anti-corruption. We also collaborate with the International Chamber of Commerce corporate responsibility and anti-corruption committee.

Our ethics and compliance programme**Code of Business Principles (CBP)**

The CBP was reviewed and relaunched in 2016 and our nine core principles are regularly reviewed to ensure that they continue to underpin the way in which we conduct ourselves and work on a daily basis.

If an employee is found to have acted in breach of the CBP, the Group takes appropriate action to address that breach including disciplinary action and ultimately terminating employment in the most serious cases.

Gifts and hospitality

We have a clear approval process for gifts, entertainment and hospitality offered by or given to our employees. All employees are required to comply with the gifts and hospitality policy which requires all gifts, entertainment and hospitality above a nominal value to be recorded on a central Gift Register which is reviewed on a monthly basis. The Committee receives a report on the gifts received or given by the Executive Directors.

Banknote Ethics Initiative (BnEI)

De La Rue is one of the founding members of the BnEI. BnEI sets out a rigorous framework for promoting high ethical standards in the industry and requires members to commit to the Code of Ethical Business Practice that was developed in partnership with the Institute of Business Ethics. The initiative was established to promote ethical business practice, with a focus on the prevention of corruption and on compliance with anti-trust law within the banknote industry. Compliance with the code is rigorously tested through an audit framework developed in conjunction with GoodCorporation, recognised worldwide as a leading company in the field of corporate responsibility assurance and business ethics. De La Rue's re-accreditation was confirmed at Level 1 in April 2017 and recognised the level of improvement implemented in this area.

The audit focuses on anti-bribery and corruption and anti-trust processes, procedures and controls. The findings of the triennial BnEI audit confirm that De La Rue continues to perform strongly or above GoodCorporation benchmarks.

Third party partners (TPPs)

We recognise that it is not just our employees who could be exposed to ethics risks but also TPPs. Their conduct remains one of our most significant risks and there is a continuing requirement for TPPs to undergo our mandatory training programme and to conduct business in compliance with the standards set by the Company. Due diligence is undertaken on all our TPPs before they are engaged and this process is reviewed on a regular basis. TPPs are given regular training to ensure they remain alert to potential risks. We have risk management measures and controls in place including in relation to remuneration of TPPs and

we monitor all payments to ensure that the remuneration structure does not incentivise unethical behaviour.

The Committee receives regular reports on payments made to sales consultants, together with an update on the progress in moving TPPs away from the traditional commission-only model. This is part of a five year plan and reflects the Group's aim to reduce risk and manage partner performance and reflects the recommendation of the BnEI.

Ethics Champions

The Group's network of Ethics Champions ensures that each site has local support and representation for CBP matters and continues to play an integral part in ensuring that strong De La Rue values are embedded across the business. An Ethics Champions' conference was held in May 2017 and included representatives from recently acquired sites.

Whistleblowing

We encourage all employees and people acting on our behalf to speak up if they have any concerns. The Audit Committee reviews our whistleblowing policy and procedures each year. Ethical questions or concerns raised by employees or third parties through the De La Rue CodeLine are investigated and all findings and remedial actions are reported in detail in periodic reports prepared for and reviewed by the Ethics Committee.

Training

The Committee attaches significant importance to regular, relevant and focused training. Training during the period included:

- Face-to-face introduction to TPP training sessions to new TPP stakeholders
- Competition law training where relevant for all new starters
- Online training modules for TPPs and relevant employees
- Security awareness training including guiding principles on ethical behaviour for employees travelling overseas

Philip Rogerson

Chairman of the Ethics Committee
30 May 2018



Code of Business Principles 9 Topics

Bribery & corruption	Competition & anti-trust	Gifts & hospitality	HSE	Employment principles	Records and reports	Personal information	Insider trading	Conflicts of interest
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Backed up by policies

<ul style="list-style-type: none"> • ABC • Gifts and entertainment • Charitable giving 	<ul style="list-style-type: none"> • Competition and anti-trust 	<ul style="list-style-type: none"> • Gifts and entertainment • Expenses • ABC • Conflict of interests 	<ul style="list-style-type: none"> • Health and safety • Environment • Fire safety 	<ul style="list-style-type: none"> • Equal opportunities • Anti-harassment • Diversity 	<ul style="list-style-type: none"> • Group finance manual 	<ul style="list-style-type: none"> • Data protection 	<ul style="list-style-type: none"> • Share dealing, market abuse and insider trading 	<ul style="list-style-type: none"> • Conflicts of interest • Gifts and entertainment
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Supported by processes

<ul style="list-style-type: none"> • TPP • Gift register • Expenses vetting 	<ul style="list-style-type: none"> • Legal Department Guidelines 	<ul style="list-style-type: none"> • Gift register • Expenses vetting 	<ul style="list-style-type: none"> • Monthly reporting • Global HSE standards • ISO management systems 	<ul style="list-style-type: none"> • Grievance procedure • Disciplinary process 	<ul style="list-style-type: none"> • Compliance declarations • External monitoring • Separation of duties 	<ul style="list-style-type: none"> • Annual data protection returns 	<ul style="list-style-type: none"> • Procedure for dealing with inside information • Dealing approvals 	<ul style="list-style-type: none"> • Gifts register
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Underpinned by oversight, controls and communication

Specialist audits	Benchmarking	CodeLine	Employee surveys	Ethics Committee
External audit	Internal audits	Training/induction	Risk reviews	SharePoint
BnEI accreditation	ICC CR & Anti-Corruption Committee	UN Global Compact		

Corporate governance continued

Directors' remuneration report

Annual statement from the Chairman of the Remuneration Committee

Sabri Challah

Chairman of the
Remuneration Committee



We believe our remuneration policy is critical to delivering both planned performance each year and the longer term transformation of De La Rue.

Composition of the Committee

The Remuneration Committee consists exclusively of Non-executive Directors, all of whom are regarded as independent, and the Chairman of the Board, who was regarded as independent on his appointment as Chairman.

Member	Date of appointment to Committee	Directors' attendance 2017/18
Sabri Challah (Chairman)	23 July 2015	6(6)
Philip Rogerson	26 July 2012	6(6)
Nick Bray	21 July 2016	5(6)
Maria da Cunha	23 July 2015	6(6)
Andrew Stevens	2 January 2013	6(6)

Note

Figures in brackets denote the maximum number of meetings that could have been attended.

Activities during the period

The Committee follows a cycle of activities during the year and in 2017/18 this covered amongst other things the following matters:

- Review of the Directors' remuneration policy and a consultation with major shareholders and institutional bodies
- Approval of the Executive Leadership Team Group and strategic individual objectives for the year
- Review of performance targets against short and long term incentive plans
- Approval of pay awards for Executive Directors and the Executive Leadership Team
- Benchmarking of Executive Directors' and Executive Leadership Team pay and benefits
- Determination of remuneration for new Chief Operating Officer
- Determination of retention arrangements for key senior executives
- Review and approval of the Directors' remuneration report
- Awards under the UK Sharesave employee share scheme
- Review of the report on gender pay gap and action plan
- An effectiveness review of the Committee
- In addition the Committee went through a tender and selection process for the appointment of independent remuneration advisers

Principal responsibilities

The Committee's responsibilities are outlined in its terms of reference which can be found at www.delarue.com. The responsibilities are reviewed annually and referred to the Board for approval. A summary of the responsibilities are as follows:

- Recommendations to the Board on Group policy regarding executive remuneration
- Determination of the specific remuneration packages of the Chairman, Executive Directors and senior executives who report to the Chief Executive Officer
- Determination of the design, conditions and coverage of annual and long term incentive plans for senior executives and approval of total and individual awards under the plans
- Determination of targets for any performance related pay plans
- Determination of the issue and terms of all share based plans available to all employees
- Oversight of any major changes in remuneration

Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to present the report on the work of the Committee during the period to 31 March 2018.

We continue to regard our remuneration policy as critical to delivering both planned performance each year and the longer term transformation of De La Rue. In 2017/18, we continued in our progress towards the delivery of our strategic plan to transform the business into a less capital intensive, more technology orientated business. The sale of our paper business was a significant milestone towards achieving this goal. This year also saw significant progress in strengthening the Group's balance sheet with net debt at £49.9m being the lowest in five years. Our reward model aims to incentivise the achievement of the specific short and long term objectives set out in our strategic plan, and reinforces the desired behaviours and culture that will sustain the success of De La Rue.

We aim to ensure that executive remuneration is fair and competitive so that the Group can attract, motivate and retain the highly talented people required to deliver the operational and strategic transformation of the business that we have committed to. Above all, the Committee's objective is to ensure that our Directors' remuneration policy incentivises and rewards delivery of sustainable shareholder value.

As reported last year, during 2016/17 the Remuneration Committee carried out a thorough review of the remuneration policy and implemented changes to enhance the level of disclosure associated with variable pay, changed holding arrangements for long term incentives and developed the conditions for malus and clawback. The Remuneration Committee is not proposing any changes to the remuneration policy for the year ahead. However, the Committee does propose to make some changes to the implementation of the executive remuneration policy from 2018/19. These changes are explained later in this letter.

Committee meetings

The Committee met six times during the period and details of attendance can be found on page 74. The Chief Executive Officer and the Group Director of Human Resources also attended meetings. The General Counsel and Company Secretary, who is also secretary to the Committee, advised on governance issues.

No Executive Director or employee is present or takes part in discussions in respect of matters relating directly to their own remuneration.

Structure of Directors' remuneration report

This report is presented in three main sections: an annual statement from the Chairman of the Committee; the Directors' remuneration policy; and the annual report on remuneration for 2017/18. The Directors' remuneration policy was approved by shareholders at the AGM on 20 July 2017 and had a binding effect at that date. The policy is not subject to a vote at the 2018 AGM.

2018 review of implementation of the executive remuneration policy and shareholder consultation

This year the Committee, with support from our independent remuneration consultants, has reviewed the way in which our remuneration policy is implemented, with particular focus on our variable pay plans, to assess the degree to which the performance measures and targets remain aligned to our Group strategy and forecast performance.

As part of this review, we have consulted with our largest shareholders and have actively taken on board their comments and views.

The changes proposed to the implementation of the policy from 2018/19 are set out in more detail within the annual report on remuneration and are summarised below.

Changes to the operation of the Performance Share Plan

- Re-weighting of the performance measures under the PSP from 75% EPS: 25% ROCE to 50% EPS: 50% ROCE. This re-weighting reflects the strategic importance of strong capital management and generation of efficient returns during this period of growth and investment
- Significant increase to the stretch of the ROCE performance targets at threshold and maximum to reflect recent and forecast performance, and our strategic plan (from 30% – 36%, to 34% – 40%)
- Widened the EPS growth target range to better reflect recent and forecast performance, and our strategic plan (from 5% – 10% to 4% – 12%)

No other changes are being made to the award opportunities under our variable pay plans.

The changes proposed are within the scope of the existing remuneration policy.

The changes are set out on page 89. We will continue to keep all aspects of our reward policy under review and be prepared to respond to changing circumstances.

We will not be seeking approval for any changes to the policy this year and are not required to submit a new policy until the 2020 AGM. We will therefore operate in accordance with our existing remuneration policy in 2018. A copy of our current remuneration policy can be found on pages 77 to 85.

Corporate governance continued

Directors' remuneration report

Annual statement from the Chairman of the Remuneration Committee

Outcomes 2017/18

Annual Bonus Plan (ABP)

The maximum opportunity for Executive Directors under the ABP is 135% of salary for the Chief Executive Officer and 115% for the Chief Financial Officer. For 2017/18, the bonus opportunity was based 80% on financial performance and 20% on achievement of strategic personal objectives. The weighting of the financial performance objectives was as follows:

- Group revenue 20%
- Group underlying operating profit 40%
- Group cash conversion 20%

Despite some of the financial and strategic personal targets being achieved the profit underpin was not met and therefore no bonus was payable to the Executive Directors under any element of the plan. Details of the measures and targets are set out on page 88.

Performance Share Plan (PSP)

Awards under the PSP in 2015/16 had three year performance criteria based on EPS and ROCE. Seventy five per cent of the award was based on EPS average compound growth of between 5% and 10% and twenty five per cent of the award was based on average ROCE of between 26% and 32%. The EPS performance criteria were not met, however average ROCE over the three years of 38.9% was above the target range. This achievement delivers a maximum payout against this measure. The 2015/16 PSP therefore pays out at 25% of maximum. The details for Martin Sutherland and Jitesh Sodha are included on page 89.

ABP and PSP awards 2017

The Remuneration Committee made awards under the ABP and PSP in 2017 and details of award levels and the performance conditions are on pages 88 to 89.

2018 salary review

The Committee has reviewed the salary levels of the Executive Directors. The Chief Executive Officer's salary has been increased by 2.4%. Details are provided on page 87. Increases are in line with those made to other employees. All salary increases are deferred until 1 July 2018.

Board changes

Rupert Middleton stepped down from the Board at the conclusion of the AGM in 2017. We announced that Jitesh Sodha resigned from the Board on 19 March 2018. Neither Director was eligible for a cash bonus for 2017/18. Share awards are treated in accordance with the relevant Plan and Scheme Rules. Share awards not eligible for release up until the date of ceasing employment will lapse.

Gender pay

In line with the new UK regulations we published our gender pay gap data and narrative in January 2018. Further information is provided on page 46 within our Responsible business section.

I would like to thank shareholders who contributed to the Committee's discussions during the year.

In accordance with the regulations we will be asking shareholders for an advisory vote on the annual report on remuneration.

Sabri Challah

Chairman of the
Remuneration Committee
30 May 2018

Directors' remuneration policy

Introduction

In this section we summarise the key principles that underpin our remuneration policy and how we will apply our policy in 2018.

Remuneration policy

The Group's remuneration policy was approved by shareholders at the AGM on 20 July 2017 and took effect from that date. The policy is reproduced here for information only.

The overriding objective is to ensure that our executive remuneration policy encourages, reinforces and rewards the delivery of sustainable shareholder value. The Remuneration Committee believes that performance related pay and incentives should account for a significant proportion of the overall remuneration of Executive Directors so that their reward is aligned with shareholder interests and the Group's performance, without encouraging excessive risk-taking. Performance related elements of remuneration therefore form a significant proportion of the total remuneration packages. The Committee also has discretion to take into account performance on environmental, social and governance matters.

Policy table

The remuneration package for Executive Directors consists of fixed base salary, pension and other benefits and a significant proportion of variable pay including annual bonus and long term share based incentives. The following table summarises each element of the proposed remuneration policy for the Executive Directors and explains how each works and is linked to the corporate strategy.

Base salary			
Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
<p>Fixed competitive remuneration set at levels to recruit and retain talent. Determination informed, but not led, by reference to the market place for companies of similar size and complexity.</p> <p>Reflects individual skills, experience and responsibility necessary to deliver business strategy.</p> <p>Rewards individual performance.</p>	<p>Reviewed annually and fixed for 12 months (but may be reviewed more frequently).</p> <p>Influenced by:</p> <ul style="list-style-type: none"> • Role, experience, responsibilities and performance • Change in broader workforce salary • Group profitability and prevailing market conditions • Salary levels across the Group generally • Eliminating the gender pay gap <p>Increases are not automatic.</p>	<p>To avoid creating expectations of Executive Directors and other employees, no maximum base salary has been set. Increases will not normally exceed the average of increases awarded within the rest of the Group in the UK.</p> <p>Larger increases may be awarded in certain circumstances including, but not limited to:</p> <ul style="list-style-type: none"> • Increases in scope or responsibility • Where market conditions indicate a lack of competitiveness and risk to attracting or retaining executives <p>Where the Remuneration Committee exercises its discretion to award increases above the average for other employees, a full explanation will be provided in the next annual report on remuneration.</p>	<p>Individual performance is the primary consideration in setting salary alongside overall Group performance, affordability and market competitiveness.</p>

Corporate governance continued

Directors' remuneration report**Directors' remuneration policy continued****Benefits**

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
Market competitive benefits sufficient to recruit and retain the talent necessary to develop and execute the business strategy.	<p>Provision of car allowance, life assurance and private medical scheme. Executive Directors are also provided with permanent health insurance. Executive Directors can also participate in the annual leave flexibility scheme.</p> <p>Other benefits may be provided on an individual basis such as, but not limited to, relocation allowances including transactional and legal costs, disturbance and travel and subsistence costs.</p>	While the Remuneration Committee has not set an absolute maximum, benefits will be market competitive taking into account role and individual circumstances.	Not applicable.

Pension

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
To provide market competitive pensions sufficient to recruit and retain executives.	<p>Executive Directors are offered membership of a defined contribution pension plan. The contribution rates offered are reflective of market practice and based on base salary only.</p> <p>If contributions to the plan would cause an Executive Director to exceed the HM Revenue and Customs (HMRC) annual allowance or lifetime allowance limits, a cash allowance in lieu of pension contribution will be offered.</p>	<p>The contribution rates for the Executive Directors are 30% of base salary for the Chief Executive Officer and 20% of base salary for the Chief Financial Officer.</p> <p>The Executive Directors may choose to receive a cash allowance in lieu of contributions. The allowance is equal to the pension contribution that would otherwise have been paid less the Company's national insurance contribution to ensure cost neutrality.</p>	Not applicable.

Annual Bonus Plan (ABP)

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
<p>To incentivise and reward delivery of financial and personal performance targets that address the distinct commercial and strategic needs of the business, and align with shareholder interests.</p> <p>To ensure a consistent and stable reward structure throughout the management group that will remain fit for purpose.</p> <p>To support a pay for performance philosophy.</p> <p>To help attract and retain top talent and be cost-effective.</p> <p>Executive Directors are required to hold a level of shareholding of 100% of salary as described on page 81.</p> <p>Compulsory deferral of shares supports alignment with shareholder interests and also provides a retention element.</p>	<p>The Remuneration Committee sets Group financial targets and agrees personal objectives for each Executive Director at the start of each year. Reference is made to the prior year and to budgets and business plans while ensuring the levels set are appropriately challenging but do not encourage excessive risk-taking.</p> <p>Payments are determined by the Remuneration Committee after the year end. The bonus plan is non-contractual and may be offered on a year by year basis.</p> <p>Sixty per cent of annual bonus is payable immediately in cash. Forty per cent of annual bonus is payable in deferred shares and released in tranches, subject to continued employment (with early release in certain circumstances). There are no further performance conditions.</p> <p>Fifty per cent of deferred shares are released one year after cash payout and the remaining 50% two years after cash payout.</p> <p>The Remuneration Committee may increase the number of shares subject to a deferred share award to reflect dividends that would have been paid over the deferral period on shares that vest.</p> <p>The deferred share element will be disclosed in the annual report on remuneration.</p> <p>The cash and deferred share element are subject to malus and clawback provisions to allow the Company to recoup three years from award in the event of material financial misstatement of results or gross misconduct and other acts or omissions that could bring the business into disrepute and or cause reputational damage.</p>	<p>The current annual maximum bonus opportunity of 135% of salary for the Chief Executive Officer and 115% of salary for the Chief Financial Officer linked to business performance will continue to apply.</p> <p>The Remuneration Committee has the discretion to increase the overall maximum bonus level to 150% of salary, subject to this not being above the competitive market range.</p>	<p>The bonus payout level is determined by achievement of Group financial performance measures with an element based on personal objectives. The metrics, while stretching, do not encourage inappropriate risks to be taken.</p> <p>The Remuneration Committee will maintain discretion to consider the financial underpin in respect of awards under the ABP. Financial targets and weightings will be disclosed in the annual report on remuneration.</p>

Corporate governance continued

Directors' remuneration report**Directors' remuneration policy continued****Performance Share Plan (PSP)**

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
<p>A share based long term incentive is aligned closely with business strategy and interests of shareholders through the performance measures chosen.</p> <p>To increase the time over which rewards are earned to four years and support a pay for performance philosophy.</p> <p>To retain key executives over a longer term measurement period. Executive Directors are encouraged to hold a level of shareholding as described on page 81.</p> <p>To ensure a consistent and stable reward structure throughout the management group that will remain fit for purpose.</p> <p>To attract and retain top talent and continue to be cost-effective.</p> <p>To ensure overall cost-efficiency.</p> <p>To ensure any payout is supported by sound profitability by link to EPS growth.</p> <p>To support the strategic focus on growth and margins by the link to ROCE.</p>	<p>Annual share award with a three year performance period and performance metrics which, while challenging, will not encourage excessive risk-taking.</p> <p>Sixty per cent of the award vests after three years provided Group performance (two metrics) criteria are met and the balance will vest after a further one year subject to continued employment.</p> <p>The Remuneration Committee may add dividend shares accrued only on vested shares during the performance and extended vesting period.</p> <p>Vesting of awards is subject to continued employment until the vesting date but, as described on page 83, PSP awards may also vest early in 'good leaver' circumstances. Awards under the PSP will vest early on a change of control (or other similar event) subject to satisfaction of the performance conditions and, unless the Remuneration Committee determines otherwise, pro-rating for time.</p> <p>The Remuneration Committee has the right to clawback any PSP awards within three years of an award vesting to the extent there has been material financial misstatement of results, gross misconduct or any act or omission that could bring the business into disrepute and or cause reputational damage. Malus provision also applies.</p>	<p>The maximum number of shares which may be subject to an award granted to eligible employees in any financial year shall be an amount equal to such percentage, not exceeding 100% of salary as at the award date, as may be determined by the Remuneration Committee. The Committee retains discretion in exceptional circumstances to grant awards with a face value of up to 150% of salary.</p>	<p>Awards will vest subject to the achievement of Group performance over a period of three years against key metrics set by the Remuneration Committee which are aligned to commercial business needs and strategy.</p> <p>For proposed awards in 2017/18, the vesting of PSP awards will be subject to EPS and return on capital employed (ROCE) performance conditions.</p> <p>The Remuneration Committee must be satisfied that vesting reflects the underlying performance of the Group and retains the flexibility to adjust the vesting amount to ensure it remains appropriate to the business performance achieved.</p> <p>The Remuneration Committee regularly reviews the performance conditions and targets to ensure they continue to be aligned with the Group's business objectives and strategy and retains the discretion to change the measures and their respective weightings to ensure continuing alignment with such objectives and strategy.</p> <p>The Remuneration Committee maintains the ability to adjust or set different performance measures if events occur or circumstances arise which cause the Committee to determine that the performance conditions have ceased to be appropriate. If varied or replaced, the amended performance conditions must, in the opinion of the Committee, be fair, reasonable and materially no more or less difficult than the original condition when set and these will be disclosed in the annual report on remuneration.</p>

All employee share plans

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
To encourage employees including the Executive Directors to build a shareholding through the operation of all employee share plans such as the HMRC approved De La Rue Sharesave scheme in the UK.	<p>Executive Directors may participate in the Sharesave scheme on the same terms as other employees.</p> <p>Under the UK Sharesave scheme, the option price may be discounted by up to 20%. Accumulated savings through payroll may be used to exercise an option to acquire shares.</p> <p>Under the Employee Share Purchase Plan, employees in the US may be offered the opportunity to purchase the Company's shares at a 15% discount to the market price. Any purchases are funded through accumulated payroll deductions.</p> <p>Shareholders approved the Rules of Sharesave and the ESPP at the 2012 AGM.</p>	The maximum savings amount currently offered is £500 per month over a three or five year period under the Company's Sharesave scheme. The rules of the scheme provide for savings up to the legislative limit of £500 per month.	No performance measures but employment conditions apply.

Shareholding requirement for Executive Directors

The Remuneration Committee believes that it is important that the interests of Executive Directors should be closely aligned with those of shareholders. The Committee has adopted a policy that Executive Directors are required to build up a shareholding equivalent to one times salary. It is intended that this is met by Executive Directors retaining 100% of vested post-tax deferred bonus shares, restricted shares and performance shares until the requirement is met in full.

Pay policy for other employees

When determining the remuneration arrangements for Executive Directors, the Remuneration Committee takes into consideration the pay and conditions of employees throughout the Group. In particular, the Committee is kept informed of:

- Salary increases for the general employee population
- Overall spend on annual bonus
- Participation levels in the ABP

The remuneration policy applied to the Executive Leadership Team and the most senior executives in the Group is similar to the policy for the Executive Directors in that a significant element of remuneration is dependent on Group and individual performance. The key principles of the remuneration are applied consistently across the Group below this level, taking account of seniority and local market practice. The Group aims to offer competitive levels of remuneration, benefits and incentives to attract and retain employees. The Remuneration Committee consults with the Chief Executive Officer on the remuneration of executives directly reporting to him and other senior executives and seeks to ensure a consistent approach across the Group taking account of seniority and market practice and the key remuneration policies outlined above. On authority of the Committee, the Chief Executive Officer has discretion to make awards to a limited number of employees not being Executive Directors or Executive Leadership Team members.

All UK employees may join the Company's HMRC approved Sharesave scheme. Options are granted over De La Rue plc shares, at an exercise price, at the discretion of the Remuneration Committee, of a maximum of 80% of the prevailing market share price at the time of grant. Eligible US employees may participate in the ESPP. The purchase price is 85% of the lower of the market value of a De La Rue plc share either at the beginning or end of the offering period. Offerings under the Sharesave and the ESPP are at the discretion of the Remuneration Committee.

The Remuneration Committee considered that it would be impractical to consult with employees when drawing up the remuneration policy.

Corporate governance continued

Directors' remuneration report

Directors' remuneration policy continued

Remuneration Committee discretion

The Remuneration Committee reserves the right to adjust or set different performance measures for both short and long term plans if events occur or circumstances arise in which performance conditions have ceased to be appropriate. These events include substantial changes in business structure or strategy, acquisition or divestment. The Committee may also make discretionary adjustments, up and down, to the formulaic outcome of short and long term plans if there is misalignment with the Group's strategic goals or shareholder interests. This discretion will be applied in exceptional cases only and disclosed.

Shareholder views

The Remuneration Committee engages in regular dialogue with shareholders to discuss and take feedback on its remuneration policy and governance matters. During the last year the Committee has consulted with De La Rue's largest UK shareholders and the main UK institutional investor bodies on the proposals for the new Directors' remuneration policy subject to a binding vote at the AGM on 20 July 2017. The Committee welcomes an open dialogue with shareholders and intends to continue to consult with major shareholders before implementing any significant change to the directors' remuneration policy.

Service contracts

The Board's policy for current and new Executive Directors is that service contracts are one year rolling contracts with a notice period that should not exceed one year.

The Remuneration Committee recognises that in the case of appointments to the Board from outside the Group, it may be necessary to offer a longer initial notice period, which would subsequently reduce to 12 months after that initial period.

Non-executive Directors

Philip Rogerson, Chairman, was initially appointed as a Non-executive Director and Chairman designate on 1 March 2012.

All Directors offer themselves for annual re-election at each AGM in accordance with the UK Corporate Governance Code. Service contracts for Executive Directors and letters of appointment for Non-executive Directors are available for inspection at the registered office address of the Company.

Payment for loss of office

In determining compensation for early termination of a service contract, the Remuneration Committee carefully considers the specific circumstances, the Company's commitments under the individual's contract and the individual's obligation to mitigate loss. The table below outlines the framework for contracts for Executive Directors. Should additional compensation matters arise, such as a settlement or compromise agreement, the Remuneration Committee will exercise judgement and will take into account the specific commercial circumstances.

Policy	
Notice period on termination by the Company	Twelve calendar months. The Remuneration Committee recognises that in the case of appointment to the Board from outside the Group, it may be necessary to offer a longer initial notice period, which would subsequently reduce to 12 months.
Termination payment at the Company's sole discretion	<p>On termination by either the Company or the relevant Executive Director, the Company retains the discretion to make a payment in lieu of notice not exceeding 12 months' basic salary, excluding bonus but including benefits in kind (including company car or car allowance and private health insurance) and pension contributions (which may include salary supplement).</p> <p>Benefits provided in connection with termination payments may also include, but are not limited to, outplacement and legal fees.</p>
Change of control	Under the ABP, share awards will vest in full on change of control. Awards under the PSP will vest early on a change of control (or other similar event) subject to satisfaction of the performance conditions and, unless the Remuneration Committee determines otherwise, pro-rating for time.
Vesting of incentives for leavers	<p>The Remuneration Committee has the discretion to determine appropriate bonus amounts taking into consideration the circumstances in which an Executive Director leaves. Typically for 'good leavers', bonus amounts (as estimated by the Remuneration Committee) will be pro-rated for time in service to termination and will be subject to performance, paid at the usual time.</p> <p>The vesting of share awards is governed by the rules of the appropriate incentive plan approved by shareholders. Typically for 'good leavers':</p> <ul style="list-style-type: none"> • Under the ABP, the provisions allow awards to vest in full at the normal vesting date or earlier at the discretion of the Remuneration Committee • Under the PSP, awards pro-rated (unless the Remuneration Committee determines otherwise) to the date of departure, will vest at the normal vesting date if the relevant performance targets have been met. The Remuneration Committee has the discretion to test the performance targets early and accelerate vesting • Good leavers under the Sharesave scheme, which is HMRC approved, are entitled to exercise options, pro-rated to the savings made • If awards are made on recruitment the treatment on leaving would be determined at the time at the Remuneration Committee's discretion in accordance with the relevant plan rules
Pension benefits	These will be paid in accordance with the rules of the pension scheme. Where an early retirement pension is paid from a legacy UK defined benefit arrangement, a reduction will be made to the pension to reflect early receipt using factors determined and set by the Trustees from time to time.

Corporate governance continued

Directors' remuneration report**Directors' remuneration policy continued****Remuneration policy for the Chairman and Non-executive Directors**

Element	Operation by the Company
Chairman fees	The remuneration of the Chairman is set by the Remuneration Committee. Fees are set at a level which reflects the skills, knowledge and experience of the individual, while taking into account market data.
Non-executive Director fees	<p>Non-executive Directors do not have service contracts but are appointed for fixed terms of three years renewable for a further three years. Terms beyond this period are considered on a case by case basis.</p> <p>The Board (excluding Non-executive Directors) is responsible for setting Non-executive Directors' fees. Fees are structured as a basic fee for Board and Committee membership. Committee Chairmen and the Senior Independent Director receive an additional fee. Reasonable expenses for attending Board meetings are reimbursed by the Company and the Group may pay any tax due on such benefits.</p> <p>Total fees paid to Non-executive Directors will remain within the limit set out in the Company's articles of association of £750,000 per annum.</p> <p>Non-executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's annual incentive arrangements, or share option schemes. No compensation is payable to the Chairman or to any Non-executive Director if the appointment is terminated.</p>

Remuneration policy for new appointments

When considering the appointment of Executive Directors, the Committee balances the need to attract candidates of sufficient calibre while remaining mindful of the need to pay no more than necessary. The Committee will typically align the remuneration package with the above remuneration policy. Base salary may be set at a higher or lower level than previous incumbents. Where possible, salary may be set at an initially lower level with the intention of increasing it over the following two years dependent on performance in the role and experience gained. In certain circumstances, to facilitate the recruitment of individuals of the required calibre, incentive arrangements and awards may also be higher. The Remuneration Committee retains the discretion to make payments or awards which are outside the policy to facilitate the recruitment of candidates of the appropriate calibre to implement the Group's strategy. In addition, remuneration forfeited on resignation from a previous employer may be compensated. The form of this compensation would be considered on

a case by case basis and may comprise either cash or shares. Generally (though not necessarily in all circumstances) the Committee will favour share awards with appropriately stretching performance targets attached and, at a minimum, expects that:

- If forfeited remuneration was in the form of shares, compensation will be in the form of shares
- If forfeited remuneration was subject to achievement of performance conditions, compensation will be subject to no less challenging performance conditions
- The timing of any compensation will, where practicable, match the vesting schedule of the remuneration forfeited

A newly appointed Executive Director may be provided with reasonable relocation support.

Internal appointments will receive a remuneration package that is consistent with the remuneration policy. Legacy terms and conditions would be honoured, including pension entitlements and any outstanding incentive awards.

Subject to the limit on additional maximum variable remuneration set out below, incentive awards may be granted within the first 12 months of appointment above the maximum award opportunities set out in the policy table above. Excluding payments or awards to compensate for remuneration forfeited on resignation from a previous employer, the maximum level of variable remuneration which may be awarded to a new Executive Director, above the maximum levels set out in the policy table above, is one times base salary.

The Remuneration Committee will ensure that variable remuneration is linked to the achievement of appropriate and challenging performance measures and will be forfeited if performance or continued employment conditions are not met.

Fees payable to a newly appointed Chairman or Non-executive Director will be in line with the fee policy in place at the time of appointment.

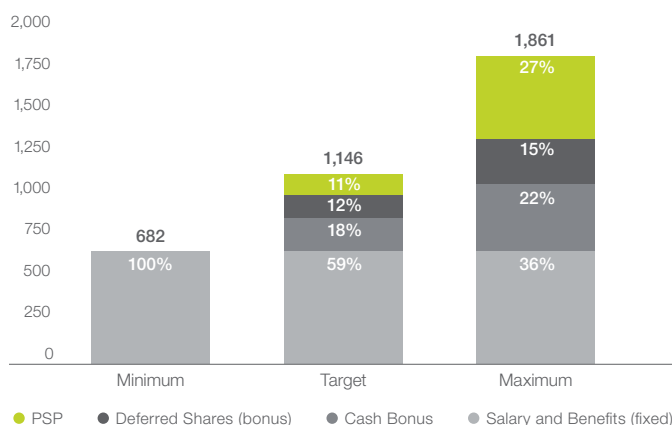
Illustration of the application of remuneration policy

The following charts illustrate the potential value of the Executive Directors' remuneration package in various scenarios in a typical year. Salary levels are as at 1 July 2018.

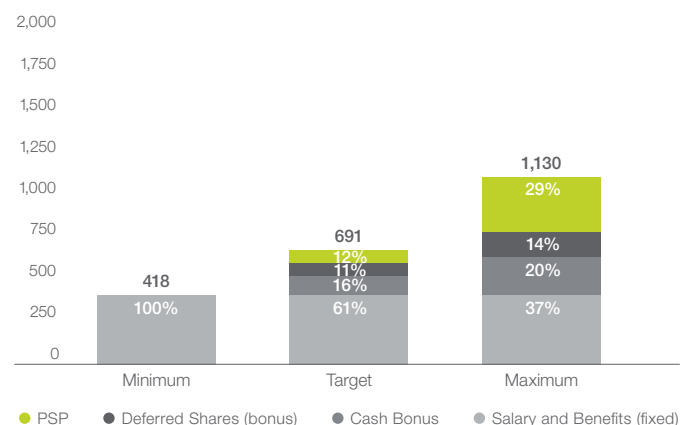
Performance scenarios for the ABP and PSP assume the following:

Minimum	Target	Maximum
There is no cash bonus or deferred share award under the ABP or vesting under the PSP.	Target cash bonus and deferred shares under the ABP, target vesting under PSP.	Maximum cash bonus, maximum deferred shares under the ABP, maximum vesting under the PSP.

CEO (£'000)



CFO (£'000)



Assumptions for the scenario charts

Minimum performance	Target performance	Maximum performance
Fixed pay (base salary, benefits and pension)	Fixed pay (base salary, benefits and pension)	Fixed pay (base salary, benefits and pension)
No bonus payout	50% of maximum bonus opportunity (67.5% of salary for CEO, 57.5% of salary for CFO)	100% of maximum bonus opportunity (135% of salary for CEO, 115% of salary for CFO)
No vesting under ABP or PSP	60% will be payable immediately in cash and 40% will be deferred in shares	60% will be payable immediately in cash and 40% will be deferred in shares
	25% of PSP shares vesting (25% of salary for CEO and CFO)	100% of PSP shares vesting (100% of salary for CEO and CFO)

Executive Director remuneration mix 2018/19

Based on the above performance scenarios the table below illustrates that a significant proportion of Executive Directors' remuneration is biased towards variable pay at maximum:

		% of pay at minimum achieved	% of pay at target achieved	% of pay at maximum achieved
CEO	Fixed	100	59	36
	Variable	—	41	64
CFO	Fixed	100	61	37
	Variable	—	39	63

The remuneration mix above is based on the remuneration policy as it was intended to be operated for 2018/19.

Corporate governance continued

Directors' remuneration report

Annual report on remuneration

The Directors' remuneration policy for the period ended 31 March 2018 was consistent with the policy approved by shareholders at the AGM in 2017. This section of the Directors' remuneration report gives information on how the Remuneration Committee implemented the policy on Directors' remuneration and the incentive outturns for 2017/18.

Single figure of remuneration for each Director (audited)

The table below shows how we have applied the current remuneration policy during 2017/18. It discloses all the elements of remuneration received by the Directors during the period.

	Salary and fees ^a		Benefits (excluding pensions) ^b		Bonus ^c		Long term incentive (PSP) (vested) ^d		Pensions ^e		Other Payments ^f		Total	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Executive Directors														
Martin Sutherland	477	469	29	31	–	256	148	–	129	132	–	11	783	899
Jitesh Sodha (resigned from the Board 19 March 2018)	314	320	21	24	–	151	113	–	56	57	–	–	504	552
Rupert Middleton (stood down from the Board with effect from 20 July 2017)	99	324	5	16	–	–	–	–	17	61	–	–	121	401
	890	1,113	55	71	–	407	261	–	202	250	–	11	1,408	1,852
Chairman														
Philip Rogerson	193	189	–	–	–	–	–	–	–	–	–	–	193	189
Non-executive Directors														
Nick Bray	58	40	–	–	–	–	–	–	–	–	–	–	58	40
Sabri Challah	58	57	–	–	–	–	–	–	–	–	–	–	58	57
Maria da Cunha	50	49	–	–	–	–	–	–	–	–	–	–	50	49
Victoria Jarman (stepped down from the Board with effect from 21 July 2016)	–	17	–	–	–	–	–	–	–	–	–	–	–	17
Andrew Stevens	58	57	–	–	–	–	–	–	–	–	–	–	58	57
Aggregate emoluments	1,307	1,522	55	71	–	407	261	–	202	250	–	11	1,825	2,261

Notes

The figures in the single figure table above are derived from the following:

- ^a Base salary and fees: the actual salary and fees received during the period. The Executive Directors' salaries are normally reviewed, but not necessarily increased, with effect from 1 July each year.
- ⁱ Martin Sutherland has a salary of £490,000 per annum effective 1 July 2017 and the salary shown above is to the period 31 March 2018. Martin Sutherland took advantage of the annual leave flexibility scheme and purchased an additional 5 days' annual leave entitlement during the period at a cost of £9,279 and he also participates in the Company's cycle-to-work scheme at a cost of £1,000 which is reflected in the table above.
- ⁱⁱ Jitesh Sodha had a salary of £331,000 per annum effective 1 July 2017 and the salary shown above is to the period 19 March 2018. Jitesh Sodha took advantage of the annual leave flexibility scheme and purchased an additional 5 days' annual leave entitlement during the period at a cost of £4,687 which is reflected in the table above.
- ⁱⁱⁱ Rupert Middleton had a salary of £325,000 per annum effective 1 July 2017 and the salary shown above is to the period 20 July 2017.
- ^{iv} Philip Rogerson's Chairman's fee is £194,000 effective from 1 July 2017 and the fee shown is the fee to the end of the financial period.
- ^b Benefits (excluding pensions): the gross value of all taxable benefits received in the period, including for example car or car allowance and private medical and permanent health insurance.
- ^c Bonus: No bonus was payable for 2017/18 as the performance underpin was not met. A description of the performance measures that applied for the year 2017/18 is provided on page 88. Jitesh Sodha and Rupert Middleton were not entitled to any bonus payments for 2017/18.
- ^d PSP: the estimated value of the shares due to vest in June 2018 (23 September 2018 in the case of Jitesh Sodha) (including dividend shares accrued to date) that was subject to performance over the three year performance period ending 31 March 2018 based on the number of shares that will vest multiplied by the average share price of 610.04p over the quarter ending 31 March 2018 (as the vesting price is not known at the date of the Directors' remuneration report). The performance conditions that applied to the PSP awards vesting are described on page 89.
- ^e Pension allowance and contributions to defined contribution section. See page 90 for further details of pension arrangements.
- ^f Other payments to:
- 2017: Martin Sutherland: dividend equivalent payments made under the CEO Share Award at the point of vesting. See 2017 annual report.

Individual elements of remuneration

Base salary and fees (audited)

Base salaries for Executive Directors are reviewed annually by the Remuneration Committee and are set with reference to individual performance, experience and responsibilities, Group performance, affordability and market competitiveness. An annual salary review was carried out by the Remuneration Committee on 26 April 2018. Following that review the Committee agreed an increase in salary for Martin Sutherland for 2018/19 payable from 1 July 2018 as follows:

	Base salary 2018 £'000	Base salary 2017 £'000	Increase %
Martin Sutherland	502	490	2.4
Rupert Middleton ¹	–	325	–
Jitesh Sodha ²	–	331	–

¹ Rupert Middleton stepped down from the Board after the AGM on 20 July 2017.

² Jitesh Sodha resigned from the Board on 19 March 2018.

The Directors' remuneration policy, approved by shareholders at the 2017 AGM, is that increases in salary for Executive Directors will not normally exceed the range of increases awarded to other employees in the Group except in the specific circumstances listed in the binding policy.

The remuneration policy for Non-executive Directors, other than the Chairman, is determined by the Board. Fees reflect the responsibilities and duties of Non-executive Directors while also having regard to the market place. The Non-executive Directors do not participate in any of the Group's share incentive plans nor do they receive any benefits or pension contributions. The Chairmen of the Remuneration Committee and Audit Committee and the Senior Independent Director received a further fee of £8,000 to reflect their additional duties in 2017/18. Basic fees payable to Non-executive Directors remain unchanged for 2018/19.

The fees are as follows:

	2018 £'000	2017 £'000
Non-executive Director fees		
Basic fee	50	50
Additional fee for chairmanship of Audit and Remuneration Committees and Senior Independent Director	8	8

The Chairman's fee will remain at £194,000 for 2018 and will be reviewed again in the normal way in April 2019.

External directorships of Executive Directors

The Board considers whether it is appropriate for an Executive Director to serve as a non-executive director of another company. Martin Sutherland was appointed a non-executive director of Forterra plc with effect from 23 May 2017 and received a fee in respect of this appointment for the period to 31 March 2018 of £43,313.

Corporate governance continued

Directors' remuneration report

Annual report on remuneration continued

Performance against targets (audited)

Annual bonus

The annual bonus is delivered under the Annual Bonus Plan (ABP).

ABP performance measures 2017/18

The ABP was operated on similar terms with respect to structure, financial measures and weightings as in 2016/17. The bonus opportunity was based on an element of strategic personal objectives (20%) and a number of financial performance metrics apportioned as follows:

- Group revenue (20%)
- Group adjusted operating profit (40%)
- Group cash conversion (20%)

No payments will be made on any element of bonus (including the strategic personal element) if a minimum operating profit threshold is not achieved. In addition, the Remuneration Committee has discretion to consider other factors, such as ethical behaviours, corporate responsibility, environment and health and safety matters as it sees fit when determining awards.

Disclosure of 2017/18 bonus targets

The following table sets out the financial performance targets and achievements for 2017/18.

Measure	Threshold	Target	Max	Actual	% of maximum achieved
Group revenue	£490m	£510m	£530m	£494.1m	2.1
Group adjusted operating profit	£70.5m	£74.5m	£78.5m	£62.8m	0
Group cash conversion	135%	145%	155%	163%	20

Strategic personal objectives are based on Group objectives and comprise both tactical and transformational targets. The objectives focus attention on the achievement of core strategic priorities and encompass improved efficiency, strengthened financial performance, product innovation and culture change. For the year in question, the successful sale of the paper business has secured its long term future. The balance sheet has been strengthened through more effective management of inventory reducing net debt to £49.9m and a change in indexation from RPI to CPI reducing the Company's pension liability. In addition, progress in developing innovative products and services has supported strategic growth in the invest and build portfolio.

The underlying operating profit underpin for 2017/18 was not achieved and, as an operating profit threshold must be achieved in order to qualify for any payment against the ABP, both financial and personal, no bonus is payable to Executive Directors for 2017/18.

Jitesh Sodha and Rupert Middleton were not eligible for a cash payment or deferred share award for 2017/18.

ABP 2018/19

The Remuneration Committee has decided not to introduce any changes to the structure and weightings to the annual bonus for 2018/19 and the Committee has determined that the bonus will be operated on similar terms of structure, financial measures (Group revenue, Group adjusted operating profit, Group cash conversion) and weightings as in 2017/18. However, the Committee will review introducing the strategic personal objectives with a 30% weighting as disclosed in the recent shareholder consultation when the Committee consider it to be appropriate to do so. No payments will be made on any element of bonus (including the personal element) if a minimum operating profit threshold is not achieved. There will be no change to the maximum bonus opportunities for Executive Directors. The specific performance points are not disclosed while still commercially sensitive, but are disclosed the following year.

Long term incentive – Performance Share Plan (PSP)

The PSP is a share based long term incentive aligned closely with business strategy and interests of shareholders through the performance measures chosen. The PSP is designed to provide Executive Directors and selected senior managers with a long term incentive that promotes annual and long term performance and reinforces alignment between participants and shareholders.

Performance measures applying to PSP Awards

The awards made under the PSP were subject to a combination of compound average growth in underlying basic EPS and average ROCE. EPS growth ensures any payout is supported by sound profitability. ROCE supports the strategic focus on growth and margins ensuring cash is reinvested to generate the appropriate returns.

All awards are made as performance shares based on a percentage of salary and the value is divided by the average share price over a period before the date of grant in accordance with the rules of the PSP. In addition, the Remuneration Committee must be satisfied that the vesting reflects the underlying performance of the Group and retains the flexibility to adjust the vesting amount to ensure it remains appropriate. Any adjustments will depend on the nature, timing and materiality of any contributory factors.

A summary of the performance measures and award vesting levels that apply to awards under the PSP is shown in the table below:

Year of award	Measure	Vesting % of element at threshold	Vesting % of element at maximum	Growth % required for threshold	Growth % required for maximum
2015	EPS ¹	25	100	5	10
	ROCE	25	100	26	32
2016	EPS ¹	25	100	5	10
	ROCE ²	25	100	30	36
2017	EPS ¹	25	100	5	10
	ROCE	25	100	30	36
2018	EPS ¹	25	100	4	12
	ROCE	25	100	34	40

Notes

¹ Underlying earnings per share. Based on average annual cumulative growth during the performance period.

² The vesting levels under ROCE have been adjusted to take account of the impact of a discontinued operation held for sale as described in note 2 to the financial statements. The Remuneration Committee is satisfied that the performance measures which are appropriately weighted support the Group's strategy and business objectives.

EPS and ROCE remain the most appropriate long term incentive measures and provide a strong line of sight between strategy, business performance and executive reward. The Remuneration Committee believes that the performance necessary to achieve awards is sufficiently stretching.

PSP award vesting in 2018

Awards under the PSP had three year performance criteria based on EPS and ROCE. Seventy five per cent of the award was based on underlying EPS average compound growth above 5% and twenty five per cent was based on ROCE of over 26%.

The performance period for the 2015 PSP awards ended on 31 March 2018. Over the period:

- The Group's underlying EPS growth was below the threshold growth of 5% per annum, under this performance measure this element of the PSP will not pay out
- De La Rue's average ROCE for the period was 38.9%. Since this was above the threshold of 26% and exceeded the maximum of 32%, under this performance measure this element of the PSP will pay out at 100%

Sixty per cent of this portion of the award vests in June 2018 in the case of Martin Sutherland and the balance will vest after a further one year subject to continued employment. Sixty per cent of the award to Jitesh Sodha will vest on 23 September 2018 provided he remains in employment as of that date and the balance will lapse.

PSP awards made in June 2017 (audited)

Executive Directors received PSP awards in line with the existing Directors' remuneration policy as follows:

	Number of shares awarded	Date of award	% of salary	Face value £'000	Vesting at threshold (as a % of maximum)	Performance period end date
Martin Sutherland	70,577	27 June 2017	100	488	25	March 2020
Jitesh Sodha	47,787	27 June 2017	100	330	25	March 2020

All awards are made as performance shares based on a percentage of salary and the value is divided by the average share price over a five day period prior to the date of award, being 680.10p for the award. Face value is the maximum number of shares that would vest multiplied by the share price (692p on 27 June 2017) at the date of grant.

Performance measures applying to PSP awards to be made in 2018

The Remuneration Committee has given detailed consideration, following shareholder consultation during 2016, to the potential reintroduction of a relative TSR performance measure but concluded that the measures of EPS growth and ROCE remain the most appropriate measures for De La Rue.

Having undertaken a thorough analysis to review the target ranges, the Remuneration Committee has decided to significantly increase the stretch of the target range for ROCE to incentivise Executive Director behaviour in delivering the strategy and encouraging investment in products and services that generate returns efficiently and deliver bottom line growth and to reflect recent and forecast performance. The ROCE range for the 2018 PSP is 34% to 40%.

The Committee also concluded that the existing target range for EPS is relatively narrow, and would most likely result in 'all or nothing' payouts and therefore the range should be broadened to reflect recent and forecast performance. The EPS range for the 2018 PSP is 4% to 12%.

In addition, given the importance of managing capital efficiently to deliver bottom line growth, the Remuneration Committee believes that a rebalancing of the weightings between EPS and ROCE is necessary to ensure an appropriate balance of focus between in-year profitability and investment and growth.

For the PSP awards to be made in 2018 the weighting will be 50% EPS and 50% ROCE.

Corporate governance continued

Directors' remuneration report

Annual report on remuneration continued

Executive Directors' service contracts

The table below summarises the notice periods contained in the service contracts for Executive Directors in office as at 31 March 2018.

	Date of contract	Date of appointment	Notice from Company	Notice from Director
Martin Sutherland	28 August 2014	13 October 2014	12 months	6 months

Non-executive Directors' letters of appointment

The Chairman and Non-executive Directors have letters of appointment rather than service contracts.

Non-executive Director	Date of appointment	Current letter of appointment end date
Nick Bray	21 July 2016	20 July 2019
Sabri Challah	23 July 2015	22 July 2018
Maria da Cunha	23 July 2015	22 July 2018
Philip Rogerson	1 March 2012	28 February 2021
Andrew Stevens	2 January 2013	2 January 2019

Total pension entitlements (audited)

The Group's UK pension schemes are funded, HMRC registered and approved schemes. They include both defined contribution and defined benefit pension schemes.

None of the Executive Directors in the period were a member of the legacy defined benefit schemes. All of the Executive Directors have opted out of the defined contribution plan and receive a cash allowance in lieu of a pension contribution.

During the year Martin Sutherland received a cash allowance of 30% of his basic salary in lieu of a pension contribution and Jitesh Sodha and Rupert Middleton each received a cash allowance of 20% of basic salary in lieu of pension contributions. The cash allowances were reduced by the amount of the Company's national insurance contribution to ensure cost neutrality with making the same contribution to the pension plan.

Details of the payments made to the Executive Directors are included on page 86.

Payments for loss of office (audited)

There were no payments for loss of office during the period.

Payments to past Directors (audited)

Rupert Middleton

Rupert Middleton stepped down from the Board at the conclusion of the AGM in July 2017. In order to ensure a smooth changeover he remained an employee of the Group until 1 September 2017 and in line with the terms of his service contract continued to receive a salary, pension and benefits totalling £45,323 until the date of cessation of his employment. Share awards not eligible for release up until the date of ceasing employment lapsed. The treatment of share awards to him under the ABP and PSP can be found in the Directors' interest table on page 92.

Rupert Middleton has a consultancy agreement with the Company from 1 September 2017 until 20 July 2018 for the provision of advisory services relating to operational matters for a period of not more than 20 days during the period for a fee of a daily rate of £1,500 plus expenses incurred and payable in accordance with the consultancy agreement.

Jitesh Sodha

Jitesh Sodha resigned from the Board on 19 March 2018. Under the terms agreed for his departure, De La Rue plc paid £3,500 in respect of Mr Sodha's legal fees. Jitesh Sodha is not eligible for a bonus for 2017/18. Share awards will be treated in accordance with the relevant plan and scheme rules. Share awards under the ABP and PSP not eligible for release up until the date of ceasing employment will lapse. Details of share awards can be found in the Directors' interest table on page 92.

Share retention policy

The Remuneration Committee believes it is important that the interests of Executive Directors should be closely aligned with those of shareholders. The Committee has adopted a policy that Executive Directors are required to build up a shareholding equivalent to one times salary. It is intended that this be met by the Executive Directors retaining 100% of post-tax deferred bonus shares, restricted shares and performance shares until the requirement is met in full.

Directors' interests in shares (audited)

The Directors and their connected persons had the following interests in the ordinary shares of the Company at 31 March 2018:

	Current shareholding ordinary shares (held outright)	Current shareholding as % of salary	Unvested awards			Vested shares	
			Subject to performance conditions	Not subject to performance conditions		Vested SAYE shares unexercised during the period	Vested shares exercised during the period
			Performance Share Plan	Annual Bonus Plan	SAYE (subject to continued employment)		
Executive Directors							
Martin Sutherland	49,274	53	247,065	28,100	1,567	2,876	16,006 ¹
Non-executive Chairman							
Philip Rogerson	13,000	n/a	–	–	–	–	–
Non-executive Directors							
Nick Bray	–	n/a	–	–	–	–	–
Sabri Challah	3,400	n/a	–	–	–	–	–
Maria da Cunha	4,735	n/a	–	–	–	–	–
Andrew Stevens	2,327	n/a	–	–	–	–	–

There have been no changes in Directors' outright interests in ordinary shares in the period 31 March 2018 to 30 May 2018. All interests of the Directors and their families are beneficial.

The current shareholdings as a percentage of salary during the period are calculated using the closing De La Rue plc share price of 509p on 29 March 2018 (31 March 2018 and 30 March 2018 being a Saturday and Bank Holiday respectively).

Note

¹ Includes a total of 1,167 dividend shares on vested award under the ABP. All shares on exercise retained by Martin Sutherland after disposal to meet tax liabilities pursuant to the share retention policy.

Former Executive Directors' share interests

At the time of leaving the Company, the former Executive Directors and their connected persons held the following interest in the ordinary shares of the Company:

Jitesh Sodha: 12,278

Rupert Middleton: 7,781

Corporate governance continued

Directors' remuneration report

Annual report on remuneration continued

Directors' interest in vested and unvested share awards (unaudited)

The awards over De La Rue plc shares held by Executive Directors under the ABP and PSP and Sharesave scheme during the period are detailed below:

	Date of award	Total award as at 25 March 2017	Awarded during year	Exercised during year	Lapsed during year	Awards held at 31 March 2018	Awards vested (unexercised) during year	Mid-market share price at date of award (pence)	Market price per share at exercise date (pence)	Date of vesting	Expiry date
Martin Sutherland											
Annual Bonus Plan ¹	Jun 15	1,615	–	1,615 ²	–	–	–	514.50 ³	653.9	Jul 17 ⁴	Jun 25
	Jun 16	13,224	–	13,224 ²	–	–	–	546.60 ³	653.9	Jul 17 ⁴	Jun 26
	Jun 16	13,224	–	–	–	13,224	–	546.60 ³	–	Jul 18	Jun 26
	Jun 17	–	7,438	–	–	7,438	–	680.10 ³	–	Jul 18	Jun 27
	Jun 17	–	7,438	–	–	7,438	–	680.10 ³	–	Jul 19	Jun 27
Performance Share Plan	Jun 15	51,405	–	–	–	51,405	–	541.00 ³	–	Jun 18	Jun 25
	Jun 15	34,270	–	–	–	34,270	–	541.00 ³	–	Jun 19	Jun 25
	Jun 16	54,488	–	–	–	54,488	–	520.85 ³	–	Jun 19	Jun 26
	Jun 16	36,325	–	–	–	36,325	–	520.85 ³	–	Jun 20	Jun 26
	Jun 17	–	42,346	–	–	42,346	–	680.10 ³	–	Jun 20	Jun 27
	Jun 17	–	28,231	–	–	28,231	–	680.10 ³	–	Jun 21	Jun 27
		204,551	85,453	14,839	–	275,165					
Sharesave options ¹	Jan 15	2,876	–	–	–	2,876	2,876	438.00 ⁵	–	Mar 18	Aug 18
	Jan 16	1,567	–	–	–	1,567	–	344.40 ⁵	–	Mar 19	Aug 19
Jitesh Sodha⁶ (resigned from the Board 19 March 2018)											
Annual Bonus Plan ¹	Jun 16	4,366	–	4,366 ⁷	–	–	–	546.60 ³	644.5	Jul 17 ⁴	Jun 26
	Jun 16	4,366	–	–	–	4,366	–	546.60 ³	–	Jul 18	Jun 26
	Jun 17	–	4,399	–	–	4,399	–	688.20 ³	–	Jul 18	Jun 27
	Jun 17	–	4,399	–	–	4,399	–	688.20 ³	–	Jul 19	Jun 27
Performance Share Plan	Sep 15	40,255	–	–	–	40,255	–	476.95 ³	–	Sep 18	Sep 25
	Sep 15	26,837	–	–	–	26,837	–	476.95 ³	–	Sep 19	Sep 25
	Jun 16	36,863	–	–	–	36,863	–	520.85 ³	–	Jun 19	Jun 26
	Jun 16	24,575	–	–	–	24,575	–	520.85 ³	–	Jun 20	Jun 26
	Jun 17	–	28,672	–	–	28,672	–	680.10 ³	–	Jun 20	Jun 27
	Jun 17	–	19,115	–	–	19,115	–	680.10 ³	–	Jun 21	Jun 27
		137,262	56,585	4,366	–	189,481					
Sharesave options ¹	Jan 16	2,613	–	–	–	2,613	–	344.40 ⁵	–	Mar 19	Aug 19
	Jan 17	1,289	–	–	–	1,289	–	441.06 ⁵	–	Mar 20	Aug 20
Rupert Middleton (stood down from the Board with effect from 20 July 2017)											
Annual Bonus Plan ¹	Jun 15	1,589	–	1,589 ⁸	–	–	–	514.50 ³	653.9	Jul 17 ⁴	Jun 25
	Jun 16	6,627	–	6,627 ⁸	–	–	–	546.60 ³	653.9	Jul 17 ⁴	Jun 26
	Jun 16	6,627	–	–	6,627	–	–	546.60 ³	–	Jul 18	Jun 26
Performance Share Plan	Jun 14	21,108	–	–	21,108	–	–	830.00 ³	–	Jun 17	Jun 24
	Jun 14	14,073	–	–	14,073	–	–	830.00 ³	–	Jun 18	Jun 24
	Jun 15	32,384	–	–	32,384	–	–	541.00 ³	–	Jun 18	Jun 25
	Jun 15	21,590	–	–	21,590	–	–	541.00 ³	–	Jun 19	Jun 25
	Jun 16	36,863	–	–	36,863	–	–	520.85 ³	–	Jun 19	Jun 26
	Jun 16	24,575	–	–	24,575	–	–	520.85 ³	–	Jun 20	Jun 26
		165,436		157,220							

Notes

¹ These awards do not have any performance conditions attached.

² Includes an additional 1,167 dividend shares on vesting (2015:199; 2016:968). Martin Sutherland made an aggregate taxable gain (after dealing costs excluding PAYE/NII) of £98,155. The balance of shares (8,455) following disposal to meet all liabilities were retained by Martin Sutherland.

³ Mid-market share value of an ordinary share averaged over the five dealing days immediately preceding award date.

⁴ The closing mid-market price of the Company's ordinary share on 10 July 2017 was 650p (the vesting date).

⁵ For Sharesave options the share price shown is the exercise price which was 80% of mid-market value of an ordinary share averaged over the three dealing days immediately preceding award date.

⁶ Jitesh Sodha resigned from the Board on 19 March 2018. The awards shown are to the date of his resignation. The awards are preserved to the date of termination of employment in accordance with the Rules of the relevant Plan and Scheme Rules.

⁷ Includes an additional 318 dividend shares on vesting. Jitesh Sodha made a taxable gain of £30,188. All shares were retained by Jitesh Sodha on payment of the PAYE/NII from private funds.

⁸ Includes an additional 679 dividend shares on vesting (2015:195; 2016:484). Rupert Middleton made an aggregate taxable gain (after dealing costs excluding PAYE/NII) of £58,055. The balance of shares (4,697) following disposal to meet all liabilities were retained by Rupert Middleton.

Dividend shares on unvested awards

Dividend shares are an additional award of shares that may be released by the Remuneration Committee on the vesting date in respect of awards under the ABP and PSP equivalent in value to the amount of dividends that would have been received pursuant to the relevant Plan Rules or Agreement. As at 31 March 2018 and based on the prevailing market share price on the respective dividend record date, the dividend shares accrued and assuming vesting as appropriate were as follows:

Martin Sutherland: 11,902 ordinary shares

Chief Executive Officer pay, total shareholder return (TSR) and all employee pay

This section of the report enables our remuneration arrangements to be seen in context by providing:

- De La Rue's TSR performance for the nine years to 31 March 2018
- A history of De La Rue's Chief Executive Officer's remuneration for the current and previous eight years
- A comparison of the year on year change in De La Rue's Chief Executive Officer's remuneration with the change in the average remuneration across the Group
- A year on year comparison of the total amount spent on pay across the Group with profit before tax and dividends paid

Chief Executive Officer pay

Period ended March	2010	2011	2011	2012	2013	2014	2015	2016	2017	2018
Chief Executive Officer	James Hussey ¹	James Hussey ¹	Tim Cobbold ^{2,3}	Tim Cobbold	Tim Cobbold	Tim Cobbold ²	Martin Sutherland ⁴	Martin Sutherland	Martin Sutherland	Martin Sutherland
Single figure of total remuneration £'000	843	433	604	1,053	634	1,071	1,107	998	899	783
Annual bonus payout as a % of maximum opportunity	46	44	Nil	80	Nil	Nil	14	57	40	Nil
LTIP vesting against maximum opportunity (%)	100	100	Nil	Nil	Nil	60	Nil	Nil	Nil	25

Notes

¹ Role as Chief Executive Officer ended on 12 August 2010.

² Appointed Chief Executive Officer on 1 January 2011 and resigned on 29 March 2014.

³ Includes award to the value of £450,000 at the date of award under the Recruitment Share Award (which vested on 31 January 2014).

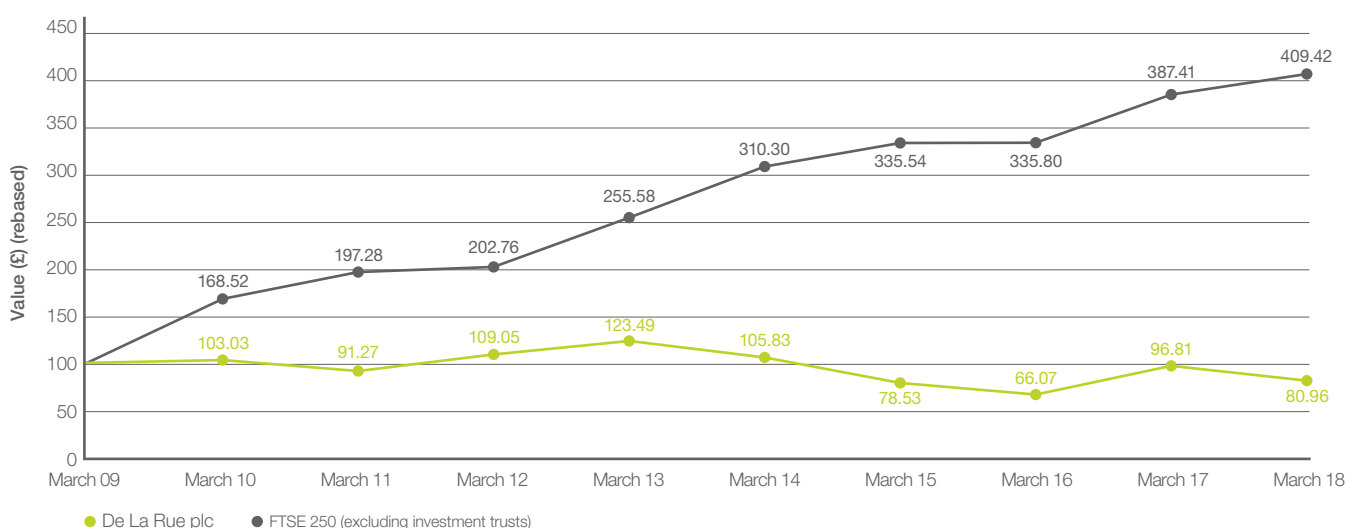
⁴ Appointed 13 October 2014.

TSR performance

The graph below shows the value, at 31 March 2018, of £100 invested in De La Rue plc on 28 March 2009 compared with the value of £100 invested in the FTSE 250 index excluding investment trusts, assuming in each case the reinvestment of dividends. The other points plotted are the values at intervening financial year ends. The FTSE 250 has been chosen as it is the index of which De La Rue was a constituent for a majority of the period reported (source: Thomson Reuters). TSR is not used as a performance measure for any benefits provided to Executive Directors.

Total shareholder return

Source: FactSet



Corporate governance continued

Directors' remuneration report

Annual report on remuneration continued

Percentage change in Chief Executive Officer remuneration

The table below compares the percentage change in the Chief Executive Officer's salary, bonus and benefits to the average change in salary, bonus and benefits for all UK employees between 2016/17 and 2017/18. UK employees were chosen as a comparator group to avoid the impact of exchange rate movements over the year. UK employees make up approximately 57.17% of the total employee population.

	Salary %	Benefits %	Annual bonus %
Chief Executive Officer	2.08	0	(100)
UK employee average	2.16	0	(0.36)

Relative spend on pay

The following table sets out the percentage change in payments to shareholders and the overall expenditure on pay across the Group.

	2018 £m	2017 £m	Change %
Dividends (note 9) to the financial statements)	25.4	25.4	—
Overall expenditure on pay (note 25 to the financial statements)	151.8	136.1	11

Statement of shareholder voting 2017

	Total votes cast	For ¹	(%)	Against	(%)	Votes withheld ²
Approval of 2017 remuneration policy	81,796,628	80,461,069	98.37	1,335,559	1.63	1,544,071
Approval of 2017 remuneration report	81,783,527	80,258,348	98.14	1,525,179	1.86	1,557,172

Notes

¹ The votes 'For' include votes given at the Chairman's discretion.

² A vote 'Withheld' is not a vote in law and, as such, is not counted in the calculation of the proportion of votes 'For' and 'Against'.

De La Rue carefully monitors shareholder voting on the remuneration policy and implementation and the Company recognises the importance of ensuring that shareholders continue to support the remuneration arrangements. All voting at the AGM is undertaken by poll.

Remuneration advice

The Remuneration Committee consults with the Chief Executive Officer on the remuneration of executives directly reporting to him and other senior executives and seeks to ensure a consistent approach across the Group taking account of seniority and market practice and the key remuneration policies outlined in this report. During 2017/18, the Committee also received advice from Willis Towers Watson. Willis Towers Watson has been formally appointed by the Remuneration Committee and advised on the structure, measures and target setting for incentive plans, executive remuneration levels and trends and Directors' remuneration report preparation. The Remuneration Committee requests Willis Towers Watson to attend meetings periodically during the year.

Willis Towers Watson is a member of the Remuneration Consultants' Group and has signed up to the code of conduct relating to the provision of executive remuneration advice in the UK. In light of this, and the level and nature of the service received, the Committee remains satisfied that the advice has been objective and independent.

Total fees for advice provided to the Remuneration Committee during the year by Willis Towers Watson were £87,130.

Dilution limits

The share incentives operated by the Company comply with the institutional investors' share dilution guidelines.

The Directors' remuneration report was approved by the Board on 30 May 2018 and signed on its behalf.

Statutory requirements

The Directors' remuneration report has been prepared on behalf of the Board by the Committee.

The Directors' remuneration report has been prepared in accordance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules.

The Companies Act 2006 and the Listing Rules require the Company's auditor to report on the audited information in their report on pages 99 to 105 and to state that this section has been properly prepared in accordance with these regulations.

Sabri Challah

Chairman of the Remuneration Committee
30 May 2018

Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the period ended 31 March 2018. The following also form part of this report:

- Pages 54, 55 and 57, which show the names of all persons who were Directors of the Company, together with their biographical details, at 31 March 2018. In addition, Rupert Middleton served as a Director of the Company until he stepped down from the Board on 20 July 2017 and Jitesh Sodha resigned from the Board on 19 March 2018
- The reports on corporate governance set out on pages 52 to 94
- Information relating to financial instruments, as provided in the notes to the financial statements
- Related party transactions as set out in note 28 to the financial statements
- Greenhouse gas emissions, set out on pages 49 and 50

Details of Committee membership for each Director are set out on page 61. Details of Directors' interests are set out on page 91 of the Directors' remuneration report.

Directors' report and Strategic report

The Directors of the Company are aware of their responsibilities in respect of the Annual Report and Accounts. The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Further information regarding related processes can be found in the Audit Committee report and Risk management sections of this annual report on pages 66 and 36 respectively. The Statement of Directors' Responsibilities appears on page 98.

Under the Companies Act 2006, a safe harbour limits the liability of Directors in respect of statements in and omissions from the Strategic report and the directors' report. Under English law, the Directors would be liable to the Company, but not to any third party, if the Strategic report or the Directors' report contain errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

Management report

The Strategic report and this Directors' report together with other sections of this annual report incorporated by reference, when taken as a whole, form the management report as required for the purposes of Disclosure and Transparency Rule 4.1.5R.

Strategic report

The Board has prepared a Strategic report which provides an overview of the development and performance of the Group's business for the period ended 31 March 2018 and which covers likely future developments in the Group. The Chairman's overview, Chief Executive Officer's statement, business overviews, the strategic priorities, key performance indicators, regulation and market place report, functional and performance overviews, corporate responsibility report, financial review and managing our risks sections together provide information which the Directors consider to be of strategic importance to the Group.

Dividends

An interim dividend of 8.3p was paid on 3 January 2018 in respect of the half year ended 30 September 2017. The Board is recommending a final dividend of 16.7p per share, making a total for the year of 25p per share (2016/17: 25.00p per share).

Dividend details are given in note 9 of the financial statements. Subject to approval of shareholders at the AGM on 26 July 2018, the final dividend will be paid on 3 August 2018 to those shareholders on the register on 6 July 2018.

Share capital

As at 31 March 2018, there were 102,389,688 ordinary shares of 44^{152/175}p each and 111,673,300 deferred shares of 1p each in issue.

Deferred shares carry limited economic rights and no voting rights. They are not transferable except in accordance with the articles of association.

The ordinary shares are listed on the London Stock Exchange.

Rights and restrictions on shares and transfers of shares

The rights and obligations attaching to the Company's ordinary and deferred shares, in addition to those conferred on their holders by law, are set out in the Company's articles of association, copies of which can be obtained from Companies House in the UK or the Group's website www.delarue.com. The key points are summarised below.

Voting

On a show of hands at a general meeting of the Company, each holder of ordinary shares present in person and entitled to vote shall have one vote and, on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. Electronic and paper proxy appointments, and voting instructions, must be received by the Company's Registrar no later than 48 hours before a general meeting.

Exercise of rights of shares in employee share schemes

Awards held by relevant participants under the Company's various share plans carry no voting rights until the shares are issued. The Trustee of the De La Rue Employee Share Ownership Trust does not seek to exercise voting rights on existing shares held in the employee trust. No shares are currently held in trust.

Corporate governance continued

Directors' report continued**Dividends and distributions to shareholders on winding up**

Holders of ordinary shares may receive interim dividends approved by Directors and dividends declared in general meetings. On a liquidation and subject to a special resolution of the Company the liquidator may divide among members in specie the whole or any part of the assets of the Company and may, for such purpose, value any assets and may determine how such division shall be carried out.

Transfers of shares

The Company's articles of association place no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them except in very limited circumstances (such as a transfer to more than four persons). Certain restrictions, however, may from time to time be imposed by laws and regulations, such as the Financial Conduct Authority's Listing Rules, the City Code on Takeovers and Mergers or any other regulations.

Dealings subject to the Listing Rules and EU Market Abuse Regulation

In accordance with the Listing Rules of the Financial Conduct Authority and EU Market Abuse Regulation, Directors and other persons discharging managerial responsibilities of the Company, and in each case, any persons closely associated with them, are required to seek the prior approval of the Company to deal in the ordinary shares of the Company.

Shareholder agreements and consent requirements

There are no known arrangements under which financial rights carried by any of the shares in the Company are held by a person other than holders of the shares. The Company is not aware of any agreements between shareholders that may result in any restriction on the transfer of shares or exercise of voting rights.

Power to issue and allot

The Directors are generally and unconditionally authorised under authorities granted at the 2017 AGM to allot shares in the Company up to approximately one third of the Company's issued share capital or two thirds in respect of a rights issue. The Directors were also given the power to allot ordinary shares for cash up to a limit representing 10% of the Company's issued share capital as at 23 May 2017, without regard to the pre-emption provisions of the Companies Act 2006 (however, more than 5% can only be used in connection with an acquisition or specified capital investment).

No such shares were issued or allotted under these authorities and at present the Directors have no intention of exercising this authority, other than to satisfy share options under the Company's share option schemes and, if necessary, to satisfy the consideration payable for businesses to be acquired.

These authorities are valid until the conclusion of the forthcoming AGM and the Directors again propose to seek equivalent authorities at such AGM.

Details of shares issued during the year and outstanding options are given in notes 20 and 21 on pages 139 to 142 which form part of this report. Details of the share incentives in place are provided on pages 88 to 89 of the Directors' remuneration report.

Authority to purchase own shares

At the 2017 AGM, shareholders gave the Company authority to purchase up to 10,178,507 of its own ordinary shares representing 10% of its issued ordinary share capital either for cancellation or to be held in treasury (or a combination of these). No purchases have been made pursuant to this authority and a resolution will be put to shareholders at the 2018 AGM to renew the authority for a further period of one year.

Directors

Details of Directors' remuneration are provided in the Directors' remuneration report on pages 74 to 94. The interests of the Directors and their families in the share capital of the Company are shown on page 91 of the Directors' remuneration report which also includes information on the Company contracts of service with its Directors on page 90.

Appointment and removal of Directors

Rules regarding the appointment and removal of Directors are set out in the Company's articles of association.

Substantial shareholdings

As at 30 May 2018, the Company had received formal notification of the following holdings in its shares under the Disclosure and Transparency Rules of the Financial Conduct Authority. It should be noted that these holdings may have changed since the Company was notified, however notification of any change is not required until the next notifiable threshold is crossed.

Persons notifying	Date last TR1 notification made	Nature of interest	% of issued ordinary share capital held at notification date
Brandes Investment Partners, L.P.	19/07/2016	Indirect	9.97
Majedie Asset Management Limited	17/12/2015	Indirect	5.60
Schroders plc	13/11/2017	Indirect	5.15
Aberforth Partners LLP	09/04/2018	Indirect	5.11
Neptune Investment Management Limited	17/05/2017	Direct	5.09
Artemis Investment Management LLP	09/01/2018	Indirect	4.91
Crystal Amber Fund Limited	30/04/2018	Direct	3.11
Norges Bank	12/10/2017	Direct	3.03
Royal London Asset Management Limited	17/01/2017	Direct	3.02

Powers of Directors

Subject to the Company's articles of association, the Companies Act 2006 and any directions given by the Company in general meeting by a special resolution, the business of the Company is managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. The powers of the Board are described in the corporate governance statement on pages 56 to 60.

Indemnity

At the date of this report, the Company has agreed, to the extent permitted by the law and the Company's articles of association, to indemnify Directors and officers in respect of all costs, charges, losses, damages and expenses arising out of claims made against them in the course of the execution of their duties as a Director or officer of the Company or any associated company. The Company may advance defence costs in civil or regulatory proceedings on such terms as the Board may reasonably determine but any advance must be refunded if the Director or officer is subsequently convicted. The indemnity will not provide cover where the Director or officer has acted fraudulently or dishonestly.

The Group also maintains Directors' and officers' liability insurance cover for its Directors and officers. This cover extends to directors of subsidiary companies.

Amendment of articles of association

The articles of association may be amended by special resolution of the shareholders.

Change of control

Contracts

There are a number of contracts which allow the counterparties to alter or terminate those arrangements in the event of a change of control of the Company. These arrangements are commercially sensitive and confidential and their disclosure could be seriously prejudicial to the Group.

Banking facilities

The credit facility between the Company and its key relationship banks contains a provision such that, in the event of a change of control, any lender may, if it so requires, notify the agent that it wishes to cancel its commitment whereupon the commitment of that lender will be cancelled and all its outstanding loans, together with accrued interest, will become immediately due and payable.

Shareholders at the 2017 AGM approved a proposal to increase the borrowing limit in the articles of association from £250m to £325m.

Employee share plans

In the event of a change of control, automatic vesting would occur in accordance with the relevant scheme or plan rules.

Political donations

The Group's policy is not to make any political donations and none were made during the period. However, it is possible that certain routine activities may unintentionally fall within the broad scope of the Companies Act 2006 provisions relating to political donations and expenditure. As in previous years, the Company will therefore propose to shareholders at the forthcoming AGM that the authority granted at the AGM in July 2017 regarding political donations be renewed.

Essential contracts or other arrangements

The Group has a number of suppliers of key components, the loss of which could disrupt the Group's ability to deliver on time and in full. See more details on page 38.

Branches

De La Rue is a global company and our activities and interests are operated through subsidiaries, branches of subsidiaries and associates which are subject to the laws and regulations of many different jurisdictions. Our subsidiaries and associates are listed on pages 148 to 149.

Acquisitions and disposals

On 29 March 2018, the Company completed the sale of Portals De La Rue Limited, the Group's paper business, to EPIRIS Fund II (see note 5 to the financial statements for more details).

Going concern

As described on page 111, the Directors continue to adopt the going concern basis (in accordance with the guidance 'Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009' issued by the FRC) in preparing the consolidated financial statements.

Disclosures required under UK Listing Rule 9.8.4

There are no disclosures required to be made under the UK Listing Rule 9.8.4 not already reported by reference within the Annual Report.

Auditor and disclosure of information to auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware
- The Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

Ernst & Young LLP have expressed their willingness to be re-appointed as auditor of the Company. A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be proposed at the forthcoming AGM.

Corporate governance continued

Directors' report continued

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the annual report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and applicable law.

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

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- For the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU
- For the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

Each of the persons who is a Director at the date of approval of this report confirms that to the best of his or her knowledge:

- The Group financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic report on pages 1 to 51 and the Directors' report on pages 52 to 98 include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's financial position, performance, business model and strategy

The Strategic report and the Directors' report were approved by the Board on 30 May 2018.

By order of the Board

Edward Peppiatt
Company Secretary
30 May 2018

Independent auditor's report to the members of De La Rue plc

Opinion

In our opinion:

- De La Rue plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of De La Rue plc which comprise:

Group	Parent company
Group balance sheet at 31 March 2018	Company balance sheet as at 31 March 2018
Group income statement for the period then ended	Company statement of changes in equity for the period then ended
Group statement of comprehensive income for the period then ended	Related notes 1 to 9 to the financial statements including a summary of significant accounting policies
Group statement of changes in equity for the period then ended	
Consolidated cash flow statement for the period then ended	
Related notes 1 to 32 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Use of our report

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 41 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent auditor's report to the members of De La Rue plc continued

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Specific judgemental accruals • Revenue recognition (cut-off) • Post-retirement benefits – Liabilities • Valuation of inventory • Disposal of paper business
Audit scope	<ul style="list-style-type: none"> • We performed an audit of the complete financial information of four components, consolidation adjustments, and audit procedures on specific balances for a further two components. • The components and consolidation adjustments where we performed full or specific audit procedures accounted for 105.7% of adjusted profit before tax, 95.3% of Revenue and 81.8% of Total assets.
Materiality	<ul style="list-style-type: none"> • Overall Group materiality of £2.7m which represents 5.1% of adjusted profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Specific judgemental accruals – £58.2m (FY17 – £85.9m)</p> <p><i>Refer to the Audit Committee Report (page 67); Accounting policies (page 111); and Note 17 of the Consolidated Financial Statements (page 138)</i></p> <p>De La Rue have certain agency commissions agreements which need to be accrued for based on the legal or contractual obligation arising. In relation to un-settled historic amounts these involve a level of estimation and judgement which is both material to the financial statements and susceptible to management override and manipulation.</p> <p>We have also identified a significant number of smaller, individually insignificant accruals that have a higher opportunity to be used to manipulate the financial statements due to several layers of ownership and lower levels of management oversight. We have therefore identified an additional risk that these accruals could be utilised to smooth profit across periods.</p> <p>Misstatements that occur in relation to the risk over specific judgemental accruals affect the accrued expenses account on the balance sheet as well as the cost of sales and administrative expenses accounts in the income statement.</p>	<p>We have ensured that we understand all contractual terms and conditions relevant to agent commission accruals and evaluated the best estimates of these liabilities based on the terms of the contract, past practise and where relevant external legal advice (evaluating the provider of such advice for competence as an expert used by management). We also evaluated management's judgement applied in the assumptions used and the accuracy of previous estimated positions.</p> <p>During the completion of the Half-year Interim Review, we performed an analysis of accruals for indicators of judgement. Based on this analysis, we identified varying levels of judgement that management may influence in order to manipulate the financial statements (ranging from significant to minimal) and have executed our audit procedures directly in response to this risk assessment.</p> <p>For accruals deemed more susceptible to manipulation we have determined a sample size to test and obtained corroborative third party support based on testing thresholds responsive to the risk identified.</p> <p>In March 2018, the group announced it expected to be at the lower end of the forecasted consensus range. In response we placed further emphasis on income statement credits resulting from accrual adjustments during the month of March in our journal entry procedures and assessed the adequacy of the disclosures of the transactions made.</p>	<p>Based on the results of our work, we agree with management's judgements and estimates in relation to significant judgemental accruals. We note that the assumptions and judgements applied in some calculations mean that the range of possible outcomes is broad.</p>
<p>Revenue recognition (cut-off) – £493.9m (FY17 – 461.7m)</p> <p><i>Refer to the Audit Committee Report (page 67); Accounting policies (page 111); and Note 1 of the Consolidated Financial Statements (pages 114–115)</i></p> <p>We have identified that there is a risk that revenue is manipulated at or near to the period end to meet income statement targets through management override of controls. In particular certain contracts include specific terms, for example, complex acceptance criteria or "bill and hold" criteria which adds to the risk that revenue may be recorded in the incorrect reporting period.</p> <p>Misstatements that occur in relation to this risk would impact the revenue recognised in the income statement as well as any revenue related balance sheet account such as trade debtors, deferred income etc.</p>	<p>We have performed testing to a reduced materiality threshold on revenue recognised around the period end date ensuring that the relevant customer acceptance terms have been met and third party evidence of delivery existed as applicable.</p> <p>We have performed reviews of significant revenue generating contracts held on the balance sheet at the period end, to ensure the accounting treatment is in line with the contract terms, including acceptance and "bill and hold" conditions.</p> <p>At each full scope audit location with significant revenue streams (4 components including consolidation adjustments), we performed audit procedures which covered 95.3% of the Group's Revenue.</p>	<p>Based on the procedures performed, including those in respect of revenue recognition cut off, we did not identify any evidence of material misstatement in the revenue recognised in the period or revenue accrued or deferred at 31 March 2018.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Post-retirement benefit Liabilities – £1,061.6m (FY17 – £1,204.7m)</p> <p><i>Refer to the Audit Committee Report (page 67); Accounting policies (page 111); and Note 24 of the Consolidated Financial Statements (pages 143–146)</i></p> <p>Small changes in the assumptions and estimates used to calculate the defined benefit pension obligation have a significant impact on the financial statements.</p> <p>In November 2017 the company, for certain of its schemes changed the Indexation rate applied from RPI to CPI inflation rates, effective to rises from 1st April 2018. This resulted in an £80m gain in the IAS 19 liability recorded as a past service cost in the income statement. As a result, we have identified an additional risk in respect of the legal evidence supporting, and the accounting performed for the change in Indexation.</p> <p>Misstatements that occur in relation to this risk would affect the retirement benefit obligations account in the balance sheet as well as related accounts in the income statement account and other comprehensive income.</p>	<p>Together with our EY Pension specialists, we have coordinated with the actuaries of the pension scheme to thoroughly understand the valuation process and challenged the basis for setting key assumptions, such as the discount rate.</p> <p>We have assessed the competency of the third parties used in determining the valuation.</p> <p>We obtained the company's legal advice with respect to the change in indexation rate and assessed management's disclosure of the contingent liability of the possible obligation that arises from this.</p> <p>We have evaluated the competency of the third parties engaged to provide the legal advice, as an expert.</p> <p>We also considered the treatment of the indexation gain as an income statement item, considering the time lapsed since the UK government changed its main rate of indexation to CPI.</p>	<p>Based on the results of our work, we have concluded that the actuarial assumptions applied within the valuation of post-retirement benefits at period-end are appropriate.</p> <p>As a result, and in tandem with the results of all other procedures performed on post-retirement benefits, we did not identify any evidence of material misstatement in the retirement obligation as at 31 March 2018.</p>
<p>Valuation of inventory – £37.0m (FY17 – £67.8m)</p> <p><i>Refer to the Audit Committee Report (page 67); Accounting policies (page 111); and Note 12 of the Consolidated Financial Statements (page 126)</i></p> <p>The nature of the business requires bank notes and other security products to be produced to near exact specifications which are often bespoke to each product. A risk therefore exists that certain amounts of inventory will fail quality checks and require re-work or be scrapped. The group provides for this through allowances based on past experience and known issues but there is a risk that this allowance will be misstated.</p> <p>There is also a risk that fluctuations in production efficiencies and spoilage rates could affect the allocated cost absorption and carrying amount of inventory.</p> <p>In March 2018, the group announced it expected to be at the lower end of the forecasted consensus range. In response we have placed further emphasis on absorption costing being inappropriately capitalised in the valuation of inventory, as this is a significant component of forecasted results and could be susceptible to manipulation.</p> <p>Misstatements that occur in relation to this risk would affect the inventory account on the balance sheet account and cost of sales in the income statement.</p>	<p>Through scrutiny of the management's calculation, we have gained a thorough understanding of the provision calculation and process used by management to estimate this position.</p> <p>We have tested the accuracy of key assumptions in the calculation (such as spoilage rates and excess production) as well as assessing the historic accuracy of the provision.</p> <p>We have challenged management's forecasting process to identify specific issues that impacts the absorption of labour and overhead and performed recalculations of standard cost based on actual cost and activity and ensured that the amount absorbed remains appropriate given the nature of the variances recorded.</p> <p>At each full scope audit location with significant inventory (4 components including consolidation adjustments), we performed audit procedures which covered 91.5% of the Group's inventory.</p>	<p>Based on the results of our work, we assessed that the methodology applied to allocate the valuation of inventory is appropriate and that the assumptions used to determine the absorption of other costs outside of raw materials is consistent with the evolution of business processed.</p> <p>As a result we have concluded that the valuation of inventory is fairly stated as at 31 March 2018.</p>
<p>Disposal of paper business</p> <p><i>Refer to the Audit Committee Report (page 67); Accounting policies (page 111); and Note 5 of the Consolidated Financial Statements (page 119)</i></p> <p>On 29 March 2018, management completed a transaction with Epiris for the Group's paper business, comprising the Overton paper mill and the Bathford paper mill.</p> <p>Under the terms of the agreement, Epiris, together with management, acquired a 90% shareholding in Portals De La Rue Ltd (which the paper business was transferred into before disposal) for a cash consideration of circa £61m payable upon completion.</p> <p>The sale includes a long term contract to purchase paper from the sold company into the future at a pre-agreed cost. There is also minimum purchase requirements and minimum contributions to fixed operational costs within this agreement and a recompense clause, triggered by the failure to win identified tenders. These points needed to be considered in respect of the impact on deferred consideration calculations.</p>	<p>We have obtained supporting documentation (including the agreement with Epiris) which corroborates the terms of the sale as presented in the financial statements.</p> <p>We have performed testing on the transactions costs relating to the sale of the paper business as well as verifying the entries in the accounting step plan for the reorganisation to supporting evidence.</p> <p>The key judgements we focussed on included the decision by management not to record the paper results as a discontinued operation and the date at which the business became held for sale, impacting depreciation charged in the period. Both of these were tested against the criteria set out in IFRS 5.</p> <p>We evaluated management's assessment of the economic impact of the long term paper supply arrangement with Portals De La Rue Ltd, considering the arm's length nature of this agreement</p> <p>We assessed the judgements made by management in determining the provision for the recompense contract clause set out in Note 5 of the accounts.</p> <p>To gain assurance on the impairment loss recorded before disposal the UK team have audited the assets disposed of within the UK trading company at the date of disposal.</p> <p>All audit considerations pertaining to the sale of the paper business was subject to full scope audit procedures by the UK audit team.</p>	<p>Based on the procedures performed, including those in respect of the disclosure relating to the transaction, we did not identify any evidence of material misstatement in the accounting treatment or presentation in the financial statements relating to the disposal of the paper business for the period ending 31 March 2018.</p>

Independent auditor's report to the members of De La Rue plc continued

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. In selecting the components to be brought into audit scope, we assessed the risks of material misstatement of the financial statements based on size, complexity and risk, including the risk of fraud, and designed and implemented appropriate responses to the assessed risks.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the fifty-seven reporting components of the Group, we selected six components covering entities within the United Kingdom, Malta, Sri Lanka, Kenya and the USA which represent the principal business units within the Group.

Of the six components selected, we performed an audit of the complete financial information of four components ("full scope components") which were selected based on their size or risk characteristics. For the remaining two components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. We also performed full scope procedures on consolidation adjustments.

The reporting components where we performed audit procedures, as well as the consolidation adjustments, accounted for 105.7% of the Group's adjusted profit before tax, 95.3% of the Group's Revenue and 81.8% of the Group's Total assets. The specific scope component contributed 0.0% of the Group's adjusted profit before tax, 0.0% of the Group's Revenue and 1.1% of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

Of the remaining fifty-one components that together represent (5.7)% of the Group's adjusted profit before tax, none are individually greater than 13.6% of the Group's adjusted profit before tax (based on statutory contribution to group before intercompany eliminations). For these components, we performed other procedures, including analytical review, tests of details on balances considered significant due to size or risk and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The table below illustrates the coverage obtained from the work performed by our audit teams.

	Adjusted profit before tax (%)	Revenue (%)	Total Assets (%)
Full scope components	105.7	95.3	80.7
Specific scope components	0	0	1.1
Other procedures	(5.7)	4.7	18.2
Total	100.0	100.0	100.0

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the UK audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the four full scope components, audit procedures were performed on one of these directly by the UK audit team which comprises over 84% of adjusted profit before tax, we also audited the consolidation adjustments. The audit procedures on the remaining three full scope components were carried out by our audit teams in Malta, Sri Lanka, and Kenya. For the two specific scope components, all audit work performed for the purposes of the audit was undertaken by the UK audit team.

During the current period's audit cycle, a visit was undertaken by the UK audit team to the component team in Malta, where we had identified the greatest number of potential accounting issues and complexities from our planning and interim procedures performed. This visit involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, a tour of the key production facility, attending an audit status update meeting, and reviewing key audit working papers on risk areas. The UK team interacted regularly with all the component teams where appropriate during various stages of the audit, holding multiple conference calls, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £2.70 million, which is 5.1% of adjusted profit before tax. We believe that the materiality basis provides us with reference to an appropriate benchmark of Group profit from continuing operations before tax, normalised to remove the impact of separately identified exceptional items (as disclosed in note 4 of the financial statements) of which it represents 5.1%. We believe this provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of De La Rue plc. In their prior period audit KPMG adopted a materiality of £2.30 million based on 3.9% of group profit before tax, continuing and discontinued, normalised to exclude exceptional items.

We determined materiality for the Parent Company to be £4.60 million, which is 2.0% of Equity.

Our materiality is based on the Group's adjusted profit before tax amount in order to exclude exceptional items.

We have determined the final materiality amount applied in our audit procedures below:

Starting basis	<ul style="list-style-type: none"> Group profit before tax – £113.60m
Adjustments	<ul style="list-style-type: none"> deduct net continuing exceptional income (before tax) of £60.90m (as disclosed in note 4 of the financial statements) and add back Amortisation of acquired intangible assets of £0.7m
Materiality	<ul style="list-style-type: none"> 5.1% of this adjusted profit before tax of £53.40m, gives materiality of £2.70m

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £1.35million. We have set performance materiality at this percentage because we have integrated an additional level of audit risk relating to FY18 being an initial audit.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current period, the range of performance materiality allocated to components was £337,500 to £1,350,000. In their prior period audit KPMG adopted a range of performance materiality allocated to components of £100,000 – £1,800,000.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £135,000, which is set at 5.0% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. In their prior period audit KPMG adopted a reporting threshold of £115,000.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Independent auditor's report to the members of De La Rue plc continued

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 98** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit committee reporting set out on pages 66 to 69** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on pages 52 to 98** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit
- a Corporate Governance Statement has not been prepared by the company

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 98, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006, the UK Corporate Governance Code, and the Listing Rules of the UK Listing Authority) and the relevant tax compliance regulations in the jurisdictions in which De la Rue plc operates.
- We understood how De La Rue plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the risk of fraud through management override and, in response, we incorporated data analytics across manual journal entries into our audit approach. Where instances of risk behaviour patterns were identified through our data analytics, we performed additional audit procedures to address each identified risk. These procedures included testing of transactions back to source information and were designed to provide assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business; enquiries of legal counsel, group management, internal audit and all full and specific scope management.
- If any instance of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures supplemented by audit procedures performed at the group level.

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

Other matters we are required to address

- We were appointed by the company on 20 July 2017 to audit the financial statements for the period ending 31 March 2018 and subsequent financial periods. We were appointed as auditors by the Board of Directors and signed an engagement letter on 21 September 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee

Kevin Harkin (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Reading
30 May 2018

Notes:

¹ The maintenance and integrity of the De La Rue plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

² Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group income statement

for the period ended 31 March 2018

			(restated)*
	Notes	2018 £m	2017 £m
Revenue	1	493.9	461.7
Operating expenses – ordinary	3	(431.8)	(391.1)
Operating income/(expenses) – exceptional	4,5	60.9	(0.4)
Total operating expenses		(370.9)	(391.5)
Operating profit		123.0	70.2
Comprising:			
Adjusted operating profit		62.8	70.7
Amortisation of acquired intangible assets		(0.7)	(0.1)
Exceptional items	4,5	60.9	(0.4)
Profit before interest and taxation		123.0	70.2
Interest income	6	–	–
Interest expense	6	(3.8)	(4.6)
Retirement benefit obligation net finance expense	6, 24	(5.6)	(7.4)
Net finance expense		(9.4)	(12.0)
Profit before taxation		113.6	58.2
Comprising:			
Adjusted profit before tax		53.4	58.7
Amortisation of acquired intangible assets		(0.7)	(0.1)
Exceptional items	4,5	60.9	(0.4)
Taxation	7	(16.8)	(8.7)
Profit from continuing operations		96.8	49.5
Comprising:			
Adjusted profit for the year		45.1	49.4
Amortisation of acquired intangible assets net of tax		0.5	(0.1)
Profit for the year on exceptional items	4,5	51.2	0.2
Loss from discontinued operations	2	(1.8)	(6.4)
Profit for the year		95.0	43.1
Profit attributable to equity shareholders of the Company			
Profit for the year from continuing operations		95.4	47.9
Loss for the year from discontinued operations		(1.8)	(6.4)
Total profit attributable to equity shareholders of the Company		93.6	41.5
Profit attributable to non-controlling interests			
Profit for the year from continuing operations		1.4	1.6
Profit for the year from discontinued operations		–	–
Total profit attributable to non-controlling interests		1.4	1.6
Profit for the year		95.0	43.1
Profit for the year attributable to the Company's equity holders			
Earnings per ordinary share			
Basic	8		
Basic EPS continuing operations		93.7p	47.2p
Basic EPS discontinued operations		(1.8p)	(6.3p)
Total Basic Earnings per share		91.9p	40.9p
Diluted	8		
Diluted EPS continuing operations		92.8p	46.6p
Diluted EPS discontinued operations		(1.8p)	(6.2p)
Total Diluted Earnings per share		91.0p	40.4p

* See page 112 for details of the prior period restatement.

Group statement of comprehensive income for the period ended 31 March 2018

			(restated)
	Notes	2018 £m	2017 £m
Profit for the year		95.0	43.1
Other comprehensive income			
Items that are not reclassified subsequently to profit or loss:			
Remeasurement gain/(losses) on retirement benefit obligations	24	61.5	(25.2)
Tax related to remeasurement of net defined benefit liability	7	(10.4)	2.3
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(0.1)	2.6
Change in fair value of cash flow hedges		(1.9)	7.8
Other movements		0.4	–
Change in fair value of cash flow hedges transferred to profit or loss		(1.2)	(8.0)
Change in fair value of cash flow hedges transferred to non-current assets		0.2	(0.2)
Income tax relating to components of other comprehensive income	7	0.4	0.2
Other comprehensive income for the year, net of tax		48.9	(20.5)
Total comprehensive income for the year		143.9	22.6
Comprehensive income for the year attributable to:			
Equity shareholders of the Company		142.5	21.0
Non-controlling interests		1.4	1.6
		143.9	22.6

Group balance sheet at 31 March 2018

			(restated)*
	Notes	2018 £m	2017 £m
ASSETS			
Non-current assets			
Property, plant and equipment	10	112.8	167.2
Intangible assets	11	29.5	31.3
Investment	5	6.6	–
Investments in associates and joint ventures		0.1	0.1
Deferred tax assets	16	19.8	43.7
Derivative financial assets	14	0.2	0.6
		169.0	242.9
Current assets			
Inventories	12	37.0	67.8
Trade and other receivables	13	99.1	109.7
Current tax assets		4.6	–
Derivative financial assets	14	3.4	15.3
Cash and cash equivalents	15	15.5	15.4
		159.6	208.2
Total assets		328.6	451.1
LIABILITIES			
Current liabilities			
Borrowings	18	(63.9)	(136.3)
Trade and other payables	17	(167.1)	(175.1)
Current tax liabilities		(13.3)	(15.8)
Derivative financial liabilities	14	(4.3)	(7.7)
Provisions for liabilities and charges	19	(4.1)	(10.4)
		(252.7)	(345.3)
Non-current liabilities			
Retirement benefit obligations	24	(89.6)	(239.4)
Deferred tax liabilities	16	(3.0)	(5.3)
Derivative financial liabilities	14	(0.1)	(0.6)
Provisions for liabilities and charges	19	(3.9)	(2.0)
Other non-current liabilities	17	–	(1.3)
		(96.6)	(248.6)
Total liabilities		(349.3)	(593.9)
Net liabilities		(20.7)	(142.8)
EQUITY			
Share capital	20	47.1	46.8
Share premium account		38.4	36.7
Capital redemption reserve		5.9	5.9
Hedge reserve		(0.5)	2.0
Cumulative translation adjustment		7.2	7.3
Other reserve		(83.8)	(83.8)
Retained earnings		(43.9)	(165.6)
Total equity attributable to shareholders of the Company		(29.6)	(150.7)
Non-controlling interests		8.9	7.9
Total equity		(20.7)	(142.8)

* See page 112 for details of the prior period restatement.

Approved by the Board on 30 May 2018

Philip Rogerson
Chairman

Martin Sutherland
Chief Executive Officer

Group statement of changes in equity for the period ended 31 March 2018

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Attributable to equity shareholders			Non-controlling Interests £m	Total equity £m
					Cumulative translation adjustment £m	Other reserve £m	Retained earnings £m		
Balance at 26 March 2016 – as previously reported	46.6	35.7	5.9	2.3	(12.3)	(83.8)	(146.6)	6.6	(145.6)
Prior period adjustment (see page 110)	–	–	–	–	–	–	2.2	–	2.2
Reclassification of historical cumulative translation adjustment	–	–	–	–	17.0	–	(17.0)	–	–
Balance at 26 March 2016 (restated)	46.6	35.7	5.9	2.3	4.7	(83.8)	(161.4)	6.6	(143.4)
Profit for the year	–	–	–	–	–	–	41.5	1.6	43.1
Other comprehensive income for the year, net of tax	–	–	–	(0.3)	2.6	–	(22.8)	–	(20.5)
Total comprehensive income for the year	–	–	–	(0.3)	2.6	–	18.7	1.6	22.6
Transactions with owners of the Company recognised directly in equity:									
Share capital issued	0.2	1.0	–	–	–	–	–	–	1.2
Employee share scheme:									
– value of services provided	–	–	–	–	–	–	1.5	–	1.5
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	1.0	–	1.0
Dividends paid	–	–	–	–	–	–	(25.4)	(0.3)	(25.7)
Balance at 25 March 2017 (restated)	46.8	36.7	5.9	2.0	7.3	(83.8)	(165.6)	7.9	(142.8)
Profit for the year	–	–	–	–	–	–	93.6	1.4	95.0
Other comprehensive income for the year, net of tax	–	–	–	(2.5)	(0.1)	–	51.5	–	48.9
Total comprehensive income for the year	–	–	–	(2.5)	(0.1)	–	145.1	1.4	143.9
Transactions with owners of the Company recognised directly in equity:									
Share capital issued	0.3	1.7	–	–	–	–	–	–	2.0
Employee share scheme:									
– value of services provided	–	–	–	–	–	–	2.2	–	2.2
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(0.2)	–	(0.2)
Dividends paid	–	–	–	–	–	–	(25.4)	(0.4)	(25.8)
Balance at 31 March 2018	47.1	38.4	5.9	(0.5)	7.2	(83.8)	(43.9)	8.9	(20.7)

Share premium account

This reserve arises from the issuance of shares for consideration in excess of their nominal value.

Capital redemption reserve

This reserve represents the nominal value of shares redeemed by the Company.

Hedge reserve

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

Other reserve

On 1 February 2000, the Company issued and credited as fully paid 191,646,873 ordinary shares of 25p each and paid cash of £103.7m to acquire the issued share capital of De La Rue plc (now De La Rue Holdings Limited), following the approval of a High Court Scheme of Arrangement. In exchange for every 20 ordinary shares in De La Rue plc, shareholders received 17 ordinary shares plus 920p in cash. The other reserve of £83.8m arose as a result of this transaction and is a permanent adjustment to the consolidated financial statements.

Cumulative translation adjustment (CTA)

This reserve records cumulative exchange differences arising from the translation of the financial statements of foreign entities since transition to IFRS. Upon disposal of foreign operations, the related accumulated exchange differences are recycled to the income statement. This reserve also records the effect of hedging net investments in foreign operations.

Reclassification to the cumulative translation adjustment reserve

The historical CTA position has been reviewed in year and we consider it appropriate to move an amount of £17.0m from CTA to net earnings relating to fx on non CPS subsidiary companies that left the group in periods before 2010.

Group cash flow statement

for the period ended 31 March 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Profit before tax*		110.6	51.8
Adjustments for:			
Finance income and expense		9.4	12.0
Depreciation		21.9	24.3
Amortisation		3.3	2.5
Decrease in inventory		13.3	3.4
Decrease/(increase) in trade and other receivables		21.0	(4.6)
(Decrease) in trade and other payables		(16.5)	(11.9)
(Decrease) in provisions		(6.2)	(3.6)
Non-cash gain on the defined benefit pension indexation change		(80.5)	–
Special pension fund contributions		(13.5)	(14.6)
Loss on disposal of property, plant and equipment and software intangibles		–	1.4
Impairment of disposal group		9.3	–
Share based payment expense		2.2	0.9
Loss on disposal of discontinued operations		–	4.1
Other non-cash movements		(0.8)	(1.4)
Cash generated from operating activities		73.5	64.3
Tax paid		(10.1)	(5.7)
Net cash flows from operating activities		63.4	58.6
Cash flows from investing activities			
Proceeds from sale of discontinued operations		3.0	2.1
Transaction costs relating to the sale of discontinued operations		–	(2.5)
Proceeds from the sale of subsidiary (net of cash disposed)		55.8	–
Purchases of property, plant, equipment and software intangibles		(19.9)	(24.0)
Development assets capitalised		(4.8)	(2.1)
Advanced payment – non trading		5.0	–
Acquisition of subsidiary (net of cash acquired)		(1.1)	(17.9)
Proceeds from sale of property, plant and equipment		–	0.2
Net cash flows from investing activities		38.0	(44.2)
Net cash flows before financing activities		101.4	14.4
Cash flows from financing activities			
Proceeds from issue of share capital		2.0	1.2
Repayments of borrowings		(67.0)	(12.4)
Interest paid		(5.4)	(4.2)
Payment of revolving credit facility fees		(1.0)	–
Dividends paid to shareholders		(25.4)	(25.4)
Dividends paid to non-controlling interests		(0.4)	(0.3)
Net cash flows from financing activities		(97.2)	(41.1)
Net increase/(decrease) in cash and cash equivalents in the year		4.2	(26.7)
Cash and cash equivalents at the beginning of the year		11.2	37.9
Exchange rate effects		(0.2)	–
Cash and cash equivalents at the end of the year		15.2	11.2
Cash and cash equivalents consist of:			
Cash at bank and in hand	15	15.2	13.2
Short term deposits	15	0.3	2.2
Bank overdrafts		(0.3)	(4.2)
	22	15.2	11.2

* Profit before tax includes continuing and discontinued operations. The cash flows relating to discontinued operations are included within note 2.

Accounting policies

The Company

De La Rue plc (the Company) is a public limited company incorporated and domiciled in the United Kingdom. The address of its registered office is disclosed on page 159 of this Annual Report. The consolidated financial statements of the Company for the period ended 31 March 2018 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates. The Company financial statements present information about the Company as a separate entity and not about its Group. The principal activities of the Group are described in note 1.

Statement of compliance

European Union (EU) law (IAS Regulation EC 1606/2002) requires that the consolidated financial statements, for the period ended 31 March 2018, be prepared in accordance with international financial reporting standards (IFRS) as adopted by the EU. These consolidated financial statements have been approved by the Directors and prepared in accordance with IFRS including interpretations issued by the International Accounting Standards Board.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below. The accounts have been prepared as at 31 March 2018, being the last Saturday in March. The comparatives for the 2016/17 financial period are for the period ended 25 March 2017.

The Company has elected to prepare its financial statements in accordance with FRS 102 *Financial Reporting Standard applicable in the UK and Republic of Ireland*. They are set out on pages 152 to 156 and the accounting policies in respect of the Company financial statements are set out on page 154.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below or have been incorporated with the relevant notes to the accounts where appropriate. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 4 to 32 of the Strategic report. In addition, pages 128 to 136 include the Group's objectives, policies and processes for financial risk management, details of its financial instruments and hedging activities and its exposure to credit risk, liquidity risk and commodity pricing risk. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on page 34 of the Strategic report.

The Group meets its funding requirements through cash generated from operations and a revolving credit facility which expires in December 2021. The Group's forecasts and projections, which cover a period of more than 12 months, taking into account reasonably possible changes in normal trading performance, show that the Group should be able to operate within its currently available facilities. The Group has sufficient financial resources together with assets that are expected to generate cash flow in the normal course of business.

As a consequence and notwithstanding the net liability position being reported in the consolidated balance sheet, which has primarily arisen due to the value of the deficit in the retirement benefit obligations, the Directors have a reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

Accounting developments during the period

During the period a number of amendments to IFRS became effective and were adopted by the Group, none of which had a material impact on the Group's net cash flows, financial position, total comprehensive income or earnings per share.

Changes to IFRS not yet adopted

A number of other new and amended IFRS were issued during the period, which do not become effective until after 30 March 2018.

IFRS 15 *Revenue from Contracts with Customers* (effective for the year ending 30 March 2019, provides a single, principles based, five step model to be applied to all sales contracts. The group continues to assess the impact of the new standard.

The group has undertaken a diagnostic evaluation of the impact of IFRS 15 on the way that revenue is currently recognised and is in the process of finalising the impact analysis. Based on this preliminary assessment the group does not anticipate a material impact from the adoption of the new standard. The revenue in the Currency segment is primarily derived from the supply of goods and whilst the group will be required to recognise revenue against other performance obligations such as design and storage, the relative values of these amounts are not anticipated to be material to the group. Within ID and PAT, current revenue recognition policies will not change materially when the standard is implemented.

IFRS 16 *Leases* was issued by the IASB in January 2016 (effective for the year ending 28 March 2020) replaces IAS 17. Under the new standard it requires lessees to recognise a lease liability and a right of use asset for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Interest expense on the lease liability and depreciation on the right of use asset will be recognised in the income statement, resulting in a higher total charge to the income statement in the initial years of a lease. IFRS 16 is not expected at the current time to have a significant impact on the results of the group. The group continues to assess the impact during 2017/18.

IFRS 9 *Financial Instruments* was issued by the IASB in July 2014. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial instruments and hedge accounting, and is required to be adopted by 29 March 2019. The group is reviewing the standard to determine the likely impact.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 March 2018. Control exists when the Group has the power to direct the activities of an entity so as to affect the return on investment. The results of subsidiaries acquired or disposed of during the period are included in the consolidated financial statements from the date that control commences or until the date that control ceases. The majority of the subsidiaries prepare their financial statements up to 31 March.

Accounting policies continued

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method of accounting. The Consideration transferred in the acquisition is measured at fair value as are the identifiable assets and liabilities acquired.

The excess of the fair value of consideration transferred over the fair value of net assets acquired is accounted for as goodwill. Any goodwill that arises is tested annually for impairment.

Transaction costs are expensed as incurred.

Significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements have been incorporated into the relevant notes where possible. General accounting policies which are not specific to an accounting note, for example foreign exchange, are set out below.

Foreign currency**Foreign currency transactions**

These financial statements are presented in sterling, which is the functional and presentational currency of the Company. The functional currency of Group entities is principally determined by the primary economic environment in which the respective entity operates.

Transactions in foreign currencies entered into by Group entities are translated into the functional currencies of those entities at the rates of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Foreign currency non-monetary items measured in terms of historical cost are translated at the rate of exchange at the date of the transaction. Exchange differences on non-monetary items are recognised in line with whether the gain or loss on the non-monetary item itself is recognised in the income statement or in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts. Refer to note 14 for details of the Group's accounting policies in respect of such derivative financial instruments.

Financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and intangible assets, are translated at the exchange rate prevailing at the balance sheet date. Income and expenses are translated at average exchange rates (which approximate to actual rates). Exchange differences arising on re-translation are recognised in the Group's translation reserve, which is a component of equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Net investment in foreign operations

Foreign currency differences arising on the re-translation of a financial liability designated as a hedge of a net investment in foreign operations are recognised in the translation reserve to the extent the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised as finance income or costs in the income statement. Cumulative gains or losses in equity arising since the date of transition to Adopted IFRS are taken to the income statement on disposal of the foreign operation.

Revenue recognition

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

Revenue is recognised in the income statement to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group and the amount can be reliably measured. In practice, the timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of products and associated components, when sold separately, the transfer usually occurs on loading the goods onto the relevant carrier or, at an earlier point in time when conditions are met for recognition of revenue on a bill and hold basis.

Revenue is recognised on a bill and hold basis when a formal contract is in place, the product is in hand and ready for delivery, the customer has acknowledged acceptance of the bill and hold transaction and normal payment terms apply.

Revenue on service based contracts is recognised as services are provided. If the services under a single arrangement are rendered in different reporting periods, or under an arrangement that also includes the sale of goods, then the consideration

is allocated on a relative fair value basis between the sale of goods and rendering of services and then allocated to the appropriate reporting periods in accordance with the transfer of risks and rewards and the contractual life of the service contract.

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

Held to maturity investments

As part of the consideration received for the disposal of the Portals De La Rue paper business the group has received loan notes, preference shares and ordinary shares in Mooreco Limited, a parent company of the purchaser. As these instruments will be repaid or redeemed on the earlier of their contractual life or a sale or liquidity event they are accounted for as held to maturity investments. See note 5 for further details.

Prior period adjustments

During the period the following prior period adjustments have been made:

- 1) A restatement of £3.8m credit relating to tax on discontinued operations to reflect the release of uncertain tax provisions relating to the CPS business which should have been recorded in the prior year. The impact on the financial statements at 25 March 2017 is a decrease in current tax liabilities of £3.8m, a decrease in the loss for the year from discontinued operations of £1.6m and increase in the brought forward retained earnings as at 26 March 2016 by £2.2m;
- 2) A reclassification adjustment £17.0m has been made between the cumulative translation reserve and retained earnings at 26 March 2016 and 25 March 2017. (see page 109 for further details);
- 3) During the year the purchase price accounting for the Group's acquisition of DuPont Authentication (subsequently renamed De La Rue Authentication Solutions) has been completed. This has resulted in a change in the net assets recognised on acquisition. In accordance with IFRS 3 the prior year balance sheet amounts have been restated. There has been no impact on the prior year income statement.

Critical accounting judgements and key sources of estimation uncertainty

Management has discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. Management is required to exercise significant judgement in the application of these policies. Estimates are made in many areas and the outcome may differ from that calculated. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

Revenue recognition and cut-off in Currency

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

Valuation of inventory in Currency

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

Classification of exceptional items

The Directors consider items of income and expenditure which are both material by size and/or by nature and non-recurring should be disclosed separately in the financial statements so as to help provide an indication of the Group's underlying business performance. The Directors label these items collectively as 'exceptional items'. Determining which transactions are to be considered exceptional in nature is often a subjective matter. However, circumstances that the Directors believe would give rise to exceptional items for separate disclosure would include: gains or losses on the disposal of businesses (other than those within the scope of IFRS 5), curtailments on defined benefit pension arrangements, restructuring of businesses, asset impairments and costs associated with the acquisition and integration of business combinations. All exceptional items are included in the appropriate income statement category to which they relate. Refer to note 4 on page 118 for further details.

Post-retirement benefit obligations

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

The discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. See page 145 for detail of the relative sensitivity of the value of the scheme liabilities to changes in the discount and inflation rates.

Estimation of warranty provisions

The Group measures warranty provisions at the Directors' best estimate of the amount required to settle the obligation at the balance sheet date, discounted where the time value of money is considered material. These estimates take account of available information, historical experience and the likelihood of different possible outcomes. Both the amount and the maturity of these liabilities could be different from those estimated. Refer to note 19 on page 138 for further details.

Impairment of disposal group held for sale

During the year the Group disposed of the Portals De La Rue paper business. Judgement was applied by the directors in assessing when criteria for recognising a disposal group as held for sale were met, and the paper business was not treated as a discontinued operation. Further judgement was required in estimating fair value less costs to sell when determining the remeasurement of assets and liabilities within the disposal group based on the lower of the carrying amount and fair value less costs to sell. Refer to note 5 on page 119 for further details.

Business combinations

During the 2016/17 year end De La Rue has acquired of DuPont Authentication Inc (subsequently renamed to De La Rue Authentication Solutions). Determination of the balance sheet fair value of assets acquired is dependent upon the understanding of the circumstances at acquisition and estimates of the future results of the acquired business and management judgement is a factor in making these determinations. Refer to note 32 on page 150 for further details.

Tax

The Group is subject to income taxes in numerous jurisdictions and significant judgement is required in determining the worldwide provision for those taxes. The level of current and deferred tax recognised is dependent on subjective judgements as to the outcome of decisions to be made by the tax authorities in the various tax jurisdictions around the world in which the Group operates. It is necessary to consider which deferred tax assets should be recognised based on an assessment of the extent to which they are regarded as recoverable, which involves assessment of the future trading prospects of individual statutory entities. The actual outcome may vary from that anticipated. Where the final tax outcomes differ from the amounts initially recorded, there will be impacts upon income tax and deferred tax provisions and on the income statement in the period in which such determination is made.

The Group has current tax provisions recorded within Current tax liabilities, in respect of uncertain tax positions. Provisions are recognised where there are specific uncertainties identified and it is considered probable that there will be a future outflow of funds to a taxing authority, and are measured based on management's best estimate of the likely outcome.

Notes to the accounts

1 Segmental analysis

The continuing operations of the Group have three main operating units: Currency, Identity Solutions and Product Authentication and Traceability. The Board, which is the Group's Chief Operating Decision Maker, monitors the performance of the Group at this level and there are therefore three reportable segments. The principal financial information reviewed by the Board is revenue and adjusted operating profit.

The Group's segments are:

- **Currency** – provides printed banknotes, banknote paper and polymer substrates and banknote security components
- **Identity Solutions** – involved in the provision of passport, ePassport, national ID and eID, driving licence and voter registration schemes
- **Product Authentication and Traceability** – produces security documents, including authentication labels, brand licensing products, government documents, cheques and postage stamps

Inter-segmental transactions are eliminated upon consolidation.

On 29 March 2018, the Group disposed of the Portals De La Rue paper business. The results of the paper business are included within the currency segment until the date of disposal.

2018	Currency £m	Identity Solutions £m	Product Authentication and Traceability £m	Unallocated £m	Total of Continuing operations £m
Total revenue	372.0	82.0	40.1	–	494.1
Less: inter-segment revenue	(0.2)	–	–	–	(0.2)
Revenue	371.8	82.0	40.1	–	493.9
Adjusted operating profit	45.1	8.3	9.4	–	62.8
Amortisation of acquired intangible assets	–	(0.6)	(0.1)	–	(0.7)
Exceptional items – operating (note 4 and 2)	(14.4)	(0.2)	(1.6)	77.1	60.9
Operating profit	30.7	7.5	7.7	77.1	123.0
Net interest expense	–	–	–	(3.8)	(3.8)
Retirement benefit obligations net finance expense	–	–	–	(5.6)	(5.6)
Profit before taxation	30.7	7.5	7.7	67.7	113.6
Segment assets	160.8	166.2	25.4	84.0	328.6
Segment liabilities	(89.4)	(41.1)	(7.6)	(211.3)	(349.3)
Capital expenditure on property, plant and equipment	6.2	1.4	7.2	5.1	19.9
Capital expenditure on intangible assets	1.5	0.4	1.0	1.9	4.8
Depreciation of property, plant and equipment	13.7	5.0	1.5	1.7	21.9
Amortisation of intangible assets	2.3	0.6	0.1	0.3	3.3
Impairment of disposal group	9.3	–	–	–	9.3

Unallocated assets principally comprise deferred tax assets of £19.8m (2016/17: £43.7m), cash and cash equivalents of £15.5m (2016/17: £15.4m) which are used as part of the Group's financing offset arrangements and derivative financial instrument assets of £3.6m (2016/17: £15.9m) as well as current tax assets, associates and centrally managed property, plant and equipment.

Unallocated liabilities principally comprise retirement benefit obligations of £89.7m (2016/17: £239.4m), borrowings of £63.9m (2016/17: £136.3m), current tax liabilities of £13.3m (2016/17: £19.6m) and derivative financial instrument liabilities of £4.5m (2016/17: £8.3m) as well as deferred tax liabilities and centrally held accruals and provisions.

1 Segmental analysis continued

2017	Currency £m	Identity Solutions £m	Product Authentication and Traceability £m	Unallocated £m	Total of Continuing operations £m
Total revenue	350.6	80.6	34.6	–	465.8
Less: inter-segment revenue	(1.1)	–	(3.0)	–	(4.1)
Revenue	349.5	80.6	31.6	–	461.7
Adjusted operating profit	50.3	11.4	9.0	–	70.7
Amortisation of acquired intangible assets	–	–	(0.1)	–	(0.1)
Exceptional items – operating (note 4 and 2)	1.9	–	(0.9)	(1.4)	(0.4)
Operating profit/(loss)	52.2	11.4	8.0	(1.4)	70.2
Net interest expense				(4.6)	(4.6)
Retirement benefit obligations net finance expense				(7.4)	(7.4)
Profit before taxation					58.2
Segment assets	243.4	46.3	23.1	137.9	450.7
Segment liabilities	(113.0)	(30.3)	(10.4)	(443.6)	(597.3)
Capital expenditure on property, plant and equipment	13.1	4.5	2.6	3.3	23.5
Capital expenditure on intangible assets	2.1	0.6	0.1	–	2.8
Depreciation of property, plant and equipment	17.6	3.3	1.5	1.9	24.3
Impairment of property, plant and equipment	–	–	–	–	–
Amortisation of intangible assets	1.7	0.6	0.2	–	2.5
Impairment of intangible assets	–	–	–	–	–

Geographic analysis of revenue by destination

	2018 £m	2017 £m
Middle East and Africa	166.8	161.0
Asia	121.7	93.3
UK	103.3	98.4
The Americas	70.7	75.4
Rest of Europe	27.8	29.6
Rest of World	3.6	4.0
	493.9	461.7

Geographic analysis of non-current assets

	2018 £m	2017 £m
UK	94.3	139.1
Malta	19.6	23.2
USA	16.4	18.7
Sri Lanka	15.7	14.2
Other countries	2.9	3.0
	148.9	198.2

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

Major Customers

The Group has a major customer from which it derived revenues of £55.4m in the Currency segment which equates to 11.2% of the Group total revenues (2016/2017: £47.2m and 10.2%).

Notes to the accounts continued

2 Discontinued operations

The Group completed the sale of the entire issued share capital of Cash Processing Solutions Limited and related subsidiaries (together 'CPS') to CPS Topco Limited, a company owned by Privet Capital on 22 May 2016.

Under the terms of the agreement, De La Rue received £2.1m upon completion of the transaction on 22 May 2016. During the current year a deferred consideration payment £0.8m has been received which was payable on the first anniversary of the transaction in addition to £0.9m relating to a closing working capital adjustment. In addition a further £1.4m has been received in the current year relating to additional consideration received for the sale of CPS for which a receivable was not recorded due to the likelihood of this being paid.

A further deferred consideration amount of £0.8m is payable on the second anniversary of the transaction. The Group is entitled to further contingent consideration following the sale of up to £6m if certain performance related and event driven milestones are achieved by CPS. No value has been assigned to this consideration based on the probability assessment of the associated milestones being reached.

The loss in the period from discontinued operations primarily relates to costs incurred on a loss making contract which relates to the CPS business that was not novated post disposal. These costs were offset by the receipt of £1.4m of contingent consideration received.

No pension liability was transferred as part of the disposal.

Results of the discontinued operations

		(restated)
	2018 £m	2017 £m
Revenue	–	4.9
Operating expenses	(4.4)	(7.2)
Operating loss	(4.4)	(2.3)
Gain/loss on disposal of discontinued operations	1.4	(4.1)
Loss before taxation from discontinued operations	(3.0)	(6.4)
Taxation	1.2	–
Loss from discontinued operations	(1.8)	(6.4)

The tax on discontinued operations for 2016/17 has been restated to reflect the release of uncertain tax provisions relating to the CPS business. Prior to restatement the tax charge in 2016/17 was £1.6m.

Loss on disposal of discontinued operations

	2018 £m	2017 £m
Amounts paid/payable by purchaser	1.4	4.4
Disposal costs paid/accrued	–	(4.2)
Reserves recycled on disposal	–	(4.5)
Net assets and liabilities disposed	–	0.2
Total loss on disposal	1.4	(4.1)

Accumulated foreign currency translation gains and losses within the disposal group held for sale

The Group has accumulated foreign currency translation gains and losses in relation to the entities included within the disposal group. IAS 21 requires recycling of these foreign currency translation gains or losses, which have previously been taken direct to reserves, through the income statement at the point of disposal. This amount was recycled in 2016/17.

3 Expenses by nature

	2018 £m	2017 £m
Cost of inventories recognised as an expense	244.5	217.5
Net decrease in impairment of inventories	(0.8)	(0.6)
Depreciation of property, plant and equipment	21.4	24.3
Impairment of disposal group	9.3	–
Amortisation of intangibles	3.3	2.5
Operating leases:		
– Hire of plant and equipment	0.3	0.3
– Hire of property	2.2	2.5
Amounts payable to EY and its associates and KPMG in 2016/2017:		
– Audit of these consolidated financial statements	0.4	0.2
– Audit of the financial statements of subsidiaries pursuant to legislation	0.3	0.3
– Non-Audit Services	0.3	–
– Taxation services	–	0.2
Research and non-capitalised development expense	11.8	10.4
(Profit)/loss on disposal of property, plant and equipment	–	(1.4)
Employee costs (including Directors' emoluments) (note 25)	151.8	136.1
Foreign exchange gains	(7.8)	(12.4)

Notes to the accounts continued

4 Exceptional items

Accounting Policies

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.

	2018 £m	2017 £m
Gain on revaluation of measurement of pension scheme deficit	80.5	–
Costs associated with the indexation change on the pension scheme	(1.0)	–
Site relocation and restructuring	(4.0)	(0.2)
Sale of land	–	0.2
Warranty provisions	–	0.5
Acquisition related	(0.2)	(0.9)
Costs associated with disposal of subsidiary	(5.1)	–
Impairment of disposal group	(9.3)	–
Exceptional items in operating profit	60.9	(0.4)
Tax (charge)/credit on exceptional items	(9.7)	0.6

Gain on revaluation of pension scheme deficit

A gain of £80.5m has been recorded on the revaluation of the UK defined benefit pension scheme following the change in indexation method from RPI to CPI. This is in relation to a past service cost and not an actuarial gain and as a result has been recognised in the income statement during the period. In addition costs of £1.0m have been incurred relating to professional advisor and other costs directly related to the indexation change. For further details on the indexation change please see note 24 Retirement benefit obligations.

Site relocation and restructuring costs

Site relocation and restructuring costs in 2017/18 included net charges of £1.8m relating to the manufacturing footprint review announced in December 2015. These charges include staff compensation payments and costs incurred training employees on new machinery and technology. In addition 'dual running' costs for the period when the group was running both the new PA&T manufacturing facility in Malta and the old facility in Gateshead whilst the transition was completed have been recorded as exceptional items. The net charges of £1.8m are after deduction of £1.1m of grant income received which as this amount was in relation to restructuring items, it has been recognised in exceptional items.

In addition costs of £2.2m have been incurred relating to the upgrade of our finance systems and processes. These costs included staff compensation payments, consultancy fees in addition to employee to employee salary costs where those employees are working solely on this project and their previous roles have been back filled.

Sale of land

The gain in 2016/17 related to several individually small land sales.

Warranty provisions

Surplus warranty provisions of £0.5m were credited to exceptional items in 2016/17 consistent to where the cost of the original provisions was presented in the Annual Report.

Acquisition related

Costs of £0.2m have been incurred during the year relating to the acquisition of DuPont Authentication Inc in January 2017. Costs in 2016/17 relating to the acquisition were also incurred relating to £0.5m of professional advisor fees. In addition an amount of £0.4m was recorded in exceptional items relating to the 'unwind' of the fair value adjustment to acquired inventory recognised on the opening day balance sheet as the related inventory was fully sold by year end. The Directors' considered that this non-cash item was distortive to underlying profit levels compared to the expected cost of inventories recognised as an expense for this subsidiary going forward.

Costs associated with disposal of subsidiary

Cost of £4.2m have been incurred relating to professional advisor and other transaction related fees. In addition costs of £0.9m were incurred in the early close out of some derivatives prior to disposal.

Tax credits relating to exceptional items

Tax credits relating to continuing exceptional items arising in the period were £10.0m (2016/17: tax credit of £0.6m). In addition, there was an exceptional tax credit of £0.3m in the year in respect of the determination of the tax treatment of prior year exceptional items.

4 Exceptional items continued

Impairment of disposal group

In December 2017 the Group committed to a plan to sell the Group's paper business, and accordingly presented the paper business' assets and liabilities as a disposal group held for sale. Depreciation of property plant and equipment also ceased from the point the assets and liabilities were transferred into the disposal group. In accordance with IFRS 5, prior to sale the disposal group's carrying value was compared to its fair value less costs to sell the resulting Impairment loss of £9.3m has been included in exceptional items. The impairment losses have been applied to reduce the carrying amount of property, plant and equipment within the disposal group (see note 5 below for further details).

5 Disposal of paper business

On 26 March 2018 prior to the external sale, the Group transferred the trade and assets of the paper business into a newly created wholly-owned subsidiary Portals De La Rue Limited. The Group completed the sale of Portals De La Rue Limited to EPIRIS Fund II on 29 March 2018. Under the terms of the agreement De La Rue received £60.3m cash upon completion of the transaction plus £6.6m in loan notes issued by the purchaser. Of the £6.6m of loan notes received, £2.6m was immediately converted to a preference share holding and £0.2m to an ordinary share holding of 10% in Mooreco Limited, a parent company of the purchasers. An additional £3.0m is estimated as being receivable relating to a closing working capital adjustment.

Management believes the transaction provides an opportunity to create greater long term value for shareholders and enables the Group to focus on their strategy of driving growth organically and through partnerships and acquisitions. As part of the transaction Portals De La Rue Limited will supply security paper to meet the Group's anticipated internal requirements with pre agreed volumes and price mechanisms for the next 10 years. Based on the terms of the agreement the Company has a capital commitment of approximately £626m over the next 10 years.

No pension liability transferred as part of the disposal.

The Group's paper business does not meet the IFRS 5 definition of a discontinued operation and as such its results have been included within continuing operations.

The carrying amounts of assets and liabilities as at the date of sale (29 March 2018) post impairment of disposal group were:

	2018 £m
Property, plant and equipment	36.6
Inventories	16.1
Trade and other receivables	29.8
Cash and cash equivalents	4.6
Total assets	87.1
Trade and other payables	(19.2)
Total liabilities	(19.2)
Net assets	67.9

The loss on disposal on the sale of the subsidiary was:

	2018 £m
Total net consideration received/receivable:	
Cash	60.3
Loan notes and shares received	6.6
Estimated recompense contract provision	(2.0)
Estimated working capital adjustment	3.0
Total disposal consideration	67.9
Net assets and liabilities disposed	(67.9)
Gain/(loss) on disposal group	–

Disposal consideration includes an estimate for total amounts payable under the recompense contract provision of £2.0m. As part of the sale of the paper business the company agreed to compensate the buyer, within certain limits, in the event of certain commercial outcomes arising which were prejudicial to the buyer. An amount of £2.0m has been recorded at the balance sheet date to reflect the risk weighted exposure to the Company from within the overall range of possible outcomes. The provision is included within other provisions in note 19.

Notes to the accounts continued

6 Interest income and expense

Accounting Policies

Interest income/expense 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 flows through the expected life of the financial asset/liability to the net carrying amount of that asset/liability.

	2018 £m	2017 £m
Recognised in the income statement		
Interest income:		
– Cash and cash equivalents	–	–
Interest expense:		
– Bank loans	(4.2)	(3.7)
– Other, including amortisation of finance arrangement fees	0.4	(0.9)
Total interest expense calculated using the effective interest method	(3.8)	(4.6)
Retirement benefit obligation net finance expense (note 24)	(5.6)	(7.4)

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 (2016/17: £nil).

7 Taxation

Accounting Policies

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 on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date and that are expected to apply when the asset is 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 result from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

7 Taxation continued

	2018 £m	(restated)* 2017 £m
Consolidated income statement		
Current tax		
UK corporation tax:		
– Current tax	6.8	8.4
– Adjustment in respect of prior years	(1.7)	(0.6)
	5.1	7.8
Overseas tax charges:		
– Current year	2.9	3.7
– Adjustment in respect of prior years	(1.4)	(1.8)
	1.5	(1.9)
Total current income tax charge	6.6	9.7
Deferred tax:		
– Origination and reversal of temporary differences, UK	10.6	(0.7)
– Origination and reversal of temporary differences, overseas	(1.6)	(0.3)
Total deferred tax charge/(credit)	9.0	(1.0)
Income tax expense reported in the consolidated income statement in respect of continuing operations	16.8	8.7
Income tax expense/(credit) in respect of discontinued operations (note 2)	(1.2)	–
Total income tax charge in the consolidated income statement	15.6	8.7
Tax on continuing operations attributable to:		
– Ordinary activities	8.3	9.3
– Amortisation of acquired intangible assets	(1.2)	–
– Exceptional items	9.7	(0.6)
Consolidated statement of comprehensive income:		
– On remeasurement of net defined benefit liability	10.4	(2.3)
– On cash flow hedges	(0.5)	(0.1)
– On foreign exchange on quasi-equity balances	0.1	(0.1)
Income tax (credit)/charge reported within other comprehensive income	10.0	(2.5)
Consolidated statement of changes in equity:		
– On share options	0.2	(1.0)
Income tax charge reported within equity	0.2	(1.0)

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 19 per cent as follows:

	2018				2017		
	Before exceptional items £m	Exceptional items £m	Movement on acquired intangibles £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Profit before tax	53.4	60.9	(0.7)	113.6	58.7	(0.4)	58.3
Tax calculated at UK tax rate of 19 per cent (2016/17: 20 per cent)	10.1	11.6	(0.1)	21.6	11.7	(0.1)	11.6
Effects of overseas taxation	0.5			0.5	(0.1)	–	(0.1)
(Credits)/charges not allowable for tax purposes	(0.1)	0.7		0.6	(1.8)	(0.5)	(2.3)
(Utilisation)/increase in unrecognised tax losses	(0.5)	(0.8)		(1.3)	(0.1)	–	(0.1)
Adjustments in respect of prior years	(1.8)	(0.3)		(2.1)	(0.1)	–	(0.1)
Change in UK and overseas tax rate	0.1	(1.5)	(1.1)	(2.5)	(0.3)	–	(0.3)
Tax charge/(credit)	8.3	9.7	(1.2)	16.8	9.3	(0.6)	8.7

The underlying effective tax rate was 15.5 per cent (2016/17: 15.8 per cent).

* Please refer to the accounting policies on page 110 for further details of the restatement of £3.8m credit relating to tax on discontinued operations.

Notes to the accounts continued

8 Earnings per share

Accounting Policies

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 adjusted earnings per share, before exceptional items, is useful to readers of the accounts as it gives an indication of underlying business performance.

	2018 Continuing operations pence per share	2018 Discontinued operations pence per share	2018 Total pence per share	2017 Continuing operations pence per share	(restated) 2017 Discontinued operations pence per share	(restated) 2017 Total pence per share
Earnings per share						
Basic earnings per share	93.7	(1.8)	91.9	47.2	(6.3)	40.9
Diluted earnings per share	92.8	(1.8)	91.0	46.6	(6.2)	40.4
Adjusted earnings per share						
Basic earnings per share	42.9	n/a	n/a	47.1	n/a	n/a
Diluted earnings per share	42.5	n/a	n/a	46.5	n/a	n/a

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

Earnings

	2018 Continuing operations £m	2018 Discontinued operations £m	2018 Total £m	2017 Continuing operations £m	(restated) 2017 Discontinued operations £m	(restated) 2017 Total £m
Earnings for basic and diluted earnings per share	95.4	(1.8)	93.6	47.9	(4.2)	43.7
Amortisation of acquired intangible assets	0.7	–	0.7	0.1	–	0.1
Exceptional items	(60.9)	–	(60.9)	0.4	–	0.4
Less: tax on amortisation of acquired intangibles	(1.2)	–	(1.2)	–	–	–
Less: tax on exceptional items	9.7	–	9.7	(0.6)	–	(0.6)
Earnings for adjusted earnings per share	43.7	(1.8)	41.9	47.8	(4.2)	43.6

Weighted average number of ordinary shares

	2018 Number m	2017 Number m
For basic earnings per share	101.9	101.6
Dilutive effect of share options	0.9	1.2
For diluted earnings per share	102.8	102.8

9 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.

	2018 £m	2017 £m
Final dividend for the period ended 26 March 2016 of 16.7p paid on 3 August 2016	–	16.9
Interim dividend for the period ended 24 September 2016 of 8.3p paid on 11 January 2017	–	8.5
Final dividend for the period ended 25 March 2017 of 16.7p paid on 30 June 2017	17.0	–
Interim dividend for the period ended 30 September 2017 of 8.3p paid on 3 January 2018	8.4	–
	25.4	25.4

A final dividend per equity share of 16.7p has been proposed for the period ended 31 March 2018. If approved by shareholders the dividend will be paid on 3 August 2018 to ordinary shareholders on the register at 6 July 2018.

10 Property, plant and equipment

Accounting Policies

Property, plant and equipment are stated at cost, 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.

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings and Motor Vehicles £m	In course of construction £m	Total £m
Cost					
At 26 March 2016	61.5	369.4	26.1	10.0	467.0
Exchange differences	0.2	6.8	0.3	0.2	7.5
Additions	0.2	6.2	0.2	16.9	23.5
Transfers from assets in the course of construction	2.3	2.3	1.3	(5.9)	—
Disposals	—	(5.5)	(4.0)	(1.5)	(11.0)
Acquisitions (see note 31)	—	2.1	—	—	2.1
At 25 March 2017	64.2	381.3	23.9	19.7	489.1
Exchange differences	—	(0.1)	—	—	(0.1)
Additions	0.2	1.0	0.1	12.9	14.2
Transfers from assets in the course of construction	1.7	16.4	1.6	(19.7)	—
Reclassification	4.0	(17.9)	4.9	3.1	(5.9)
Disposals	—	(2.5)	(0.1)	(0.9)	(3.5)
Disposal of subsidiary	(21.0)	(135.8)	(3.1)	(3.7)	(163.6)
At 31 March 2018	49.1	242.4	27.3	11.4	330.2
Accumulated depreciation					
At 26 March 2016	26.9	256.4	16.7	—	300.0
Exchange differences	0.1	5.6	0.2	—	5.9
Depreciation charge for the year	1.7	19.6	3.0	—	24.3
Impairment	—	—	—	—	—
Disposals	—	(4.5)	(3.8)	—	(8.3)
At 25 March 2017	28.7	277.1	16.1	—	321.9
Exchange differences	—	(0.3)	—	—	(0.3)
Depreciation charge for the year	1.9	12.7	7.3	—	21.9
Reclassification	1.6	(5.5)	(2.0)	—	(5.9)
Disposals	—	(2.0)	(0.1)	—	(2.1)
Disposal of subsidiary	(5.7)	(109.5)	(2.9)	—	(118.1)
At 31 March 2018	26.5	172.5	18.4	—	217.4
Net book value at 31 March 2018	22.6	69.9	8.9	11.4	112.8
Net book value at 25 March 2017	35.5	104.2	7.8	19.7	167.2
Net book value at 26 March 2016	34.6	113.0	9.4	10.0	167.0

11 Intangible assets

Accounting Policies

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

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of consideration transferred over the fair value of net assets acquired.

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 amounts subject to being tested for impairment at that date.

Other intangible assets

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 five and ten 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.

Intangible assets purchased through a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial acquisition, intangible assets acquired through a business combination are reported at cost less accumulated amortisation and impairment losses, on the same basis as intangible assets that are acquired separately.

Intellectual property is amortised over its expected life of 15 years.

Customer relationships are amortised over their expected lives of 10 to 15 years.

Trade names are amortised over their expected lives of 15 years.

11 Intangible assets continued

	Goodwill £m	Development costs £m	Software assets £m	Distribution rights £m	Intellectual property	Customer relationships	Trade Names	Total £m
Cost								
At 26 March 2016	–	21.0	9.5	0.1	–	–	–	30.6
Exchange differences	(0.2)	0.1	0.2	–	(0.2)	(0.1)	–	(0.2)
Additions	–	2.1	0.7	–	–	–	–	2.8
Disposals	–	–	(0.4)	–	–	–	–	(0.4)
Acquisitions (see note 32) (restated)	9.0	–	–	–	3.8	4.5	0.2	17.5
At 25 March 2017 (restated)	8.8	23.2	10.0	0.1	3.6	4.4	0.2	50.3
Exchange differences	(0.8)	–	–	–	(0.5)	(0.7)	–	(1.7)
Reclassification	–	(3.9)	(1.7)	–	–	–	–	(5.6)
Additions	–	3.6	1.2	–	–	–	–	4.8
Disposal of subsidiary	–	(1.3)	–	–	–	–	–	(1.3)
At 31 March 2018	8.0	21.6	9.5	0.1	3.1	3.7	0.2	47.5
Accumulated amortisation	–	–	–	–	–	–	–	–
At 26 March 2016	–	11.2	5.9	0.1	–	–	–	17.2
Exchange differences	–	–	–	–	–	–	–	–
Amortisation for the year	–	1.6	0.7	–	0.1	–	–	2.4
Disposals	–	–	(0.4)	–	–	–	–	(0.4)
At 25 March 2017	–	12.8	6.0	0.1	0.1	–	–	19.0
Reclassification	–	(3.7)	(1.0)	–	–	–	–	(4.8)
Exchange differences	–	–	–	–	–	–	–	–
Amortisation for the year	–	1.8	0.8	–	0.2	0.5	–	3.3
Disposal of subsidiary	–	(0.9)	–	–	–	–	–	(0.9)
At 31 March 2018	–	10.0	5.8	0.1	0.3	0.5	–	16.7
Carrying value at 31 March 2018	8.0	11.6	3.7	–	2.8	3.2	0.2	29.5
Carrying value at 25 March 2017 (restated)	8.8	10.4	4.0	–	3.5	4.4	0.2	31.3
Carrying value at 26 March 2016	–	9.8	3.6	–	–	–	–	13.4

Amounts as at 25 March 2017 have been restated following the finalisation of the purchase price accounting for the acquisition of De La Rue Authentication during the year.

Notes to the accounts continued

11 Intangible assets continued

Accounting Policies**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.

Acquisition amounts of £7.5m during 2016/17 (previously disclosed as £9.8m prior to finalisation of the purchase price allocation) relate to the Group's purchase of DuPont Authentication Inc (see note 32 for further details).

12 Inventories

Accounting Policies

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.

	2018 £m	2017 £m
Raw materials	17.4	26.9
Work in progress	9.8	17.4
Finished goods	9.8	23.5
	37.0	67.8

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

An income statement charge in respect of the recognition of inventory provisions of £0.8m was recognised in operating expenses – ordinary in 2017/18 (2016/17: £1.7m).

13 Trade and other receivables

Accounting Policies

Trade and other receivables are measured at cost net of allowances for impairments, which approximates to fair value.

	2018 £m	2017 £m
Trade receivables	68.8	92.5
Provision for impairment	(5.5)	(3.0)
Net trade receivables	63.3	89.5
Other receivables	22.3	13.1
Prepayments and accrued income	13.5	7.1
	99.1	109.7

There is no other 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 2018 £m	Impairment 2018 £m	Gross 2017 £m	Impairment 2017 £m
Not past due	31.0	–	45.9	–
Past due 0-30 days	32.3	–	29.6	–
Past due 31-120 days	7.3	–	13.4	(0.2)
Past due more than 120 days	15.2	(5.5)	16.7	(2.8)
	85.8	(5.5)	105.6	(3.0)

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:

	2018 £m	2017 £m
Balance at beginning of year	(3.0)	(3.5)
Impairment losses recognised	(2.5)	(0.6)
Impairment losses reversed	–	1.1
Transferred to assets held for resale	–	–
Balance at end of year	(5.5)	(3.0)

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.

Notes to the accounts continued

14 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 in full, 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 £50.0m on a continuing basis, the policy is to use floating to fixed interest rate swaps 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.

14 Financial risk continued

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.

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 within revenue or operating expenses in line with the host contract.

Notes to the accounts continued

14 Financial risk continued

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 2018 £m	Carrying amount 2018 £m	(restated) total fair value 2017 £m	(restated) carrying amount 2017 £m
Financial assets					
Trade and other receivables ¹		85.8	85.8	102.6	102.6
Cash and cash equivalents		15.5	15.5	15.4	15.4
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	1.8	1.8	4.5	4.5
– Short duration swap contracts designated as fair value hedges	Level 2	0.1	0.1	0.2	0.2
– Foreign exchange fair value hedges – other economic hedges	Level 2	1.3	1.3	0.9	0.9
– Embedded derivatives	Level 2	0.4	0.4	10.3	10.3
– Interest rate swaps	Level 2	–	–	–	–
Total financial assets		104.9	104.9	133.9	133.9
Financial liabilities					
Unsecured bank loans and overdrafts ²		(65.4)	(65.4)	(136.3)	(136.3)
Trade and other payables ³		(151.9)	(151.9)	(172.9)	(172.9)
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	(3.2)	(3.2)	(1.6)	(1.6)
– 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	(0.4)	(0.4)	(5.5)	(5.5)
– Embedded derivatives	Level 2	(0.6)	(0.6)	(0.7)	(0.7)
– Interest rate swaps	Level 2	–	–	(0.4)	(0.4)
Total financial liabilities		(221.7)	(221.7)	(317.5)	(317.5)

¹ Excluding prepayments.

² The unsecured bank loans and overdrafts above is presented excluding unamortised pre-paid borrowing.

³ Excluding deferred income and taxes. The prior period comparatives have been restated to include accrued expenses 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. There has been no movement between levels during the current or prior periods.

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.

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.

14 Financial risk continued

Determination of fair values of 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 31 March 2018 was (£0.5m), (25 March 2017: £2.0m). Net movements in the hedge reserve are shown in the Group statement of changes in equity.

Comprehensive income after tax was £2.5m comprising a gain of £1.9m of fair value movements on new and continuing cash flow hedges, a loss of £0.1m on maturing cash flow hedges for capital expenditure and a £1.8m gain 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 £3.0m amounted to £0.5m. Hedge reserve movements in the income statement were as follows:

	Revenue £m	Operating expense £m	Interest expense £m	Total £m
31 March 2018				
– Maturing cash flow hedges	(0.4)	2.2	–	1.8
– Ineffectiveness on de-recognition of cash flow hedges				
25 March 2017				
– Maturing cash flow hedges	(2.1)	10.1	–	8.0
– Ineffectiveness on de-recognition of cash flow hedges	–	–	–	–
	(2.1)	10.1	–	8.0

The ineffective portion of fair value hedges that was recognised in the income statement amounted to £nil (2016/17: £nil). The ineffective portion of cash flow hedges that was recognised in the income statement within Exceptional items was (£0.9m) (2016/17: £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.

	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
31 March 2018						
Non-derivative financial liabilities						
Unsecured bank loans and overdrafts	65.4	–	–	65.4	–	65.4
Trade and other payables						
Derivative financial liabilities	151.9	–	–	151.9	–	151.9
Gross amount payable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	144.9	0.4	–	145.3	(142.1)	3.2
– Short duration swap contracts designated as fair value hedges	40.3	–	–	40.3	(40.1)	0.2
– Fair value hedges – other economic hedges	61.6	–	–	61.6	(61.2)	0.4
Interest rate swaps						
	464.1	0.4	–	464.5	(243.4)	221.1

Notes to the accounts continued

14 Financial risk continued

Liquidity risk continued

	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
25 March 2017 (restated)						
Non-derivative financial liabilities						
Unsecured bank loans and overdrafts	136.3	–	–	136.3	–	136.3
Trade and other payables	171.6	1.3	–	172.9	–	172.9
Derivative financial liabilities						
Gross amount payable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	101.4	0.9	0.2	102.5	(100.9)	1.6
– Short duration swap contracts designated as fair value hedges	14.4	–	–	14.4	(14.3)	0.1
– Fair value hedges – other economic hedges	99.9	2.4	–	102.3	(96.8)	5.5
Interest rate swaps	0.2	0.2	–	0.4	–	0.4
	523.8	4.8	0.2	528.8	(212.0)	316.8

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

	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
31 March 2018						
Non-derivative financial assets						
Cash and cash equivalents	15.5	–	–	15.5	–	15.5
Trade and other receivables	85.2	–	–	85.2	–	85.2
Derivative financial assets						
Gross amount receivable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	119.2	7.3	–	126.5	(124.7)	1.8
– Short duration swap contracts designated as fair value hedges	37.2	–	–	37.2	(37.1)	0.1
– Fair value hedges – other economic hedges	69.3	0.7	–	70.0	(68.7)	1.3
Interest rate swaps						
	326.4	8.0	–	334.4	(230.5)	103.9

	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
25 March 2017 (restated)						
Non-derivative financial assets						
Cash and cash equivalents	15.4	–	–	15.4	–	15.4
Trade and other receivables	102.6	–	–	102.6	–	102.6
Derivative financial assets						
Gross amount receivable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	128.7	1.8	–	130.5	(126.0)	4.5
– Short duration swap contracts designated as fair value hedges	58.5	–	–	58.5	(58.3)	0.2
– Fair value hedges – other economic hedges	69.5	2.5	0.2	72.2	(71.3)	0.9
Interest rate swaps	–	–	–	–	–	–
	374.7	4.3	0.2	379.2	(255.6)	123.6

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.

14 Financial risk continued

Liquidity risk continued

Cash and cash equivalents, trade and other current receivables, bank loans and overdrafts, trade payables and other current liabilities have fair values that approximate to their carrying amounts due to their short-term nature.

As at 31 March 2018, the Group has a total of undrawn committed borrowing facilities, all maturing in more than one year, of £210.0m (25 March 2017: £118.0m in more than one year). The amount of loans drawn on the £275.0m facility is £65.0m (25 March 2017: £132.0m). Guarantees of £nil (25 March 2017: £nil) have been drawn using the facility.

During the year the Group extended the revolving credit facility by two years to a maturity date of December 2021 and also increased the facility size from £250m to £275m. It is subject to the same financial covenants which require that the ratio of EBIT to net interest payable be greater than four times and the net debt to EBITDA ratio be less than three times. At the period end the specific covenant tests were as follows: EBIT/net interest payable of 14.2 times, net debt/EBITDA of 0.66 times.

Forward foreign exchange contracts

The net principal amounts of the outstanding forward foreign exchange contracts at 31 March 2018 are US dollar 34.1m, euro 27.6m, Swiss franc (32.0m), Japanese yen (15.0m), Canadian dollar (0.7m), Hong Kong dollar 10.9m, Singapore dollar 25.2m and Australian dollar 0.2m.

The net principal amounts outstanding under forward contracts with maturities greater than 12 months are euro 3.7m, US dollar 2.4m and Singapore dollar 4.2m. 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 31 March 2018 will be released to the income statement at various dates between one month and 18 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 31 March 2018 was £nil (2016/17: £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 31 March 2018 are US dollar 20.5m, euro (11.6m), Swiss franc (9.8m), South African rand 12.8m, Australian dollar 0.2m, Japanese yen (333.7m), Canadian dollar 0.5m, Hong Kong dollar 2.7m and Mexican peso 2.6m.

(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 31 March 2018 was (£0.1m) (2016/17: £0.1m). Gains and losses on balance sheet swaps are included in the consolidated income statement.

The principal amounts outstanding under balance sheet swaps at 31 March 2018 are US dollar 42.4m, euro 12.0m, Swiss franc 0.9m, South African rand 7.0m.

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 31 March 2018 was (£0.2m) (2016/17: £9.6m).

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 (2016/17: £0.2m), (£8.9m) relating to other fair value hedges (2016/17: (£12.5m)), and £nil relating to cash management hedges (2016/17: £nil).

Market risk: Currency risk

Exposure to currency risk

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
US dollar	1.33	1.32	1.41	1.25
Euro	1.13	1.20	1.14	1.16

Notes to the accounts continued

14 Financial risk continued**Interest rate risk**

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

	Carrying amount	
	2018 £m	2017 £m
Variable rate instruments		
Financial assets	15.5	15.4
Financial liabilities	(65.4)	(136.3)
	(49.9)	(120.9)

At the year ending 31 March 2018 the Group had sterling £65m of floating to fixed interest rate swaps with financial institutions and with maturities of October and November 2018.

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)				
31 March 2018	(0.8)	0.9		
26 March 2017	(0.5)	0.7		

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	
		2018 £m	2017 £m
Trade and other receivables (excluding prepayments)	13	100.9	102.6
Cash and cash equivalents	15	15.5	15.4
Forward exchange contracts used for hedging		3.2	5.6
Embedded derivatives		0.4	10.3
Interest rate swaps		—	—
		120.0	133.9

14 Financial risk continued

Credit risk continued

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

	Carrying amount	
	2018 £m	2017 £m
UK	17.2	28.9
Rest of Europe	4.7	5.1
The Americas	15.5	5.0
Rest of world	48.4	63.6
	85.8	102.6

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

	Carrying amount	
	2018 £m	2017 £m
Banks and financial institutions	60.3	17.1
Government institutions	22.4	53.0
Distributors	–	4.3
Retail customers	–	–
End user customers	–	2.0
Other	3.1	26.2
	85.8	102.6

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 has 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.

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	2018 £m	(restated) 2017 £m
Total equity attributable to shareholders of the Company		(43.9)	(165.6)
Add back long term pension deficit liability		89.6	239.4
Adjusted equity attributable to shareholders of the Company		45.7	73.8
Net debt	22	49.9	120.9
Group capital		95.6	194.7

The long term pension deficit has been removed as a separate agreement is in place regarding the funding for this deficit which is paid out of cash flows from continuing operations. The Group's debt financing is also analysed in notes 18 and 22.

Included within the Group's net debt are certain 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 8 and 9.

Notes to the accounts continued

14 Financial risk continued**Capital management continued**

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. During the period, the Group invested £24.8m in ongoing research and development and capital expenditure. The proposed total dividend for the year is covered 1.7 times. The ratio is calculated as total adjusted earning as per note 8 over the dividend for the year.

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.

15 Cash and cash equivalents**Accounting Policies**

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.

	2018 £m	2017 £m
Cash at bank and in hand	15.2	13.2
Short term bank deposits	0.3	2.2
	15.5	15.4

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

Certain 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 14.

16 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:

	2018 £m	2017 £m (restated)
Deferred tax assets	19.8	43.7
Deferred tax liabilities	(3.0)	(5.3)
	16.8	38.4

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

	2018 £m	2017 £m (restated)
Beginning of the year	38.4	40.0
Exchange differences	0.4	0.4
Income statement credit/(charge)	(9.0)	0.8
Acquisitions (see note 31)	–	(3.6)
Tax credit/(charge) to equity	(13.0)	0.8
End of the year	16.8	38.4

The prior year deferred tax liability has been restated following the finalisation in the year of the purchase price accounting for the Group's acquisition of De La Rue Authentication Solutions.

16 Deferred taxation continued

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

	Property, plant and equipment £m	Fair value gains (restated) £m	Development costs £m	Other £m	Total £m
Liabilities					
At 26 March 2016	(8.2)	–	(1.7)	(0.5)	(10.4)
Recognised in the income statement	1.1	–	–	–	1.1
Acquisitions (see note 31)	(0.7)	(2.9)	–	–	(3.6)
Recognised in equity	–	–	–	0.1	0.1
At 25 March 2017	(7.8)	(2.9)	(1.7)	(0.4)	(12.8)
Recognised in the income statement	4.2	1.2	0.1	–	5.5
Recognised in equity	–	–	–	0.4	0.4
Exchange differences	–	0.3	–	–	0.3
At 31 March 2018	(3.6)	(1.4)	(1.6)	–	(6.6)

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
Assets					
At 26 March 2016	0.5	39.9	0.8	9.2	50.4
Recognised in the income statement	0.1	1.4	(0.4)	(1.4)	(0.3)
Recognised in equity	1.0	(0.3)	–	–	0.7
Exchange differences	–	–	–	0.4	0.4
At 25 March 2017	1.6	41.0	0.4	8.2	51.2
Recognised in the income statement	0.2	(12.8)	(0.2)	(1.7)	(14.5)
Recognised in equity	(0.6)	(12.9)	–	0.1	(13.4)
Exchange differences	–	–	–	0.1	0.1
At 31 March 2018	1.2	15.3	0.2	6.7	23.4

Other deferred assets and liabilities include tax associated with provisions of £0.9m (2016/17: £1.7m) and in respect of overseas tax credits £5.9m (2016/17: £5.9m).

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 £7.2m (2016/17 restated: £4.7m) in respect of losses amounting to £26.7m (2016/17 restated £26.3m) that can be carried forward against future taxable income. Similarly, the Group has not recognised deferred tax assets of £8.9m (2016/17: £9.4m) in respect of overseas tax credits that are carried forward for utilisation in future periods.

Unremitted foreign earnings totalled £151.3m at 31 March 2018 (2016/17: £134m). 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 £307m are carried forward at 31 March 2018 (2016/17: £320.6m). No deferred tax asset has been recognised in respect of these losses.

US tax rate

A reduction in the US federal tax rate from 35 per cent to 21 per cent (effective from January 2018) was substantively enacted on 22 December 2017. This will reduce the US group's future current tax charge accordingly. The US deferred tax assets and liabilities at 31 March 2018 have been calculated based on the rate of 21 per cent substantively enacted at the balance sheet date.

UK tax rate

A reduction in the main rate of UK corporation tax from 19 per cent to 17 per cent (effective from April 2020) was substantively enacted on 6 September 2016. This will reduce the UK Group's future current tax charge accordingly. The UK deferred tax assets and liabilities at 31 March 2018 have been calculated based on the rate of 17 per cent (25 March 2017: 17 per cent) substantively enacted at the balance sheet date.

Notes to the accounts continued

17 Trade and other payables

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

	2018 £m	2017 £m
Current liabilities		
Payments received on account	29.7	27.2
Trade payables	59.6	46.5
Amounts owed to associated companies	–	–
Social security and other taxation	1.0	3.1
Deferred income	14.1	0.4
Accrued expenses	58.2	85.9
Other payables	4.5	12.0
	167.1	175.1
Non-current liabilities		
Other payables	–	1.3
	–	1.3

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 14.

18 Borrowings**Accounting Policies**

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 13.

	Currency	Nominal interest rate	Year of maturity	Face value 2018 £m	Carrying amount 2018 £m	Face value 2017 £m	Carrying amount 2017 £m
Current liabilities							
Unsecured bank loans and overdrafts	EUR	–	2018	–	–	–	–
Unsecured bank loans and overdrafts	GBP	2.02%	2018	65.0	65.0	136.0	136.0
Unsecured bank loans and overdrafts	USD	–	2018	–	–	–	–
Unsecured bank loans and overdrafts	Other	–	2018	0.4	0.4	0.3	0.3
Total interest bearing liabilities				65.4	65.4	136.3	136.3

The total interest bearing liabilities above is presented excluding unamortised pre-paid borrowing fees of £1.5m.

As at 31 March 2018, bank overdrafts of £223.1m (2016/17: £112.5m) were offset for interest purposes against credit balances.

As at 31 March 2018, the Group has committed borrowing facilities, all maturing in more than one year, of £275m. Up to £100m of the £275m 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 subject to conditions, the borrowings are disclosed as a current liability. This is notwithstanding the long term nature of this facility which expires in December 2021.

19 Provisions for liabilities and charges**Accounting Policies**

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.

19 Provisions for liabilities and charges continued

	Restructuring £m	Warranty £m	Other £m	Total £m
At 25 March 2017	2.5	7.0	2.9	12.4
Exchange differences	–	–	(0.2)	(0.2)
Charge for the year	1.2	4.4	3.6	9.2
Utilised in year	(3.2)	(6.6)	(0.5)	(10.3)
Released in year	–	(3.1)	–	(3.1)
At 31 March 2018	0.5	1.7	5.8	8.0
Expected to be utilised within 1 year	0.5	1.7	1.9	4.1
Expected to be utilised after 1 year	–	–	3.9	3.9

Restructuring provisions

Restructuring provisions principally relate to the manufacturing footprint review announced in December 2015 and the upgrade of our finance systems and processes. The fall in the provision reflects the fact that these initiatives are nearing completion. These provisions include amounts for staff compensation and site exit costs, which are expected to be utilised within one year.

Warranty provisions

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.

Other provisions

Other provisions comprise a number of liabilities with varying expected utilisation rates. As part of the disposal accounting for the sale of Portals De La Rue Limited to EPIRIS Fund II on 29 March 2018, an amount of £2.0m has been recognised for the potential amount payable under the recompense contract clause. Refer to note 5 for further details. The utilisation of this is expected after 1 year.

Other provisions also includes an amount of £1.3m in relation to a onerous contract that was not transferred as part of the sale of Cash Processing Solutions Limited. The expected utilisation of this is after 1 year.

20 Share capital

	2018 £m	2017 £m
Issued and fully paid		
102,389,688 ordinary shares of 44 ⁵² / ₁₇₅ p each (2016/17: 101,767,263 ordinary shares of 44 ¹⁵² / ₁₇₅ p each)	46.0	45.7
111,673,300 deferred shares of 1p each (2016/17: 111,673,300 deferred shares of 1p each)	1.1	1.1
	47.1	46.8

	2018		2017	
	Ordinary shares '000	Deferred shares '000	Ordinary shares '000	Deferred shares '000
Allotments during the year				
Shares in issue at 25 March 2017/26 March 2016	101,767	111,673	101,359	111,673
Issued under Savings Related Share Option Scheme	439	–	253	–
Issued under Annual Bonus Plan	160	–	62	–
Issued under Performance Share Plan	24	–	93	–
Shares in issue at 31 March 2018/25 March 2017	102,390	111,673	101,767	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.

Notes to the accounts continued

21 Share based payments

Accounting Policies

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 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 31 March 2018, the Group has a number of share based payment plans, which are described below. 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	
	2018 £m	2017 £m
Annual Bonus Plan	0.7	0.7
Performance Share Plan	0.3	(0.3)
Restricted Share Award	–	0.1
Savings Related Share Option Scheme	1.2	0.4
	2.2	0.9

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	Performance Share Plan	Annual Bonus Plan	Savings Related Share Option Scheme
Dates of current year grants	27 June 2017	27 June 2017	7 June 2017	18 Dec 2017
Number of options granted	6,763	677,277	71,841	654,352
Exercise price	n/a	n/a	n/a	520.26
Contractual life (years)	9	9	10	3
Settlement	Cash	Shares	Shares	Shares
Vesting period (years)	3 or 4	3 or 4	1	3
Dividend yield	n/a	n/a	n/a	25p pa
Risk free interest rate	n/a	n/a	n/a	0.51% pa
Share price volatility	n/a	n/a	n/a	30% pa
Fair value per option at grant date	6.80	6.80	6.88	1.47

For the Savings Related Share Option Scheme (SAYE) an expected volatility rate of 30 per cent (2016/17: 30 per cent) has been used for grants in the period. This rate is based on historical volatility over the last three years to 18 December 2017. 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 0.51 per cent pa (for a period of 3 years). (2016/17: 0.53 per cent).

21 Share based payments continued

Reconciliations of option movements over the period to 31 March 2018 for each class of share awards are shown below:

Annual Bonus Plan

For details of the Annual Bonus Plan, refer to the Directors' remuneration report on pages 74 to 94.

	2018 Number of options '000	2017 Number of options '000
Options outstanding at start of year	243	181
Granted	72	123
Forfeited	(9)	(3)
Exercised	(146)	(58)
Expired	–	–
Outstanding at end of year	160	243

During the period the weighted average share price on share awards exercised in the period was 616.00p.

Performance Share Plan

For details of the Performance Share Plan, refer to the Directors' remuneration report on pages 74 to 94.

	2018 Number of options '000	2017 Number of options '000
Options outstanding at start of year	1,722	1,092
Granted	684	799
Forfeited	(290)	(78)
Exercised	(20)	(79)
Expired	(150)	(12)
Outstanding at end of year	1,946	1,722

During the period the weighted average share price on share awards exercised in the period was 628.00p.

The awards have been allocated based on a share price of 559.50p for the 26 November 2010 grants, 686.50p for the 31 January 2011 grants, 759.80p for the 23 June 2011 grants, 892.90p for the 4 December 2013 grants, 830.00p for the 27 June 2014 grants, 541.00p for the 29 June 2015 grants, 476.95p for the 23 September 2015 grants, 520.85p for the 27 June 2016 grants and 680.10p for the 27 June 2017 grants.

Restricted Share Award

	Restricted Share Award	
	2018 Number of options '000	2017 Number of options '000
Options outstanding at start of year	–	19
Granted	–	–
Forfeited	–	–
Exercised	–	(19)
Expired	–	–
Outstanding at end of year	–	–
Exercisable at year end	–	–

Notes to the accounts continued

21 Share based payments continued**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 the maximum savings amount offered 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 10 per cent has been assumed on new options granted in the year based on historic experience.

	2018		2017	
	Weighted average exercise price pence per share	Number of options '000	Weighted average exercise price pence per share	Number of options '000
Options outstanding at start of year	395.63	2,944	397.36	3,129
Granted	520.26	654	441.06	599
Forfeited	382.74	(86)	384.77	(368)
Exercised	435.60	(464)	438.02	(252)
Expired	513.30	(192)	553.77	(164)
Outstanding at end of year	410.18	2,856	395.63	2,944

The range of exercise prices for the share options outstanding at the end of the year is 344.40p – 775.34p (2017: 344.40p – 775.34p). The weighted average remaining contractual life of the outstanding share options is 1.62 years (2017: 1.91 years).

During the period the weighted average share price on options exercised in the period was 616.00p.

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 to Executive Directors and senior employees under the various discretionary share option plans established by the Company. Liabilities of the Trust are guaranteed by the Company and the assets of the Trust mainly comprise shares in the Company. Equiom (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 31 March 2018.

22 Analysis of net debt

	2018 £m	2017 £m
Cash at bank and in hand	15.2	13.2
Short term bank deposits	0.3	2.2
Bank overdrafts	(0.3)	(4.2)
Total cash and cash equivalents	15.2	11.2
Borrowings due within one year	(65.1)	(132.1)
Net debt	(49.9)	(120.9)

Net debt above is presented excluding unamortised pre-paid borrowing fees of £1.5m.

23 Operating leases

Accounting Policies

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.

	2018 Property £m	2018 Plant and equipment £m	2017 Property £m	2017 Plant and equipment £m
Total commitments due:				
– Within one year	3.0	–	2.5	–
– Between one and five years	7.6	–	8.9	–
– Over five years	25.5	–	28.9	–
	36.1	–	40.3	–

24 Retirement benefit obligations

Accounting Policies

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 schemes are generally held in separately administered trusts or are insured. The major schemes are defined benefit pension schemes with assets held separately from the Group. The cost of providing benefits under each scheme is determined using the projected unit credit actuarial valuation method. The major defined benefit pension scheme is based in the UK and is now largely closed to future accrual. 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 assumed interest income on the assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full in the period in which they arise.

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

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

A Trustee board has been appointed to operate the UK defined benefit scheme in accordance with its governing documents and pensions law. The scheme meets the legal requirement for member nominated trustees representation on the trustee board and a professional independent trustee has been appointed as chair of the board. The members of the trustee board undertake regular training to ensure they are able to fulfil their function as trustees and have appointed professional advisers to give them specialist expertise where required.

The Group has calculated the value of the minimum funding commitments to its schemes and determined that no additional liability under IFRIC 14 is required at 31 March 2018. No significant judgements were involved in making this determination.

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

Notes to the accounts continued

24 Retirement benefit obligations continued**(a) Defined benefit pension schemes**

Amounts recognised in the consolidated balance sheet:

	2018 UK £m	2018 Overseas £m	2018 Total £m	2017 UK £m	2017 Overseas £m	2017 Total £m
Equities	199.9	–	199.9	222.9	–	222.9
Bonds	273.9	–	273.9	270.0	–	270.0
Gilts	–	–	–	–	–	–
Diversified Growth Fund	208.6	–	208.6	199.4	–	199.4
Liability Driven Investment Fund	230.1	–	230.1	222.2	–	222.2
Multi Asset Credit	52.2	–	52.2	38.1	–	38.1
Other	15.3	–	15.3	21.9	–	21.9
Fair value of scheme assets	980.0	–	980.0	974.5	–	974.5
Present value of funded obligations	(1,061.1)	–	(1,061.1)	(1,204.7)	–	(1,204.7)
Funded defined benefit pension schemes	(81.1)	–	(81.1)	(230.2)	–	(230.2)
Present value of unfunded obligations	(6.5)	(2.0)	(8.5)	(6.8)	(2.4)	(9.2)
Net liability	(87.6)	(2.0)	(89.6)	(237.0)	(2.4)	(239.4)

Amounts recognised in the consolidated income statement:

	2018 UK £m	2018 Overseas £m	2018 Total £m	2017 UK £m	2017 Overseas £m	2017 Total £m
Included in employee benefits expense:						
– Current service cost	–	(0.5)	(0.5)	–	(0.2)	(0.2)
– Administrative expenses and taxes	(2.3)	–	(2.3)	(1.5)	–	(1.5)
Included in interest on retirement benefit obligation net finance expense:						
– Interest income on scheme assets	26.7	–	26.7	29.6	–	29.6
– Interest cost on liabilities	(32.3)	–	(32.3)	(37.0)	–	(37.0)
Retirement benefit obligation net finance expense	(5.6)	–	(5.6)	(7.4)	–	(7.4)
Total recognised in the consolidated income statement	72.6	–	72.6	(8.9)	(0.2)	(9.1)
Return on scheme assets excluding assumed interest income	21.1	–	21.1	114.7	–	114.7
Remeasurement (losses)/gains on defined benefit pension obligations	40.4	0.1	40.5	(140.0)	0.1	(139.9)
Amounts recognised in other comprehensive income	61.5	0.1	61.6	(25.3)	0.1	(25.2)

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

	2018 UK %	2018 Overseas %	2018 Total %	2017 UK %	2017 Overseas %	2017 Total %
Equities	20.0	–	20.0	22.9	–	22.9
Bonds	28.0	–	28.0	27.7	–	27.7
Gilts	–	–	–	–	–	–
Diversified Growth Fund	21.0	–	21.0	20.5	–	20.5
Liability Driven Investment Fund	24.0	–	24.0	22.8	–	22.8
Multi Asset Credit	5.0	–	5.0	3.9	–	3.9
Other	2.0	–	2.0	2.2	–	2.2

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 49 per cent), index linked bond holdings (approximately 37 per cent) and cash (approximately 14 per cent). Interest rate swaps and floating rate notes are employed to complement the role of the LDI fund for liability risk management. Derivatives have been valued on a mark to market basis. The LDI is designed to proportionally counterbalance the effect/impact of a decrease/increase in interest rates/inflation on 50% of the funded obligations. The Multi-Asset Credit Fund invests in a variety of debt instruments.

Multi Asset Credit, Diversified Growth Funds and LDI asset categories include certain assets which are not quoted in an active market and are stated at fair value estimates provided by the manager of the investment fund.

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

24 Retirement benefit obligations continued

(a) Defined benefit pension schemes continued

Principal actuarial assumptions:

	2018 UK %	2018 Overseas %	2017 UK %	2017 Overseas %
Future pension increases – past service		–	3.65	–
Discount rate	2.65	–	2.75	–
CPI inflation rate	2.00	–	2.20	–
RPI inflation rate	3.10	–	3.30	–

The financial assumptions adopted as at 31 March 2018 reflect the duration of the scheme liabilities which has been estimated to be 16 years assuming CPI linked benefits.

At 31 March 2018 mortality assumptions were based on tables issued by Club Vita, with future improvements in line with the CMI model, CMI_2017 (2017: CMI_2015) and a long term rate of 1.25 per cent per annum (2016/17: long term rate of 1.25% per annum). The resulting life expectancies within retirement are as follows:

		2018	2017
Aged 65 retiring immediately (current pensioner)	Male	22.4	22.7
	Female	23.8	24.2
Aged 50 retiring in 17 years (future pensioner)	Male	22.8	23.3
	Female	24.9	25.5

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 value of pension scheme assets vary with changes in interest rates, inflation expectations, credit spreads, exchange rates, and equity and property prices. There is a risk that asset returns are volatile and that the value of pension scheme assets may not move in line with changes in pension scheme liabilities. To mitigate against investment risk the pension scheme invests in derivatives which aim to hedge a proportion of the movements in assets and liabilities. The pension scheme invests in a wide range of assets to provide diversification in order to reduce the risk that a single investment or type of asset class could have a materially adverse impact on total scheme assets. The investment strategy and performance of investment funds are reviewed regularly to ensure the asset strategy of the pension schemes 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 table below provides the sensitivity of the liability in the scheme to changes in various assumptions:

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

The liability sensitivities have been derived using projected cash flows for the Scheme valued using the membership profile as at 5 April 2015 and assumptions chosen for the 2018 year end. The sensitivity analysis does not allow for changes in scheme membership since the 2015 actuarial valuation or the impact of the Scheme or Group's risk management activities in respect of interest rate and inflation risk on the valuation of the Scheme assets.

The largest defined benefit pension scheme operated by the Group is in the UK. The Group's formal triennial funding valuation of the UK defined benefit pension scheme was finalised in June 2016. The underlying funding deficit as at 5 April 2015 was valued at £252m.

Changes in the fair value of UK scheme assets:

	2018 £m	2017 £m
At 25 March 2017/26 March 2016	974.5	861.9
Assumed Interest income on scheme assets	26.7	29.6
Scheme administration expenses	(2.3)	(1.5)
Return on scheme assets less interest income	18.4	114.7
Employer contributions and other income	15.3	14.8
Benefits paid (including transfers)	(55.3)	(45.0)
At 31 March 2018/25 March 2017	977.3	974.5

Notes to the accounts continued

24 Retirement benefit obligations continued**(a) Defined benefit pension schemes continued**

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

	2018 £m	2017 £m
At 25 March 2017/26 March 2016	(1,211.5)	(1,079.5)
Interest cost on liabilities	(32.3)	(37.0)
Past service cost	80.5	–
Effect of changes in financial assumptions	11.9	(168.9)
Effect of changes in demographic assumptions	24.1	12.9
Effect of experience items on liabilities	4.4	16.0
Benefits paid (including transfers)	55.3	45.0
At 31 March 2018/25 March 2017	(1,067.6)	(1,211.5)

During 2015/16, the Group made special funding payments of £19.1m (including scheme administration fees). The Group's formal triennial valuation of the UK defined benefit Scheme was finalised in June 2016. The underlying funding deficit was valued at £252m. The Group agreed a revised funding plan with the Trustee to eliminate the deficit over a period of 12 years from 31 March 2016. The plan will see the existing funding payment schedule extended from 2022 to 2028.

The cash contributions to the Scheme of £13.5m have been made in the current year and £20.5m will be made in 2019 and then rising by 4% per annum to 2022. It will be frozen at £23.0m per year between 2023 and 2028. The Group will continue to pay annual fees of £1.6m for managing the Scheme in addition to the cash contributions.

(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 £8.9m (2016/17: £8.8m).

25 Employee information

	2018 number	2017 number
Average number of employees		
United Kingdom and Ireland	2,041	2,041
Rest of Europe	450	447
The Americas	59	30
Rest of world	638	633
	3,188	3,151

	2018 £m	2017 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	128.3	116.1
Social security costs	12.4	10.3
Share incentive schemes	1.0	0.5
Sharesave schemes	1.2	0.4
Pension costs	8.9	8.8
	151.8	136.1

More detailed information regarding the Directors' remuneration, shareholdings, pension entitlement, share options and other long-term incentive plans is shown in the directors' remuneration report on pages 74 to 94.

26 Capital commitments

	2018 £m	2017 £m
The following commitments existed at the balance sheet date:		
– Contracted but not provided for in the accounts	630.4	6.5

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

As part of the transaction Portals De La Rue Limited will supply security paper to meet the Group's anticipated internal requirements with pre agreed volumes and price mechanisms for the next 10 years. Based on the terms of the agreement the Group has a capital commitment of approximately £626m over the next 10 years. Refer to note 5 for further details.

27 Contingent liabilities

De La Rue has extensive international operations and is subject to various legal and regulatory regimes, including those covering taxation matters from which, in the ordinary course of business, contingent liabilities can arise.

As part of the sale of the CPS business the company gave certain warranties which were usual for a transaction of this nature. The buyer has indicated that it intends to claim under certain of these warranties but as insufficient evidence has been received to establish whether the claim has any merit no amount has been provided for at this stage.

During 2017 an employee at the Paper Mill in Bathford suffered a serious injury. The investigation by the enforcing authorities is ongoing. At the date of the statement of financial position no amounts have been provided in respect of this matter. It is not practicable to provide an estimate of the financial effect and there is uncertainty relating to the amount or timing of any outflow.

The group also provides guarantees and performance bonds which are issued in the ordinary course of business. In the event that a guarantee bond is called, provision may be required subject to the particular circumstances including an assessment of its recoverability.

28 Related party transactions

During the year the Group traded on an arms length basis with the associated company Fidink S.A. (33.3 per cent owned). The Group's trading activities with this company included £24.6m (2016/17: £20.8m) for the purchase of security ink and other consumables. At the balance sheet date there were creditor balances of £0.7m (2016/17: £6.4m) with Fidink S.A.

Intra-Group transactions between the parent and the fully consolidated subsidiaries or between fully consolidated subsidiaries are eliminated on consolidation.

Key management compensation

	2018 £m	2017 £m
Salaries and other short term employee benefits	3.0	3.0
Termination benefits	–	–
Retirement benefits:		
– Defined contribution	0.1	0.1
Share based payments	0.1	0.2
	3.2	3.3

Key management comprises members of the Board (including the fees of Non-executive Directors) and the Executive Leadership Team. 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.

29 Post balance sheet events

Since the year end there are no material events that have occurred.

Notes to the accounts continued

30 Subsidiaries and associated companies as at 31 March 2018

A full list of subsidiary and associated undertakings is below. Unless otherwise stated all Group owned shares are ordinary.

Country of incorporation and operation	Activities	De La Rue interest %	
Europe			
United Kingdom	DLR (No.1) Limited	Holding company	100
	DLR (No.2) Limited*	Holding company	100
	De La Rue Holdings Limited	Holding and general commercial activities	100
	De La Rue International Limited	Trading	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
	Bradbury Wilkinson Holdings Limited (in liquidation)	(in liquidation)	100
	De La Rue Consulting Services Limited	Trading	100
	De La Rue Healthcare Trustee Limited	Dormant	100
	De La Rue Pension Trustee Limited	Dormant	100
	De La Rue Scandinavia Limited	Holding company	100
	Harrison & Sons Limited ^a	Non-trading	100
	Portals Holdings Limited	Dormant	100
	Portals Property Limited	Trading	100
	De La Rue House Jays Close Viables Basingstoke Hampshire RG22 4BS, United Kingdom		
Channel Islands	The Burnhill Insurance Company Limited	Insurance	100
	Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ, Guernsey		
	De La Rue (Guernsey) Limited	Non-trading	100
PO Box 142, The Beehive, Rohais, St Peter Port, GY1 3HT, Guernsey			
Ireland	Thomas De La Rue and Company (Ireland) Limited	Dormant	100
	Suite 3, One Earlsfort Centre, Lower Hatch Street, Dublin 2, Ireland		
Malta	De La Rue Currency and Security Print Limited	Trading	100
	De La Rue Services Limited	Trading	100
	B40/43 Industrial Estate, Bulebel, Zejtun, Malta		
The Netherlands	De La Rue BV	Trading	100
	Hoogoorddreef 15, 1101 BA, Amsterdam, Netherlands		
Poland	Harrison & Sons Sp. Z o.o	Dormant	100
	Mokotowska 24, 00-561, Warsaw, Poland		
Sweden	De La Rue (Sverige) AB	Non-trading	100
	Box 14055, 104 40, Stockholm, Sweden		
Switzerland	Thomas De La Rue A.G.	Holding company	100
	Rue de Morat 11, 1700 Fribourg, Switzerland		
North America			
USA	De La Rue North America Holdings Inc. ^b	Holding company	100
	8333 N.W. 53rd Street, Suite 502, Doral, Florida 33166, United States		
	De La Rue Authentication Solutions Inc.	Trading	100
1750 North 800 West, Logan, Utah 84321, USA			
Canada	De La Rue Canada One Limited	Trading	100
	1400-340 Albert Street, Ottawa, ON K1R 0A5, Canada		

30 Subsidiaries and associated companies as at 31 March 2018 continued

Country of incorporation and operation		Activities	De La Rue interest %
South America			
Brazil	De La Rue Cash Systems Industrias Limitada ^c	Non-trading	100
	De La Rue Cash Systems Limitada ^c	Trading	100
	Rua Boa Vista, 254, 13th Floor, Suite 41, Centro, Sao Paulo, 01014-907, Brazil		
Saint Lucia	De La Rue Caribbean Limited	Trading	100
	Meridan Place, Choc Estate, Castries, Saint Lucia		
Africa			
Kenya	De La Rue Currency and Security Print Limited	Trading	100
	De La Rue Kenya EPZ Limited	Dormant	100
	De La Rue Kenya Limited	Trading	100
	ABC Towers, 6th Floor, ABC Place, Waiyaki Way, Nairobi, Kenya		
Angola	De La Rue Angola Limitada	Trading	100
	Rua Engrácia Fragoso 60, Edifcio Kalunga Atrium, Escritório 104, Letra D, Distrito Urbano da Ingombota, Luanda, Angola		
Nigeria	De La Rue Commercial Services Limited	Trading	100
	7th Floor, Marble House, 1 Kingsway Road, Ikoyi, Lagos, Nigeria		
Senegal	De La Rue West Africa SARL	Trading	100
	VDN Keur Gorgui Imm Hermes 1, 2e Etage No 16 Dakar-Liberte, BP 10700, Senegal		
South Africa	De La Rue Global Services (SA) (Pty) Limited	Non-trading	100
	3rd Floor, 54 Melrose Boulevard, Melrose Arch, Gauteng, 2196, South Africa		
Australia and Oceania			
Australia	De La Rue Australia Pty Limited	Trading	100
	Level 22, MLC Centre, 19 Martin Place, Sydney, NSW 2000, Australia		
Far East and Asia			
China	De La Rue Security Technology (Beijing) Co. Ltd	Trading	100
	1011, 10F Office Building No.1 Guanghua Road Chaoyang District, Beijing, China		
Hong Kong	Thomas De La Rue (Hong Kong) Limited	Trading	100
	Suite 1106-8, 11/F Tai Yau Building, No 181 Johnson Road, Wanchai, Hong Kong		
Sri Lanka	De La Rue Lanka Currency and Security Print (Private) Limited	Trading	60
	No 9/5 Thambiah Avenue, Colombo 7, Sri Lanka		
India	De La Rue India Private Limited	Trading	100
	1404, 14 Floor, Tower B, Signature Towers, South City 1, Gurgaon, Haryana, India		
Singapore	De La Rue Currency and Security Print Pte Ltd	Non-trading	100
	80 Raffles Place, #32-01, UOB Plaza, 048624, Singapore		
United Arab Emirates	De La Rue FZCO	Trading	100
	Dubai Airport Free Zone Authority, Building 6 West Wing A, Office #820, PO Box 371683, Dubai		
Associates			
Switzerland	Fidink S.A.	Trading	33

* Ordinary shares held directly by De La Rue plc.

^a Ordinary shares, cumulative preference shares and deferred shares.

^b Common stock.

^c Quotas.

Notes to the accounts continued

31 Non-controlling interest

The Group's only subsidiary with a material non-controlling interest is De La Rue Lanka Currency and Security Print (Private) Limited, whose country of incorporation and operation is Sri Lanka. The accumulated non-controlling interest of the subsidiary at the end of the reporting period is shown on the Group balance sheet. The following table summarises key information relating to this subsidiary, before intra-group eliminations:

	2018 £m	2017 £m
Non-current assets	15.7	14.2
Current assets	16.2	18.5
Non-current liabilities	(0.4)	(1.8)
Current liabilities	(8.9)	(10.7)
Net assets (100%)	22.6	20.2
Revenue	37.5	41.8
Profit for the year	3.5	4.0
Non-controlling interest percentage	40%	40%
Profit allocated to non-controlling interest	1.4	1.6
Dividends paid to non-controlling interest	0.3	0.3
Cash flows from operating activities	1.7	2.0
Cash flows from investment activities	(1.9)	(1.1)
Cash flows from financing activities	0.3	(10.7)
Net increase in cash and cash equivalents	0.1	(9.8)

32 Business Combinations

On 12 December 2016, De La Rue entered into a Share Purchase Agreement ('SPA') to acquire 100% of the outstanding capital stock of DuPont Authentication Inc (subsequently renamed to De La Rue Authentication Solutions ('DAS')). The acquisition completed on 6 January 2017, for a total consideration of \$26.2m (£21.3m). This included the initial cash payment of \$24.8m (equivalent to £20.2m) and a closing working capital adjustment of \$1.4m (£1.1m) as per the terms of the SPA.

DAS is a leading global producer of photopolymer holographic films and 3D holograms and associated software. Its technology is used to authenticate products ranging from consumer electronics to spirits and also to secure identity documents. Its products are based on the highly specialised and secure Lippmann holography technology. Based in Utah, USA and with operations in Delaware, DAS has a well established global customer base in brand protection and identity authentication. This acquisition is in line with De La Rue's five year strategic plan to transform the Group into a technology led Security product and service provider. It will strengthen De La Rue's Security Features, Product Authentication & Traceability, and Identity Solutions product lines. DuPont Authentication's proprietary technology will also provide a solid platform for De La Rue to create new applications for the Currency market.

In 2016/17 net assets recognised in the financial statements were based on provisional values utilising the forecasts available at that time. During 2017/18 the purchase price accounting has been finalised utilising more detailed financial forecasts which provide greater visibility into the respective split of intangibles assets on the date of acquisition between the Izom and Omnidex intangible assets. This split is considered important as from 2017/18 management are reporting the Izom product within the PA&T segment and Omnidex within the IDS segment. During the year the purchase price accounting for the Group's acquisition of DuPont Authentication (subsequently renamed to De La Rue Solutions Inc) has been completed. This has resulted in a change to net assets recognised on acquisition. Goodwill recognised on acquisition has decreased by £0.8m, intellectual property intangibles have decreased by £0.9m, Customer relationship intangibles recognised on acquisition have increased by £2.3m and Trade name intangibles have decreased by £0.1m. Deferred tax liabilities that had been recognised on acquisition have increased by £0.4m.

Valuation techniques and key valuation assumptions and estimates

The principle intangible assets recognised were intellectual property £3.8m and customer relationships £4.6m. The key assumptions used in valuing these were:

Intellectual property

Valued on a 'relief from royalty basis'. Key valuation assumptions were the appropriate third party royalty rate used to calculate the royalties saved from owning this intellectual property and estimations of future forecast sales levels. Management has also made judgements on the useful economic life of this asset and consequently the period of time over which forecasted cash flows should be estimated. Discount rate has been determined using the 'internal rate of return' for the transaction with an incremental risk premium added based on the perceived additional risk for this asset as compared to the acquired business as a whole.

32 Business Combinations continued

Customer relationships

Valued using the 'multi-excess earnings method'. Key valuation assumptions were the future attrition rate for customers existing at the acquisition date and the expected growth in sales from the remaining customers in the future. Judgements have also been made with regards to estimated future forecast sales and cost levels. Management has also made judgements on the useful economic life of this asset and consequently the period of time over which forecasted cash flows should be estimated. Discount rate has been determined using the 'internal rate of return' for the transaction with an incremental risk premium added based on the perceived additional risk for this asset as compared to the acquired business as a whole.

Goodwill

The goodwill recognised represents the expected synergies to be derived from the acquisition, the value of the assembled workforce on acquisition and assets that do not qualify for separate recognition at the acquisition date.

Consideration was fully satisfied in cash. The closing working capital adjustment of \$1.4m (£1.1m) was paid in April 2017.

Acquisition related costs of £0.2m were recognised in the Income Statement (See Note 4 'exceptional items').

DAS contributed £10.9m of revenue and an operating profit of £1.2m to the Group in the year which was in line with expectations.

Company balance sheet

at 31 March 2018

	Notes	2018 £m	2017 £m
Fixed assets			
Investments in subsidiaries	4a	154.5	152.4
		154.5	152.4
Current assets			
Debtors receivable within one year	5a	52.1	80.6
Cash at bank and in hand		4.7	1.7
		56.8	82.3
Creditors: amounts falling due within one year			
Other creditors	6a	(0.8)	(4.2)
		(0.8)	(4.2)
Net current assets		56.0	78.1
Total assets less current liabilities		210.5	230.5
Net assets		210.5	230.5
Capital and reserves			
Share capital	7a	47.1	46.8
Share premium account		38.4	36.7
Capital redemption reserve		5.9	5.9
Retained earnings		119.1	141.1
Total shareholders' funds		210.5	230.5

Approved by the Board on 30 May 2018

Philip Rogerson
Chairman

Martin Sutherland
Chief Executive Officer

Company statement of changes in equity for the period ended 31 March 2018

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 26 March 2016	46.6	35.7	5.9	86.2	174.4
Share capital issued	0.2	1.0	–	–	1.2
Profit for the financial year	–	–	–	79.7	79.7
Dividends paid	–	–	–	(25.4)	(25.4)
Employee share scheme:	–	–	–	–	–
– value of services provided	–	–	–	0.6	0.6
Balance at 25 March 2017	46.8	36.7	5.9	141.1	230.5
Share capital issued	0.3	1.7	–	–	2.0
Profit for the financial year	–	–	–	0.8	0.8
Dividends paid	–	–	–	(25.4)	(25.4)
Other movements	–	–	–	0.4	0.4
Employee share scheme:	–	–	–	–	–
– value of services provided	–	–	–	2.2	2.2
Balance at 31 March 2018	47.1	38.4	5.9	119.1	210.5

Share premium account

This reserve arises from the issuance of shares for consideration in excess of their nominal value.

Capital redemption reserve

This reserve represents the nominal value of shares redeemed by the Company.

Accounting policies – Company

Basis of preparation

The financial statements of De La Rue plc (the Company) have been prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (FRS 102) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

In the transition to FRS 102 from old UK GAAP, the Company made no measurement and recognition adjustments.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemption was taken in these financial statements: Separate financial instruments – carrying amount of the Company's cost of investment in subsidiaries is its deemed cost at transition date, 30 March 2014.

In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and did apply the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period
- Cash Flow Statement and related notes
- Key Management Personnel compensation

As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share Based Payments
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1
- The Company proposes to continue to adopt FRS 102 with the above disclosure exemptions in its next financial statements

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

On first time adoption of FRS 102, the Company did not retrospectively change its accounting under old UK GAAP for derecognition of financial assets and liabilities before the date of transition, hedge accounting for any hedging relationships that no longer existed at the date of transition, accounting estimates or discontinued operations.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed on page 113.

The accounts have been prepared as at 31 March 2018, being the last Saturday in March. The comparatives for the 2016/17 financial period are for the period ended 25 March 2017.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, and financial instruments classified at fair value through the profit or loss.

Foreign currencies

Amounts receivable from overseas subsidiaries which are denominated in foreign currencies are translated into sterling at the appropriate period end rates of exchange. Exchange gains and losses on translating foreign currency amounts are included within the interest section of the profit and loss account except for exchange gains and losses associated with hedging loans that are taken to reserves.

Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the dates of the individual transactions. Monetary assets and liabilities denominated in foreign currencies are subsequently retranslated at the rate of exchange ruling at the balance sheet date. Such exchange differences are taken to the profit and loss account.

Dividends

Under FRS 102, final ordinary dividends payable to the shareholders of the Company are recognised in the period that they are approved by the shareholders. Interim ordinary dividends are recognised in the period that they are paid.

Investments in subsidiaries

These are separate financial statements of the company. Investments in subsidiaries are carried at deemed cost.

Employee benefits

Defined benefit plans

The pension rights of the Company's employees are dealt with through a self administered scheme, the assets of which are held independently of the Group's finances. The scheme is a defined benefit scheme and is closed to future accrual. The Group agrees deficit funding with the scheme Trustees and Pension Regulator. The Company is a participating employer but the Group has adopted a policy whereby the scheme funding and deficit are recorded in the main UK trading subsidiary of the Company, De La Rue International Limited, which pays all contributions to the scheme and hence these are not shown in the Company accounts. Full details of the scheme and its deficit (measured on an IAS 19R basis) can be found in note 24 to the consolidated financial statements.

Share-based payment transactions

Full details of the share based payments Schemes operated by the Group are found in note 21 to the consolidated financial statements.

Taxation

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

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102.

Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes to the accounts – Company

1a Employee costs and numbers

Employee costs are borne by De La Rue Holdings Limited. For details of Directors' remuneration, refer to disclosures in the directors' remuneration report on pages 74 to 92.

	2018 Number	2017 Number
Average employee numbers	4	5

2a Auditor's remuneration

Auditor's remuneration is borne by De La Rue Holdings Limited. For details of auditor's remuneration, see note 3 to the consolidated financial statements.

3a Equity dividends

For details of equity dividends, see note 8 to the consolidated financial statements.

4a Investments

Investments are stated at deemed cost in the balance sheet, less provision for any permanent diminution in the value of the investment.

	2018 £m	2017 £m
Investments comprise:		
Investments in subsidiaries	154.5	152.4

	2018 £m	2017 £m
Cost at 31 March 2018 and 25 March 2017	152.4	152.4
Additions	2.1	–
Cost at 31 March 2018 and 25 March 2017	154.5	152.4

Where the Company grants share options over its own shares to the employees of its subsidiary undertakings these awards are accounted for by the Company, as an additional investment in its subsidiary. The costs are determined in accordance with FRS 102. Any payments made by the subsidiary undertaking in respect of these arrangements are treated as a return of this investment.

Share based payments were previously recharged to subsidiaries and recorded via the intercompany loan account.

For details of investments in Group companies, refer to the list of subsidiary and associated undertakings on pages 148 to 149.

5a Debtors

Other receivables are measured at amortised cost, which approximates to fair value. Trade and other receivables are discounted when the time value of money is considered material.

	2018 £m	2017 £m
Amounts due within one year		
Amounts owed by Group undertakings	52.1	80.6

Notes to the accounts – Company continued

6a Other creditors

	2018 £m	2017 £m
Amounts falling due within one year		
Amounts due to Group undertakings	–	2.9
Accruals and deferred income	0.8	1.3
Other creditors	0.8	4.2

7a Share capital

For details of share capital, see note 20 to the consolidated financial statements.

8a Share based payments

The Company operates various equity and cash settled option schemes although the majority of plans are settled by the issue of shares. 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 profit and loss account, together with a corresponding increase in shareholders' funds, on a straight line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value. FRS 102 has been applied to share settled share options granted after 7 November 2002.

Where the Company grants options over its own shares to the employees of its subsidiary undertakings these awards are accounted for by the Company, as an additional investment in its subsidiary. The costs are determined in accordance with FRS 102. Any payments made by the subsidiary undertaking in respect of these arrangements are treated as a return of this investment.

For details of share based payments, see note 21 to the consolidated financial statements and the directors' remuneration report on pages 74 to 94.

9a Related party transactions

The Company has no transactions with or amounts due to or from subsidiary undertakings that are not 100 per cent owned either directly by the Company or by its subsidiaries.

For details of key management compensation, see note 27 to the consolidated financial statements.

Non-IFRS measures

De La Rue plc publishes certain additional information in a non-statutory format in order to provide readers with an increased insight into the underlying performance of the business. The Directors are of the opinion that these measures give a better understanding of the underlying performance of the business. Amortisation of acquired intangible assets is a non-cash item and by excluding this from the adjusted operating profit metrics this is deemed to be a more meaningful metric of the contribution from the underlying business. The measures the Group uses along with appropriate reconciliations where applicable are shown below.

Adjusted operating profit

Adjusted operating profit represents earnings from continuing operations adjusted to exclude exceptional items and amortisation of acquired intangible assets.

	2016 £m	2017 £m	2018 £m
Operating profit from continuing operations on an IFRS basis	66.8	70.2	123.0
– Amortisation of acquired intangible assets	–	0.1	0.7
– Exceptional items (Gain)/Loss	3.6	0.4	(60.9)
Adjusted operating profit from continuing operations	70.4	70.7	62.8

Adjusted basic earnings per share

Adjusted earnings per share are the earnings attributable to equity shareholders, excluding exceptional items and amortisation of acquired intangible assets and discontinued operations divided by the weighted average number of ordinary shares dual share in issue. It has been calculated by dividing the De La Rue plc's adjusted operating profit from continuing operations for the period by the weighted average number of ordinary shares in issue excluding share held in the employee share trust.

	2016 £m	2017 £m	2018 £m
Profit attributable to equity shareholders of the Company from continuing operations on an IFRS basis	47.4	47.9	95.4
– Exceptional items	3.6	0.4	(60.9)
– Amortisation of acquired intangibles	–	0.1	0.7
– Tax on amortisation of acquired intangibles	–	–	(1.2)
– Tax on exceptional items	(2.3)	(0.6)	9.7
Adjusted profit attributable to equity shareholders of the Company from continuing operations	48.7	47.8	43.7
Weighted average number of ordinary shares for basic earnings	101.3	101.6	101.9

	2016 pence per share	2017 pence per share	2018 pence per share
Basic earnings per ordinary share continuing operations on an IFRS basis	46.8p	47.2p	93.7
Basic adjusted earnings per ordinary share for continuing operations	48.1p	47.1p	42.9

Adjusted EBITDA and adjusted EBITDA margin

Adjusted EBITDA represents earnings from continuing operations before the deduction of interest, tax, depreciation, amortisation and exceptional items. The EBITDA margin percentage takes the applicable EBITDA figure and divides this by the continuing revenue in the period.

	2016 £m	2017 £m	2018 £m
Profit before interest and taxation from continuing operations on an IFRS basis	66.8	70.2	123.0
– Depreciation	23.0	24.3	21.9
– Amortisation	3.0	2.5	3.3
EBITDA on an IFRS basis	92.8	97.0	148.2
– Exceptional items (Gain)/Loss	3.6	0.4	(60.9)
Adjusted EBITDA	96.4	97.4	87.3
EBITDA margin on an IFRS basis	20.4%	21.0%	30.0%
Adjusted EBITDA margin	21.2%	21.1%	17.7%

Return on capital employed (ROCE)

Return of capital employed is the ratio of the operating profit before exceptional items and adjusting items over capital employed, where capital employed equals net assets, excluding pensions, tax interest and long term liabilities.

Cash conversion

Cash conversion is the ratio of adjusted operating cash flow divided by the adjusted operating profit.

Five year record

Income statement

	2014 ¹ £m	2015 £m	2016 £m	(restated) 2017 £m	2018 £m
Revenue	513.3	422.8	454.5	461.7	493.9
Operating profit					
– Adjusted operating profit	89.3	69.1	70.4	70.7	62.8
– Amortisation of acquired intangible assets	–	–	–	(0.1)	(0.7)
– Exceptional items – operating	(17.5)	(16.9)	(3.6)	(0.4)	60.9
Total	71.8	52.2	66.8	70.2	123.0
Share of profits of associated companies	–	–	–	–	–
Exceptional items – non-operating	–	–	–	–	–
Profit before interest	71.8	52.2	66.8	70.2	123.0
Net interest expense	(4.7)	(4.6)	(4.8)	(4.6)	(3.8)
Retirement benefit obligation net finance expense	(7.3)	(7.0)	(7.1)	(7.4)	(5.6)
Profit before taxation	59.8	40.6	54.9	58.2	113.6
Taxation	(11.9)	(7.7)	(6.3)	(8.7)	(16.8)
Profit after taxation from continuing operations	47.9	32.9	48.6	49.5	96.8
Profit/(loss) from discontinued operations	–	2.2	(31.0)	(6.4)	(1.8)
Equity non-controlling interests	(0.6)	(0.8)	(1.2)	(1.6)	(1.4)
Profit for the year attributable to equity shareholders	47.3	34.3	16.4	41.5	93.6
Dividends	(42.2)	(36.8)	(25.3)	(25.4)	(25.4)
Retained (loss)/profit for the period	5.1	(2.5)	(8.9)	16.1	68.2
Basic earnings per ordinary share continuing operations	47.3p	31.8p	46.8p	47.2	93.7
Basic earnings per ordinary share discontinued operations	–	2.2p	(30.6p)	(6.3)	(1.8)
Diluted earnings per share continuing operations	47.0p	31.3p	46.2p	46.6	92.8
Diluted earnings per share discontinued operations	–	2.1p	(30.2p)	(6.2)	(1.8)
Adjusted earnings per ordinary share continuing operations	60.7p	46.1p	48.1p	47.1	42.9
Adjusted earnings per ordinary share discontinued operations	–	(0.8p)	(7.1p)	n/a	n/a
Dividends per ordinary share ²	42.3p	25.0p	25.0p	25.0p	25.0p
Adjusted profit before taxation	77.3	57.5	58.5	58.7	53.4

Balance sheet

	£m	£m	£m	£m	£m
Non-current assets	240.4	244.0	226.5	242.9	169.0
Net current liabilities ³	(40.8)	(30.7)	(35.0)	(16.2)	(43.2)
Net debt	(89.9)	(111.0)	(106.1)	(120.9)	(49.9)
Non-current liabilities	(180.1)	(249.2)	(231.0)	(248.6)	(96.6)
Equity non-controlling interests	(5.1)	(5.7)	(6.6)	(7.9)	(8.9)
Total equity attributable to shareholders of the Company	(75.5)	(152.6)	(152.2)	(150.7)	(29.6)

Notes

¹ Not restated in respect of discontinued operations.

² Includes proposed final dividend which, in accordance with IFRS accounting requirements, has not been accrued.

³ Excludes amounts included in net debt.

Shareholders' information

Registered office

De La Rue House
Jays Close
Viables
Basingstoke
Hampshire
RG22 4BS

Telephone: +44 (0)1256 605000
Fax: +44 (0)1256 605336

Registered number: 3834125
Company Secretary: Mr E H D Peppiatt

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

Telephone: +44 (0)370 703 6375
Fax: +44 (0)370 703 6101

Annual general meeting

The AGM will be held at 10:30am on 26 July 2018 at The Hampshire Court Hotel, Centre Drive, Great Binfields Road, Chineham, Basingstoke, RG24 8FY. Each shareholder is entitled to attend and vote at the AGM, the arrangements for which are described in a separate notice to shareholders. The notice of AGM can also be found in the investors section on the Group's website.

Electronic shareholder communications

Shareholders can register online at www.investorcentre.co.uk/ecomms to receive statutory communications electronically rather than through the post. Shareholders who choose this option will receive an email notification each time the Group publishes new shareholder documents on its website. Shareholders will need to have their shareholder reference number ('SRN') available when they first log in. This 11 character number (which starts with the letter C or G) can be found on share certificates and dividend tax confirmations. Shareholders who subscribe for electronic communications can revert to postal communications or request a paper copy of any shareholder document at any time in the future.

Electronic voting

All shareholders can submit proxies for the AGM electronically by logging onto Computershare's website at www.investorcentre.co.uk/eproxy

Shareholder enquiries

Enquiries regarding shareholdings or dividends should, in the first instance, be addressed to Computershare Investor Services PLC. Details of shareholdings and how to make amendments to personal details can be viewed online at www.investorcentre.co.uk

Shareholder helpline telephone:
+44 (0)370 703 6375

Dividends

Shareholders are encouraged to have dividends paid directly into their bank accounts to ensure an efficient payment method on the payment date. Shareholders selecting this payment method will receive a dividend confirmation in respect of each dividend payment.

Consolidation of shares

Where registered shareholdings are represented by several individual share certificates, shareholders may wish to have these replaced by one consolidated certificate. The Company will meet the cost for this service. Share certificates should be sent to the Company's registrar together with a letter of instruction.

Internet

The Group has a wide range of information that is available on its website www.delarue.com including:

- Finance information – annual and interim reports, financial news and events
- Share price information
- Shareholder services information
- Press releases both current and historical

Capital gains tax

March 1982 valuation

The price per share on 31 March 1982 was 617.5p.

Shareholders are advised to refer to their brokers/financial advisers for detailed advice on individual capital gains tax calculations.

Share dealing facilities

Computershare Investor Services PLC
Computershare, the Company's registrar, provides a simple way to sell or purchase De La Rue plc shares.

Internet share dealing

Available 24 hours a day/seven days a week with real time pricing in market hours. Commission is charged at 1%, subject to a minimum charge of £30, with no set-up or annual management fees. Further information can be obtained by logging on to: www.computershare.trade

Telephone share dealing

Commission is charged at 1% plus £35, with no set-up or annual management fees. The telephone share dealing service is available from 08:00 to 16:30 Monday to Friday, excluding bank holidays, on telephone number: +44 (0)370 703 0084

Financial calendar

Ex-dividend date for 2017/18 final dividend	5 July 2018
Record date for final dividend	6 July 2018
Payment of 2017/18 final dividend	3 August 2018

Warning to shareholders – boiler room fraud

We are aware that some shareholders might have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares or investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive. You should always check any firm calling you about investment opportunities is properly authorised by the FCA. You will find useful advice and information about protecting yourself from investment scams on the FCA website www.fca.org.uk/consumers.

Analysis of shareholders at 31 March 2018

By range of holdings	Shareholders		Shares	
	Number	%	Number	%
0 – 1,000	4,153	76.19	1,352,395	1.32
1,001 – 5,000	949	17.41	1,900,060	1.86
5,001 – 10,000	110	2.02	777,359	0.76
10,001 – 100,000	134	2.46	4,935,156	4.82
100,001 – 500,000	71	1.3	16,600,778	16.21
500,001 and above	34	0.62	76,823,940	75.03
Total	5,451	100.00	102,389,688	100.00

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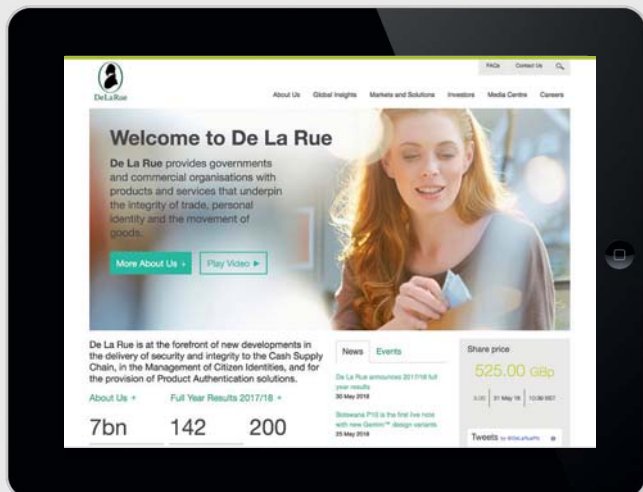
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