Notes to the accounts

1 Segmental analysis

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

The Holographics operation, previously part of Security Products, became part of the Currency business, on which it largely depends, from the first day of the 2012/13 financial year and comparatives have been re-presented accordingly.

The Group's segments are:

Currency

- provides printed banknotes, banknote paper and banknote security features

Solutions

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

		Solutions				
2013	Currency £m	Cash Processing Solutions £m	Security Products £m	Identity Systems £m	Exceptional items £m	Total £m
Total revenue	298.1	61.2	45.1	84.4	–	488.8
Less: inter segment revenue	(1.9)	–	(3.2)	–	–	(5.1)
Revenue	296.2	61.2	41.9	84.4	–	483.7
Operating profit before exceptional items	38.0	–	8.9	16.3	–	63.2
Exceptional items – operating (note 3)	(1.8)	–	(2.1)	–	(3.7)	(7.6)
Operating profit/(loss)	36.2	–	6.8	16.3	(3.7)	55.6
Net interest expense						(3.6)
Retirement benefit obligations net finance expense						(0.5)
Profit before taxation						51.5
Segment assets	220.8	21.8	45.5	49.3	–	337.4
Unallocated assets						106.5
Total assets						443.9
Segment liabilities	(112.2)	(8.9)	(23.8)	(21.9)	–	(166.8)
Unallocated liabilities						(343.7)
Total liabilities						(510.5)
Capital expenditure on property, plant and equipment	33.3	1.7	6.8	0.4	–	42.2
Capital expenditure on intangible assets	3.1	1.0	–	0.1	–	4.2
Depreciation of property, plant and equipment	17.6	1.8	0.9	3.1	–	23.4
Amortisation of intangible assets	1.3	1.0	–	0.6	–	2.9

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

Unallocated assets principally comprise deferred tax assets of £45.5m (2011/12: £40.4m), cash and cash equivalents of £24.8m (2011/12: £24.0m) which are used as part of the Group's financing offset arrangements and derivative financial instrument assets of £4.9m (2011/12: £5.9m) as well as current tax assets, associates and centrally managed property, plant and equipment.

Unallocated liabilities principally comprise retirement benefit obligations of £169.1m (2011/12: £145.6m), borrowings of £101.5m (2011/12: £48.8m), current tax liabilities of £29.1m (2011/12: £33.6m) and derivative financial instrument liabilities of £5.1m (2011/12: £6.5m) as well as deferred tax liabilities and centrally held accruals and provisions.

1 Segmental analysis continued

2012	Currency (re-presented) £m	Solutions: Cash Processing Solutions £m	Solutions: Security Products (re-presented) £m	Solutions: Identity Systems £m	Exceptional items £m	Total £m
Total revenue	340.6	65.7	51.4	75.2	–	532.9
Less: inter segment revenue	(1.6)	–	(3.0)	–	–	(4.6)
Revenue	339.0	65.7	48.4	75.2	–	528.3
Operating profit before exceptional items	45.5	2.0	7.1	8.5	–	63.1
Exceptional items – operating (note 3)	(11.8)	–	(9.0)	–	(4.0)	(24.8)
Operating profit/(loss)	33.7	2.0	(1.9)	8.5	(4.0)	38.3
Net interest expense						(4.1)
Retirement benefit obligations net finance expense						(1.3)
Profit before taxation						32.9
Segment assets	200.2	40.7	17.3	48.6	–	306.8
Unallocated assets						101.5
Total assets						408.3
Segment liabilities	(103.3)	(25.4)	(11.0)	(27.0)	–	(166.7)
Unallocated liabilities						(287.2)
Total liabilities						(453.9)
Capital expenditure on property, plant and equipment	25.8	0.9	1.6	2.8	–	31.1
Capital expenditure on intangible assets	1.6	2.1	–	0.4	–	4.1
Depreciation of property, plant and equipment	17.3	1.9	1.9	3.0	–	24.1
Amortisation of intangible assets	0.9	0.5	–	1.1	–	2.5

Geographic analysis of revenue by origin

	2013 £m	2012 £m
UK	**386.3**	444.0
Other countries	**97.4**	84.3
	483.7	528.3

Geographic analysis of non current assets

	2013 £m	2012 £m
UK	**132.5**	110.5
Malta	**31.0**	33.7
Sri Lanka	**20.2**	20.0
Other countries	**22.1**	21.0
	205.8	185.2

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 £52.1m (2011/12: £43.4m) in the Identity Systems operating unit.

2 Expenses by nature (excluding exceptional items)

	2013 £m	2012 £m
Cost of inventories recognised as an expense	**112.0**	132.8
Net (decrease)/increase in impairment of inventories	**(1.1)**	0.3
Depreciation of property, plant and equipment	**23.4**	24.1
Amortisation of intangibles	**2.9**	2.5
Operating leases:		
– Hire of plant and equipment	**1.0**	1.4
– Hire of property	**3.8**	3.6
Amounts payable to KPMG Audit Plc and its associates:		
– Audit of these consolidated financial statements	**0.1**	0.2
– Audit of the financial statements of subsidiaries pursuant to legislation	**0.4**	0.4
– Taxation services	**0.1**	0.2
– Other	**–**	0.1
Research and non capitalised development expense	**10.4**	10.6
Loss on disposal of property, plant and equipment	**0.3**	3.0
Employee costs (including Directors' emoluments) (note 23)	**158.7**	159.0
Foreign exchange losses/(gains)	**1.9**	(1.0)

Refer to note 3: Exceptional items, for an analysis of expenses on exceptional items.

3 Exceptional items

	2013 £m	2012 £m
Site relocation and restructuring	**(7.6)**	(24.1)
Costs relating to paper production quality issues	**–**	(0.7)
Exceptional items in operating profit	**(7.6)**	(24.8)
Tax credit on exceptional items	**6.5**	13.2

Exceptional costs of £7.6m have been incurred in 2012/13 mainly in connection with the ongoing costs of implementing the Improvement Plan (2011/12: £24.8m). This brings the cumulative exceptional charges taken in respect of the Improvement Plan to a total of £31.7m.

The £7.6m exceptional operating charge reported in 2012/13 (2011/12: £24.8m) comprised £0.8m (2011/12: £11.3m) in staff compensation, £0.2m (2011/12: £1.1m) of fixed asset impairment charges, £4.3m (2011/12: £8.8m) for site exit costs and £2.3m (2011/12: £2.9m) in other associated reorganisation costs. The exceptional charge in 2011/12 also included additional costs (reported under the Currency business unit) of £0.7m associated with the paper quality issue that arose in 2010/11.

Tax credits relating to exceptional items arising in the period were £2.1m (2011/12: £6.2m). In addition there was an exceptional credit of £4.4m (2011/12: £7.0m) in respect of the determination of the tax treatment of prior year exceptional items.

4 Interest income and expense

	2013 £m	2012 £m
Recognised in the income statement		
Interest income:		
– Cash and cash equivalents	**0.2**	0.3
Interest expense:		
– Bank overdrafts	**(0.4)**	(0.3)
– Bank loans	**(2.6)**	(2.7)
– Other, including amortisation of finance arrangement fees	**(0.8)**	(1.4)
Total interest expense calculated using the effective interest method	**(3.8)**	(4.4)
Retirement benefit obligation net finance expense (note 22)	**(0.5)**	(1.3)

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 (2011/12: £nil).

5 Taxation

	2013 £m	2012 £m
Consolidated income statement		
Current tax		
UK corporation tax:		
– Current tax	**8.2**	7.6
– Adjustment in respect of prior years	**(3.8)**	(6.8)
	4.4	0.8
Overseas tax charges:		
– Current year	**3.9**	3.7
– Adjustment in respect of prior years	**(1.0)**	1.0
	2.9	4.7
Total current income tax expense	**7.3**	5.5
Deferred tax:		
– Origination and reversal of temporary differences, UK	**(1.2)**	(6.3)
– Origination and reversal of temporary differences, overseas	**1.3**	1.5
Total deferred tax expense/(credit)	**0.1**	(4.8)
Total income tax expense in the consolidated income statement	**7.4**	0.7
Attributable to:		
– Ordinary activities	**13.9**	13.9
– Exceptional items	**(6.5)**	(13.2)
Consolidated statement of comprehensive income		
– On pension actuarial adjustments	**(7.5)**	(12.7)
– On cash flow hedges	**0.3**	(0.8)
– On foreign exchange on quasi equity balances	**(0.2)**	–
Income tax credit reported within comprehensive income	**(7.4)**	(13.5)
Consolidated statement of changes in equity		
– On share options	**(0.6)**	(0.4)
Income tax credit reported within equity	**(0.6)**	(0.4)

5 Taxation continued

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 24 per cent as follows:

	2013 Before exceptional items £m	2013 Exceptional items £m	2013 Total £m	2012 Before exceptional items £m	2012 Exceptional items £m	2012 Total £m
Profit before tax	**59.1**	**(7.6)**	**51.5**	57.7	(24.8)	32.9
Tax calculated at UK tax rate of 24 per cent (2011/12: 26 per cent)	**14.2**	**(1.8)**	**12.4**	15.0	(6.4)	8.6
Effects of overseas taxation	**(0.7)**	**–**	**(0.7)**	(1.3)	–	(1.3)
Expenses/(credits) not allowable for tax purposes	**1.3**	**(0.3)**	**1.0**	1.2	0.5	1.7
Increase in/(usage of) unutilised tax losses	**0.3**	**–**	**0.3**	0.1	(0.3)	(0.2)
Adjustments in respect of prior years	**(1.1)**	**(4.4)**	**(5.5)**	(0.7)	(7.0)	(7.7)
Change in UK tax rate	**(0.1)**	**–**	**(0.1)**	(0.4)	–	(0.4)
Tax charge/(credit)	**13.9**	**(6.5)**	**7.4**	13.9	(13.2)	0.7

The underlying effective tax rate excluding exceptional items was 23.5 per cent (2011/12: 24.1 per cent).

6 Earnings per share

	2013 pence per share	2012 pence per share
Earnings per share		
Basic earnings per share	**43.3**	31.8
Diluted earnings per share	**42.8**	31.5
Headline earnings per share		
Basic earnings per share	**44.4**	43.5
Diluted earnings per share	**43.9**	43.1

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 headline earnings per share, before exceptional items, is useful to readers of the accounts as it gives an indication of underlying business performance.

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

Earnings

	2013 £m	2012 £m
Earnings for basic and diluted earnings per share	**43.1**	31.6
Exceptional items	**7.6**	24.8
Less: tax on exceptional items	**(6.5)**	(13.2)
Earnings for headline earnings per share	**44.2**	43.2

Weighted average number of ordinary shares

	2013 Number m	2012 Number m
For basic earnings per share	**99.6**	99.3
Dilutive effect of share options	**1.1**	0.9
For diluted earnings per share	**100.7**	100.2

7 Equity dividends

	2013 £m	2012 £m
Final dividend for the period ended 31 March 2012 of 28.2p paid on 2 August 2012	**28.1**	–
Interim dividend for the period ended 29 September 2012 of 14.1p paid on 9 January 2013	**14.0**	–
Final dividend for the period ended 26 March 2011 of 28.2p paid on 4 August 2011	**–**	28.0
Interim dividend for the period ended 24 September 2011 of 14.1p paid on 6 January 2012	**–**	14.0
	42.1	42.0

A final dividend per equity share of 28.2p has been proposed for the period ended 30 March 2013, payable on 1 August 2013. In accordance with IFRS accounting requirements this dividend has not been accrued in these consolidated financial statements. If approved by shareholders, the dividend will be paid on 1 August 2013 to ordinary shareholders on the register at 5 July 2013.

8 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	In course of construction £m	Total £m
Cost					
At 26 March 2011	54.1	314.9	20.7	19.2	408.9
Exchange differences	(0.2)	(4.8)	(0.2)	(0.1)	(5.3)
Additions	2.2	6.3	2.9	19.7	31.1
Transfers from assets in the course of construction	5.1	12.6	1.9	(22.6)	(3.0)
Disposals	(1.0)	(8.8)	(1.4)	(0.4)	(11.6)
At 31 March 2012	60.2	320.2	23.9	15.8	420.1
Exchange differences	0.2	1.2	0.1	–	1.5
Additions	0.4	6.5	1.4	33.9	42.2
Transfers from assets in the course of construction	0.4	25.7	3.8	(29.9)	–
Disposals	(1.3)	(15.8)	(2.9)	(0.3)	(20.3)
At 30 March 2013	**59.9**	**337.8**	**26.3**	**19.5**	**443.5**
Accumulated depreciation					
At 26 March 2011	22.5	208.1	16.3	–	246.9
Exchange differences	(0.1)	(3.1)	(0.2)	–	(3.4)
Depreciation charge for the year	1.5	19.7	2.9	–	24.1
Disposals	–	(7.5)	(0.9)	–	(8.4)
At 31 March 2012	23.9	217.2	18.1	–	259.2
Exchange differences	0.1	0.8	0.1	–	1.0
Depreciation charge for the year	1.6	19.9	1.9	–	23.4
Disposals	(1.3)	(15.7)	(2.8)	–	(19.8)
At 30 March 2013	**24.3**	**222.2**	**17.3**	**–**	**263.8**
Net book value at 30 March 2013	**35.6**	**115.6**	**9.0**	**19.5**	**179.7**
Net book value at 31 March 2012	36.3	103.0	5.8	15.8	160.9
Net book value at 26 March 2011	31.6	106.8	4.4	19.2	162.0

9 Intangible assets

	Goodwill £m	Development costs £m	Software assets £m	Distribution rights £m	Total £m
Cost					
At 26 March 2011	8.4	16.0	8.4	0.4	33.2
Exchange differences	(0.2)	–	–	–	(0.2)
Additions	–	3.7	0.4	–	4.1
Disposals	–	(0.5)	(0.1)	–	(0.6)
At 31 March 2012	8.2	19.2	8.7	0.4	36.5
Exchange differences	0.2	0.5	–	–	0.7
Additions	–	3.4	0.8	–	4.2
Disposals	–	–	–	–	–
At 30 March 2013	**8.4**	**23.1**	**9.5**	**0.4**	**41.4**
Accumulated amortisation					
At 26 March 2011	0.6	2.8	6.1	0.4	9.9
Exchange differences	(0.1)	–	0.1	–	–
Amortisation for the year	–	1.5	1.0	–	2.5
Disposals	–	–	(0.1)	–	(0.1)
At 31 March 2012	0.5	4.3	7.1	0.4	12.3
Exchange differences	0.1	0.1	–	–	0.2
Amortisation for the year	–	1.9	1.0	–	2.9
Disposals	–	–	–	–	–
At 30 March 2013	**0.6**	**6.3**	**8.1**	**0.4**	**15.4**
Carrying value at 30 March 2013	**7.8**	**16.8**	**1.4**	**–**	**26.0**
Carrying value at 31 March 2012	7.7	14.9	1.6	–	24.2
Carrying value at 26 March 2011	7.8	13.2	2.3	–	23.3

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to business segment and country of operation.

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

	2013 £m	2012 £m
Currency	**4.3**	4.3
Cash Processing Solutions	**3.5**	3.4
	7.8	7.7

The majority of the goodwill relates to the acquisition of CSI Inc in 2001 which was allocated to Currency and Cash Processing Solutions on the basis that the acquired business generated synergies for both CGUs. The estimates of recoverable amounts are based on value in use calculations which utilise cash flow projections covering a five year period using the latest projections approved by management plus a terminal value. The key assumptions underlying these projections are summarised below:

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

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

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

Material input prices and foreign exchange rates are also factors but are not considered significant in the context of the headroom available in the calculations.

(b) Cash Processing Solutions: unit sales of large sorters and the extent of maintenance income generated from these sales are based on a combination of orders on hand and past experience

The pre tax discount rate used for both Currency and Cash Processing Solutions was 13.0 per cent (2011/12: 13.2 per cent). The discount rates applied take into account the Group's weighted average cost of capital (WACC) and the relative risks associated with the CGUs' operations. The post tax discount rate used is unchanged compared to the prior year, reflecting the fact that the Group's WACC has not changed and the risks associated with the CGUs in question have not materially changed. Cash flows beyond the period covered by the projections have been held constant.

Sensitivity analysis has been performed and management do not consider there to be any reasonably possible change in assumptions that could result in the assets' recoverable amounts falling below their book values.

10 Inventories

	2013 £m	2012 £m
Raw materials	**27.3**	24.3
Work in progress	**25.7**	26.8
Finished goods	**20.4**	17.5
	73.4	68.6

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

Provisions of £1.4m recognised in pre exceptional operating expenses were made against inventories in 2012/13 (2011/12: £3.1m). The Group also reversed provisions of £2.5m (2011/12: £2.8m), being part of an inventory write down that was not subsequently required.

11 Trade and other receivables

	2013 £m	2012 £m
Trade receivables	**82.6**	69.1
Provision for impairment	**(4.5)**	(4.7)
Net trade receivables	**78.1**	64.4
Other receivables	**6.5**	10.6
Prepayments	**4.6**	8.6
	89.2	83.6

The carrying value of trade and other receivables approximate to their fair value.

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

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

	Gross 2013 £m	Impairment 2013 £m	Gross 2012 £m	Impairment 2012 £m
Not past due	**62.2**	**–**	49.6	–
Past due 0 - 30 days	**13.9**	**–**	17.2	–
Past due 31-120 days	**8.2**	**(0.9)**	7.1	(0.9)
Past due more than 120 days	**4.8**	**(3.6)**	5.8	(3.8)
	89.1	**(4.5)**	79.7	(4.7)

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

	2013 £m	2012 £m
Balance at beginning of year	**(4.7)**	(4.7)
Impairment losses recognised	**(1.9)**	(1.1)
Impairment losses reversed	**2.1**	1.1
Balance at end of year	**(4.5)**	(4.7)

The provision for impairment in respect of trade receivables are 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.

At 30 March 2013, the Group does not have any collective impairment on its trade receivables (2011/12: £nil).

Based on past experience, the Group believes that no further impairment is required for financial assets that are neither past due nor impaired.

12 Financial risk

Financial risk management

Overview

The Group's treasury department, acting in accordance with policies approved by the Board, is responsible for the management of financial risks faced by the Group. 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.

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 when 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 objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return:

(a) Currency risk

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

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

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

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

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

(b) Interest rate risk

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

Credit risk

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

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

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

12 Financial risk continued

Reporting of financial risks

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 2013 £m**	**Carrying amount 2013 £m**	Total fair value 2012 £m	Carrying amount 2012 £m
Financial assets					
Trade and other receivables*		**84.6**	**84.6**	75.0	75.0
Cash and cash equivalents		**24.8**	**24.8**	24.0	24.0
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**3.3**	**3.3**	2.1	2.1
– Short duration swap contracts designated as fair value hedges	Level 2	**0.1**	**0.1**	0.1	0.1
– Foreign exchange fair value hedges – other economic hedges	Level 2	**0.6**	**0.6**	3.2	3.2
– Embedded derivatives	Level 2	**0.9**	**0.9**	0.5	0.5
Total financial assets		**114.3**	**114.3**	104.9	104.9
Financial liabilities					
Unsecured bank loans and overdrafts		**(101.5)**	**(101.5)**	(48.8)	(48.8)
Trade and other payables**		**(59.6)**	**(59.6)**	(50.0)	(50.0)
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**(3.5)**	**(3.5)**	(3.8)	(3.8)
– Short duration swap contracts designated as fair value hedges	Level 2	**(0.1)**	**(0.1)**	(0.1)	(0.1)
– Foreign exchange fair value hedges – other economic hedges	Level 2	**(1.3)**	**(1.3)**	(1.6)	(1.6)
– Embedded derivatives	Level 2	**(0.2)**	**(0.2)**	(1.0)	(1.0)
– Interest rate swaps	Level 2	**–**	**–**	–	–
Total financial liabilities		**(166.2)**	**(166.2)**	(105.3)	(105.3)

*excluding prepayments

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

Fair value measurement basis for derivative financial instruments

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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

Forward exchange contracts used for hedging

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

Interest rate swaps

Interest rate swaps are measured by reference to third party bank confirmations and discounted cash flows using the yield curves in effect at the balance sheet date.

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. The movement in fair value of embedded derivatives is shown within revenue or operating expenses as appropriate, depending on the nature of the transaction.

Determination of fair values of non derivative financial assets and liabilities

Trade and other receivables and payables

Due to their short maturities, trade and other payables, and trade and other receivables have been stated at their book values which approximate to their fair values.

Non derivative financial liabilities

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 interest rates used to discount estimated cash flows, where applicable, are based on sterling LIBOR.

At 30 March 2013 the discount rate used was 1.0 per cent (31 March 2012: 1.0 per cent).

Hedge reserves

Net movements in the hedge reserve are shown in the Group statement of changes in equity.

Comprehensive income after tax was £0.9m comprising a gain of £0.9m of fair value movements on new and continuing cash flow hedges, and a £2.1m charge to the income statement on maturing cash flow hedges. Deferred tax on the net charge of £1.2m amounted to £0.3m.

The hedge reserve balance on 30 March 2013 was (£0.3m) (31 March 2012: (£1.2m)).

12 Financial risk continued

Hedge reserve movements in the income statement were as follows:

	Revenue £m	Operating expense £m	Interest expense £m	Exceptional items £m	Total £m
30 March 2013					
– Maturing cash flow hedges	**0.5**	**(2.6)**	**–**	**–**	**(2.1)**
– Ineffectiveness on derecognition of cash flow hedges	**–**	**–**	**–**	**–**	**–**
	0.5	**(2.6)**	**–**	**–**	**(2.1)**
31 March 2012					
– Maturing cash flow hedges	1.1	1.4	–	–	2.5
– Ineffectiveness on derecognition of cash flow hedges	–	(0.1)	–	(0.2)	(0.3)
	1.1	1.3	–	(0.2)	2.2

The ineffective portion of fair value hedges that was recognised in the income statement amounted to £nil (2011/12: £0.5m loss). The ineffective portion of cash flow hedges that was recognised in the income statement was £nil (2011/12: £0.3m loss).

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.

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

31 March 2012	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Total undiscounted cash flows £m	Impact of discounting and netting £m	Carrying amount £m
Non derivative financial liabilities						
Unsecured bank loans and overdrafts	48.8	–	–	48.8	–	48.8
Derivative financial liabilities						
Gross amount payable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	(108.7)	(4.5)	(6.3)	(119.5)	123.3	3.8
– Short duration swap contracts designated as fair value hedges	12.3	–	–	12.3	(12.2)	0.1
– Fair value hedges – other economic hedges	(62.9)	–	–	(62.9)	64.5	1.6
Interest rate swaps	–	–	–	–	–	–
	(110.5)	(4.5)	(6.3)	(121.3)	175.6	54.3

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

As at 30 March 2013, the Group has a total of undrawn committed borrowing facilities, all maturing in more than one year, of £93.0m (31 March 2012: £127.7m in more than one year). The amount of loans drawn on the £200m facility is £98.4m. Guarantees of £8.9m have also been drawn using the facility.

12 Financial risk continued

Forward foreign exchange contracts

The net principal amounts of the outstanding forward foreign exchange contracts at 30 March 2013 are US dollar 40.5m, euro (41.3m), Swiss franc (20.4m), Japanese yen (1.3bn), Chinese renminbi 0.8m, Sri Lankan rupee 94.0m, and Singapore dollar 10.0m.

The net principal amounts outstanding under forward contracts with maturities greater than 12 months are euro (1.0m) and Japanese yen (0.8bn). 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 30 March 2013 will be released to the income statement at various dates between one month and 30 months from the balance sheet date.

Short duration swap contracts

(i) Cash management swaps

The Group uses short duration currency swaps to manage the level of borrowings in foreign currencies. The fair value of cash management currency swaps at 30 March 2013 was £nil (2011/12: £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 30 March 2013 are US dollar 2.8m, euro 9.9m, Canadian dollar 0.8m, Swiss franc (1.9m), South African rand 14.4m, Australian dollar (1.3m), Singapore dollar 7.6m, and Japanese yen (44.2m).

(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 30 March 2013 was £nil (2011/12: £nil). Gains and losses on balance sheet swaps are included in the consolidated income statement.

The principal amounts outstanding under balance sheet swaps at 30 March 2013 are US dollar 21.7m, euro (24.7m), Swiss franc (7.1m), South African rand 4.8m, and Mexican peso (50.7m).

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 30 March 2013 was £0.7m (2011/12: (£0.5m)).

Gains and losses on fair value hedges

The gains and losses recognised in the year on the Group's fair value hedges were £nil relating to balance sheet hedges (2011/12: (£0.2m)), (£0.3m) relating to other fair value hedges (2011/12: (£0.8m)), and £nil relating to cash management hedges (2011/12: £nil).

Market risk: Currency risk

Exposure to currency risk

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	**2013**	2012
US dollar	**1.58**	1.60	**1.52**	1.60
Euro	**1.22**	1.16	**1.18**	1.20

Sensitivity analysis

A 10 per cent strengthening of sterling against the following currencies at 30 March 2013 and 31 March 2012 would have increased/(decreased) profit or loss by the amounts shown below, based on the Group's external monetary assets and liabilities.

	2013 £m	2012 £m
US dollar	**(0.4)**	(0.8)
Euro	**(1.4)**	(0.5)

A 10 per cent weakening of sterling against the above currencies at 30 March 2013 and 31 March 2012 would have had the following effect:

	2013 £m	2012 £m
US dollar	**0.4**	1.0
Euro	**1.7**	0.6

The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011/12.

12 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	
	2013 £m	2012 £m
Variable rate instruments		
Financial assets	**24.8**	24.0
Financial liabilities	**(101.5)**	(48.8)
	(76.7)	(24.8)

As at 30 March 2013 the Group does not hold any fixed rate instruments. Since the year end, floating to fixed interest rate swaps have been put in place in accordance with the interest rate risk policy.

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)				
30 March 2013	**(0.5)**	**0.6**	**–**	**–**
31 March 2012	(0.2)	0.3	–	–

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:

		Carrying amount	
	Notes	**2013 £m**	2012 £m
Trade and other receivables (excluding prepayments)	11	**84.6**	75.0
Cash and cash equivalents	13	**24.8**	24.0
Forward exchange contracts used for hedging		**4.0**	5.4
Embedded derivatives		**0.9**	0.5
		114.3	104.9

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	Carrying amount	
	2013 £m	2012 £m
UK and Ireland	**19.5**	17.1
Rest of Europe	**9.6**	14.1
The Americas	**6.5**	8.0
Rest of world	**49.0**	35.8
	84.6	75.0

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

	Carrying amount	
	2013 £m	2012 £m
Banks and financial institutions	**44.0**	29.5
Government institutions	**23.4**	21.0
Distributors	**2.6**	2.5
Retail customers	**0.2**	1.1
End user customers	**6.0**	9.0
Other	**8.4**	11.9
	84.6	75.0

12 Financial risk continued

Capital management

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

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

	Note	2013 £m	2012 £m
Total equity attributable to shareholders of the Company		**(71.3)**	(49.5)
Net debt	20	**(76.7)**	(24.8)
Group capital		**(148.0)**	(74.3)

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

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

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

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

De La Rue's dividend policy is to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to enable the Group to achieve its strategy. The dividend per share objective is monitored against the target of a full year dividend cover of 1.75 times. The proposed total dividend for the year is covered 1.05 times, which although below the policy level, as in the previous year, reflects the Board's confidence in delivering the Improvement Plan.

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 buy back plans.

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

13 Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	**24.8**	24.0
	24.8	24.0

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

All cash and deposits are of a floating rate nature, earn interest based on the relevant national London Interbank Bid Rate equivalents and are recoverable within three months.

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

14 Deferred taxation

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

	2013 £m	2012 £m
Deferred tax assets	**45.5**	40.4
Deferred tax liabilities	**(2.8)**	(1.3)
	42.7	39.1

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

	2013 £m	2012 £m
Beginning of the year	**39.1**	26.8
Exchange differences	**(0.1)**	(0.2)
Income statement (charge)/credit	**(0.1)**	4.8
Tax credited to equity	**3.8**	7.7
End of the year	**42.7**	39.1

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

	Property, plant and equipment £m	Fair value gains £m	Development costs £m	Other £m	Total £m
Liabilities					
At 26 March 2011	8.8	0.4	1.9	0.9	12.0
Recognised in the income statement	0.2	–	(0.2)	(0.3)	(0.3)
Recognised in equity	–	–	–	(0.4)	(0.4)
At 31 March 2012	9.0	0.4	1.7	0.2	11.3
Recognised in the income statement	(0.1)	–	0.9	–	0.8
Recognised in equity	–	–	–	–	–
At 30 March 2013	**8.9**	**0.4**	**2.6**	**0.2**	**12.1**

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
Assets					
At 26 March 2011	(1.2)	(27.7)	(1.0)	(8.9)	(38.8)
Recognised in the income statement	(1.1)	(0.5)	(0.4)	(2.5)	(4.5)
Recognised in equity	(0.2)	(6.8)	–	(0.4)	(7.4)
Exchange differences	–	–	–	0.3	0.3
At 31 March 2012	(2.5)	(35.0)	(1.4)	(11.5)	(50.4)
Recognised in the income statement	(0.7)	(0.4)	0.6	(0.2)	(0.7)
Recognised in equity	(0.5)	(3.6)	–	0.3	(3.8)
Exchange differences	–	–	–	0.1	0.1
At 30 March 2013	**(3.7)**	**(39.0)**	**(0.8)**	**(11.3)**	**(54.8)**

Other deferred assets and liabilities predominantly relate to tax associated with provisions (£4.7m) and overseas tax credits (£3.9m).

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

The Group has not recognised deferred tax assets of £1.7m (2011/12: £1.7m) in respect of losses amounting to £6.6m (2011/12: £7.0m) that can be carried forward against future taxable income. Similarly, the Group has not recognised deferred tax assets of £15.7m (2011/12: £16.3m) in respect of overseas tax credits that are carried forward for utilisation in future periods.

Unremitted earnings totalled £483m at 30 March 2013 (2011/12: £444m). Deferred tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries where the timing of the reversal can be controlled and it was considered unlikely that dividends would be paid from those subsidiaries.

UK capital losses of £330.2m are carried forward at 30 March 2013 (2011/12: £330.2m). No deferred tax asset has been recognised in respect of these losses.

14 Deferred taxation continued

UK tax rate

A reduction in the UK tax rate from 24 per cent to 23 per cent (effective from 1 April 2013) was substantively enacted on 3 July 2012.

This will reduce the UK Group's future current tax charge accordingly. The UK deferred tax assets and liabilities at 30 March 2013 have been calculated based on the rate of 23 per cent substantively enacted at the balance sheet date.

It was announced at the 2012 Autumn Statement and 2013 Budget that the main rate of UK corporation tax shall be reduced to 21 per cent from April 2014 and 20 per cent from April 2015. These amendments were not substantively enacted at 30 March 2013 and therefore have not been reflected in the deferred tax figures on the balance sheet.

15 Trade and other payables

	2013 £m	2012 £m
Current liabilities		
Payments received on account	**42.7**	40.9
Trade payables	**33.5**	30.0
Amounts owed to associated companies	**0.4**	0.1
Social security and other taxation	**2.1**	1.9
Deferred income	**4.8**	5.1
Accrued expenses	**65.3**	75.0
Other payables	**18.6**	17.2
	167.4	170.2
Non current liabilities		
Other payables	**5.0**	0.8
	5.0	0.8

The Directors consider the carrying amounts of trade and other payables to approximate to their fair values.

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

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

16 Borrowings

The Group's interest bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 12.

	Currency	Nominal interest rate	Year of maturity	Face value 2013 £m	Carrying amount 2013 £m	Face value 2012 £m	Carrying amount 2012 £m
Current liabilities							
Unsecured bank loans and overdrafts	CNY	5.00%	2013	**1.1**	**1.1**	–	–
Unsecured bank loans and overdrafts	EUR	4.00%	2013	**0.6**	**0.6**	0.3	0.3
Unsecured bank loans and overdrafts	LKR	20.47%	2013	**0.2**	**0.2**	0.1	0.1
Unsecured bank loans and overdrafts	INR	17.75%	2013	**0.6**	**0.6**	0.9	0.9
Unsecured bank loans and overdrafts	GBP	2.26%	2013	**80.2**	**80.2**	26.2	26.2
Unsecured bank loans and overdrafts	USD	2.02%	2013	**18.4**	**18.4**	21.3	21.3
Unsecured bank loans and overdrafts	BRL	11.40%	2013	**0.4**	**0.4**	–	–
Total interest bearing liabilities				**101.5**	**101.5**	48.8	48.8

In 2012/13, bank overdrafts of £97.3m (2011/12: £57.8m) were pooled for interest purposes against credit balances.

As at 30 March 2013, the Group has committed borrowing facilities, all maturing in more than one year, of £200m. Up to £80m of the £200m facility can be utilised for either loans or guarantees.

17 Provisions for liabilities and charges

	Restructuring £m	Business disposals £m	Warranty £m	Other £m	Total £m
At 31 March 2012	21.3	1.1	20.3	4.4	47.1
Exchange differences	–	–	0.2	–	0.2
Charge for the year	0.9	–	5.1	0.1	6.1
Utilised in year	(8.8)	–	(3.3)	(0.4)	(14.1)
Released in year	(2.0)	(0.5)	(7.5)	(0.4)	(8.8)
At 30 March 2013	**11.4**	**0.6**	**14.8**	**3.7**	**30.5**
Expected to be utilised within 1 year	6.9	0.6	14.8	3.7	26.0
Expected to be utilised after 1 year	4.5	–	–	–	4.5

Restructuring provisions represent amounts principally provided in 2011/12 for various reorganisations, in Currency and Security Products, involving the closure of three sites and the relocation of manufacturing activity to our facilities in Gateshead and Westhoughton. These provisions include amounts for staff compensation and site exit costs, which are expected to be utilised over three years reflecting the contractual commitments to which they relate.

Business disposal provisions represent amounts provided for warranties and indemnities in respect of businesses sold by the Group. The majority of these provisions are expected to be utilised within one year.

Warranty provisions relate to present obligations for defective products and include known claims as well as anticipated claims that had not been reported at the balance sheet date. The provisions are management judgements based on information currently available, past history and experience of the products sold. However, it is inherent in the nature of the business that the actual liabilities may differ from the provisions. The precise timing of the utilisation of these provisions is uncertain but is generally expected to fall within one year. Warranty provisions include £4.8m in respect of the 2010 paper production quality issues described in note 25, which are expected to be utilised within one year.

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

18 Share capital

	2013 £m	2012 £m
Issued and fully paid		
99,743,705 ordinary shares of 44 152/175p each (2011/12: 99,498,423 ordinary shares of 44 152/175p each)	**44.7**	44.6
111,673,300 deferred shares of 1p each (2011/12: 111,673,300 deferred shares of 1p each)	**1.1**	1.1
	45.8	45.7

	2013		2012	
	Ordinary shares '000	Deferred shares '000	Ordinary shares '000	Deferred shares '000
Allotments during the year				
Shares in issue at 31 March 2012 / 26 March 2011	**99,498**	**111,673**	99,203	111,673
Issued under Executive Share Option plans	**2**	**–**	8	–
Issued under Savings Related Share Option Scheme	**159**	**–**	241	–
Issued under US Employee Share Purchase Plan	**14**	**–**	13	–
Issued under Deferred Bonus and Matching Share Plan	**53**	**–**	33	–
Issued under Annual Bonus Plan	**3**	**–**	–	–
Issued under Performance Share Plan	**15**	**–**	–	–
Shares in issue at 30 March 2013 / 31 March 2012	**99,744**	**111,673**	99,498	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 of association.

19 Share based payments

At 30 March 2013, the Group has a number of share based payment plans, which are described below. These plans have been accounted for in accordance with the fair value recognition provisions of IFRS 2, Share Based Payments, which means that IFRS 2 has been applied to all grants of employee share based payments granted after 7 November 2002 that had not vested at 1 January 2005 and cash settled awards outstanding at 1 January 2005.

The compensation cost and related liability that have been recognised for the Group's share based plans are set out in the table below:

	Expense recognised for the year		Liability at end of year	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Annual Bonus Plan	**0.7**	0.2	**–**	–
Deferred Bonus and Matching Share Plan	**(1.0)**	(0.1)	**–**	–
Performance Share Plan	**3.6**	2.2	**–**	–
Recruitment Share Award	**0.1**	0.1	**–**	–
Retention Share Award	**0.1**	0.1	**–**	–
Savings related share option scheme	**0.3**	0.3	**–**	–
US Employee Share Purchase Plan	**–**	–	**–**	–
	3.8	2.8	**–**	–

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

Arrangement	Annual Bonus Plan	Performance Share Plan	Savings related share option scheme	US Employee Share Purchase Plan
Dates of current year grants	31 May 2012	10 July 2012	21 Dec 2012	01 Jan 2013
Number of options granted	170,170	452,053	229,023	14,800 (estimated)
Exercise price	n/a	n/a	775.34p	See below
Contractual life (years)	3	3	3 or 5	1
Settlement	Shares	Shares	Shares	Shares
Vesting period (years)	3	3	3 or 5	1
Dividend yield	n/a	n/a	5.0%	n/a
Fair value per option at grant date	985p	991p	180p for 3 year plan 187p for 5 year plan	n/a

An expected volatility rate of 30 per cent (2011/12: 35 per cent) has been used for grants in the period. This rate is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life. The rate applied during the year was 0.5 or 1.0 per cent depending on the vesting period.

Reconciliations of option movements over the period to 30 March 2013 for each class of options are shown below:

Annual Bonus Plan

For details of the Annual Bonus Plan, refer to the remuneration report on pages 48 to 58.

	2013 Number of options '000	2012 Number of options '000
Options outstanding at start of year	**81**	93
Granted	**170**	–
Forfeited	**(8)**	(12)
Exercised	**(3)**	–
Expired	**–**	–
Outstanding at end of year	**240**	81
Exercisable at year end	**–**	–

The awards granted in the year were based on a share price of 984.5p.

19 Share based payments continued

Deferred Bonus and Matching Share Plan

The plan was open to eligible senior executives throughout the Group until it was superseded. The plan is a combination of three elements: deferred allocation, dividend allocation and matching allocation. The matching allocation is linked to the deferred allocation and is subject to the following performance condition: up to 50 per cent of the award is released subject to an earnings per share test and up to 50 per cent is released based on the performance of the total shareholder return test (TSR) against the companies in the FTSE 250 excluding investment trusts. The TSR performance condition has been incorporated into the Monte Carlo simulation model used to estimate the fair value of these options.

	2013 Number of options '000	2012 Number of options '000
Options outstanding at start of year	**104**	234
Granted – deferred shares	**–**	–
Granted – matching shares	**–**	–
Forfeited	**–**	(101)
Exercised	**(46)**	(29)
Expired	**(58)**	–
Outstanding at end of year	**–**	104
Exercisable at year end	**–**	–

Executive Share Option Plan

The Executive Share Option Plan was open to eligible senior executives throughout the Group. Options were granted at a price equal to the average market price of a share over the three dealing days immediately preceding the date of grant, with a performance condition based on the achievement of an earnings per share growth target. The performance condition relates to the achievement over three years of 3 per cent per annum earnings per share growth over the rate of increase in the Retail Prices Index. If this condition is not met at the end of the performance period the options will lapse. A pre vesting forfeiture rate of 5 per cent per annum has been assumed.

	2013		2012	
	Number of options '000	**Weighted average exercise price pence per share**	Number of options '000	Weighted average exercise price pence per share
Options outstanding at start of year	**2**	**407.42**	10	388.05
Granted	**–**	**–**	–	–
Forfeited	**–**	**–**	–	–
Exercised	**(2)**	**407.42**	(8)	382.03
Expired	**–**	**–**	–	–
Outstanding at end of year	**–**	**–**	2	407.42
Exercisable at year end	**–**	**–**	2	407.42

The 2,454 options remaining outstanding and exercisable as at 31 March 2012 were exercised during the year. There are no outstanding options at 30 March 2013.

Performance Share Plan

For details of the Performance Share Plan, refer to the remuneration report on pages 48 to 58.

	2013		2012	
	Number of options '000	**Weighted average exercise price pence per share**	Number of options '000	Weighted average exercise price pence per share
Options outstanding at start of year	**1,096**	**729.61**	249	616.40
Granted	**452**	**759.80**	871	759.80
Forfeited	**(82)**	**740.95**	(24)	652.10
Exercised	**(13)**	**683.45**	–	–
Expired	**–**	**–**	–	–
Outstanding at end of year	**1,453**	**738.80**	1,096	729.61
Exercisable at year end	**–**		–	

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

19 Share based payments continued

Retention and Recruitment Share Award

For details of the Recruitment Share Award and Retention Share Award, refer to the remuneration report on pages 48 to 58.

	Retention Share Award		Recruitment Share Award	
	2013 Number of options '000	2012 Number of options '000	**2013 Number of options '000**	2012 Number of options '000
Options outstanding at start of year	**46**	46	**66**	66
Granted	**–**	–	**–**	–
Forfeited	**–**	–	**–**	–
Exercised	**–**	–	**–**	–
Expired	**–**	–	**–**	–
Outstanding at end of year	**46**	46	**66**	66
Exercisable at year end	**–**	–	**–**	–

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

Savings related share option scheme

The scheme is open to all UK employees. Options are granted at the prevailing market price at the time of the grant (with a discretionary discount to the market price) to employees who agree to save between £5 and £250 per month over a period of three or five years.

There are no performance conditions attaching to the options. After the three or five year term has expired, employees normally have six months in which to decide whether or not to exercise their options. A pre vesting forfeiture rate of 5 per cent has been assumed.

	2013		2012	
	Number of options '000	**Weighted average exercise price pence per share**	Number of options '000	Weighted average exercise price pence per share
Options outstanding at start of year	**1,765**	**510.22**	2,050	519.01
Granted	**229**	**775.34**	215	722.66
Forfeited	**(90)**	**523.65**	(146)	520.15
Exercised	**(159)**	**713.79**	(242)	659.49
Expired	**(9)**	**623.02**	(112)	743.09
Outstanding at end of year	**1,736**	**525.22**	1,765	510.22
Exercisable at year end	**80**	**522.30**	32	554.66

The range of exercise prices for the share options outstanding at the end of the year is 444.14p – 819.55p (2011/12: 444.14 – 819.55p). The weighted average remaining contractual life of the outstanding share options is 1 September 2015 (2011/12: 1 September 2015).

US Employee Share Purchase Plan

De La Rue operates a US Employee Share Purchase Plan for US employees. Under the plan, employees have an option to purchase De La Rue plc shares at the end of each 12 month savings period at a price which is the lower of the market value of the De La Rue plc share either at the beginning or the end of the offering period, less a 15 per cent discount. In 2012/13, 14,198 shares (2011/12: 12,745 shares) were allotted pursuant to the plan. It is estimated that 14,800 shares will be required to satisfy the Company's 2013/14 obligations in respect of employees' savings under the plan as at 30 March 2013.

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

The De La Rue Employee Share Ownership Trust was established to administer shares granted under the various De La Rue Executive Share Option Schemes (ESOS) and the De La Rue Executive Share Option Plan (ESOP) (or any other share option plan established by the Company) to Executive Directors and senior employees. Ardel Trust Company (Guernsey) Limited is the Trustee. The Trustee held no shares at 30 March 2013.

20 Analysis of net debt

	2013 £m	2012 £m
Cash at bank and in hand	**24.8**	24.0
Bank overdrafts	**(3.1)**	(1.5)
Total cash and cash equivalents	**21.7**	22.5
Borrowings due within one year	**(98.4)**	(47.3)
Net debt	**(76.7)**	(24.8)

21 Group operating leases

	2013 Property £m	2013 Plant and equipment £m	2012 Property £m	2012 Plant and equipment £m
Total commitments due:				
– Within one year	**2.9**	**0.2**	2.8	0.1
– Between one and five years	**2.4**	**0.2**	2.6	0.2
– Over five years	**25.3**	**–**	25.4	–
	30.6	**0.4**	30.8	0.3

22 Retirement benefit obligations

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

(a) Defined benefit pension plans

	UK defined benefit pension £m	Overseas defined benefit pension £m	Gross defined benefit pension £m	Deferred tax £m	Net defined benefit pension £m
At 26 March 2011	(100.5)	(2.4)	(102.9)	27.7	(75.2)
Exchange differences	–	0.1	0.1	–	0.1
Current service cost included in operating profit	(7.8)	(0.2)	(8.0)	2.0	(6.0)
Net finance expense	(1.3)	–	(1.3)	0.4	(0.9)
Actuarial gains and losses arising over the year	(63.6)	–	(63.6)	16.5	(47.1)
Cash contributions and benefits paid	29.9	0.2	30.1	(7.8)	22.3
Change in tax rate	–	–	–	(3.8)	(3.8)
At 31 March 2012	(143.3)	(2.3)	(145.6)	35.0	(110.6)
Exchange differences	–	–	–	–	–
Current service cost included in operating profit	(7.8)	(0.3)	(8.1)	1.9	(6.2)
Net finance expense	(0.5)	–	(0.5)	0.1	(0.4)
Actuarial gains and losses arising over the year	(37.5)	0.2	(37.3)	9.0	(28.3)
Cash contributions and benefits paid	22.4	–	22.4	(5.4)	17.0
Change in tax rate	–	–	–	(1.6)	(1.6)
At 30 March 2013	**(166.7)**	**(2.4)**	**(169.1)**	**39.0**	**(130.1)**

Amounts recognised in the consolidated balance sheet:

	2013 UK £m	2013 Overseas £m	2013 Total £m	2012 UK £m	2012 Overseas £m	2012 Total £m
Fair value of plan assets	**761.1**	**–**	**761.1**	697.6	–	697.6
Present value of funded obligations	**(920.2)**	**–**	**(920.2)**	(833.8)	–	(833.8)
Funded defined benefit pension plans	**(159.1)**	**–**	**(159.1)**	(136.2)	–	(136.2)
Present value of unfunded obligations	**(7.6)**	**(2.4)**	**(10.0)**	(7.1)	(2.3)	(9.4)
Net liability	**(166.7)**	**(2.4)**	**(169.1)**	(143.3)	(2.3)	(145.6)

Amounts recognised in the consolidated income statement:

	2013 UK £m	2013 Overseas £m	2013 Total £m	2012 UK £m	2012 Overseas £m	2012 Total £m
Included in employee benefits expense:						
– Current service cost	**(7.8)**	**(0.3)**	**(8.1)**	(7.8)	(0.2)	(8.0)
Included in net finance expense:						
– Expected return on plan assets	**39.3**	**–**	**39.3**	39.4	–	39.4
– Interest expense	**(39.8)**	**–**	**(39.8)**	(40.7)	–	(40.7)
Net finance expense	**(0.5)**	**–**	**(0.5)**	(1.3)	–	(1.3)
Total recognised in the consolidated income statement	**(8.3)**	**(0.3)**	**(8.6)**	(9.1)	(0.2)	(9.3)
Actual return on plan assets	**74.3**	**–**	**74.3**	60.8	–	60.8

22 Retirement benefit obligations continued

Amounts recognised in the statement of comprehensive income:

	2013 UK £m	2013 Overseas £m	2013 Total £m	2012 UK £m	2012 Overseas £m	2012 Total £m
Actuarial gain on plan assets	**35.0**	**–**	**35.0**	21.4	–	21.4
Actuarial (losses)/gains on defined benefit pension obligations	**(72.5)**	**0.2**	**(72.3)**	(85.0)	–	(85.0)
Amounts recognised in the statement of comprehensive income	**(37.5)**	**0.2**	**(37.3)**	(63.6)	–	(63.6)

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

	2013 UK %	2013 Overseas %	2013 Total %	2012 UK %	2012 Overseas %	2012 Total %
Equities	**40.6**	**–**	**40.6**	51.4	–	51.4
Bonds	**22.2**	**–**	**22.2**	19.6	–	19.6
Gilts	**22.3**	**–**	**22.3**	21.3	–	21.3
Other	**14.9**	**–**	**14.9**	7.7	–	7.7

Other UK assets comprise cash, the remaining elements of the plan's diversified growth funds not categorised elsewhere, and swaps.

Principal actuarial assumptions:

	2013 UK %	2013 Overseas %	2012 UK %	2012 Overseas %
Future salary increases	**–**	**–**	–	–
Future pension increases – past service	**3.70**	**–**	3.70	–
Future pension increases – future service	**3.30**	**–**	3.20	–
Discount rate	**4.50**	**–**	4.80	–
Inflation rate	**3.40**	**–**	3.30	–
Expected return on plan assets:				
– Equities	**8.00**	**–**	8.50	–
– Bonds	**4.50**	**–**	4.80	–
– Gilts	**2.80**	**–**	2.90	–
– Other	**–**	**–**	–	–

The expected rate of return on plan assets has been determined following advice from the plans' independent actuary and is based on the expected return on each asset class together with consideration of the long term asset strategy.

The mortality assumptions used to assess the defined benefit obligation for the UK plan are based on tables issued by the Continuous Mortality Investigation Bureau. At 30 March 2013 mortality assumptions were based on the SAPS All lives tables, with future improvements in line with the CMI model, CMI_2011 and a long term rate of 1.0 per cent per annum. At 31 March 2012 mortality assumptions were based on the PxA92 birth year tables multiplied by a rating of 125 per cent and allowance for medium cohort mortality improvements in future, with a 0.5 per cent mortality improvement underpin. The resulting life expectancy for a 65 year old pensioner is 22.1 years (2011/12: 20.6 years).

In July 2010, the UK government announced changes to the inflation index used for statutory pension increases (both for pensions in payment and pensions in deferment) to apply to private sector pension schemes. This has resulted in a small actuarial gain during the prior period in respect of the De La Rue pension plans in the UK. History of experience gains and losses:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of plan assets	**761.1**	697.6	638.8	569.5	428.1
Present value of defined benefit pension obligations	**(930.2)**	(843.2)	(741.7)	(696.6)	(497.8)
Net liability	**(169.1)**	(145.6)	(102.9)	(127.1)	(69.7)
Cumulative actuarial losses recognised in the statement of comprehensive income	**(222.0)**	(184.7)	(121.1)	(90.1)	(17.8)
Experience gains/(losses) on defined benefit pension obligations:					
– Amount	**0.6**	(1.6)	(7.7)	(38.3)	(0.1)
– Percentage of present value of defined benefit pension obligations	**(0.1%)**	0.2%	1.0%	5.5%	–
Experience gains/(losses) arising on plan assets:					
– Amount	**35.0**	21.4	10.7	117.4	(123.7)
– Percentage of plan assets	**4.6%**	3.1%	1.7%	20.6%	(28.9%)

22 Retirement benefit obligations continued

The largest defined benefit pension plan operated by the Group is in the UK. A full actuarial valuation of the plan was carried out by a qualified actuary as at 5 April 2012 and updated to 30 March 2013. The plan is valued formally every three years, the next valuation being as at April 2015.

Changes in the fair value of UK plan assets:

	2013 £m	2012 £m
At 31 March 2012 / 26 March 2011	**697.6**	638.5
Expected return on plan assets (before expenses)	**42.1**	41.8
Plan administration and investment management expenses	**(2.8)**	(2.4)
Actuarial gains	**35.0**	21.4
Employer contributions	**22.4**	29.9
Plan participant contributions	**2.5**	2.8
Claims from insurance policy	**0.2**	0.9
Benefits paid	**(34.3)**	(33.9)
Life assurance premiums	**(0.5)**	(0.9)
Transfers	**(1.1)**	(0.5)
At 30 March 2013 / 31 March 2012	**761.1**	697.6

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

	2013 £m	2012 £m
At 31 March 2012 / 26 March 2011	**(840.9)**	(739.0)
Current service cost	**(7.8)**	(7.8)
Curtailments	**–**	–
Interest cost	**(39.8)**	(40.7)
Actuarial losses	**(72.5)**	(85.0)
Plan participant contributions	**(2.5)**	(2.8)
Benefits paid	**34.1**	33.0
Plan administration and investment management expenses	**–**	–
Life assurance premiums	**0.5**	0.9
Transfers	**1.1**	0.5
At 30 March 2013 / 31 March 2012	**(927.8)**	(840.9)

The Group expects to contribute c£10m to its UK pension fund in 2013/14 in respect of the special funding payments designed to eliminate the scheme deficit.

(b) Defined contribution pension plans

The Group operates a number of defined contribution plans for which the charge in the consolidated income statement for the year was £4.1m (2011/12: £2.2m).

(c) IAS 19 'Employee Benefits' (revised)

Amendments to IAS 19 will be effective for the 2013/14 financial year and require the replacement of the expected return on assets and interest charge on pension scheme liabilities with a net financing cost based on the discount rate. IAS 19 requires retrospective adoption and therefore prior periods will be restated.

The Group estimates the impact of the change, had it been effective in 2012/13, would have been to increase operating costs by £1.4m, increase the net interest expense by £6.2m, with compensating adjustments in other comprehensive income leaving equity unchanged. This would therefore reduce profit after tax by £7.6m, and reduce headline and basic EPS by 7.6p.

The estimated impact for the 2013/14 year is to reduce operating profits by £1.7m (the Improvement Plan operating profit target will be impacted by the same amount) and increase the net interest expense by £6.7m and hence reduce headline and basic EPS by 8.4p.

23 Employees

	2013 number	2012 number
Average number of employees		
UK and Ireland	**2,117**	2,092
Rest of Europe	**735**	749
The Americas	**246**	262
Rest of world	**855**	836
	3,953	3,939
Average number of employees		
Currency	**2,563**	*2,506
Cash Processing Solutions	**697**	681
Security Products	**343**	*427
Identity Systems	**350**	325
	3,953	3,939

*The Holographics operation, previously part of Security Products, became part of the Currency business on which it largely depends from the first day of this financial year and comparatives have been re-presented accordingly.

	2013 £m	2012 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	**131.2**	135.4
Social security costs	**11.5**	10.6
Share incentive schemes	**3.5**	2.5
Sharesave schemes	**0.3**	0.3
Pension costs	**12.2**	10.2
	158.7	159.0

24 Capital commitments

	2013 £m	2012 £m
The following commitments existed at the balance sheet date:		
– Contracted but not provided for in the accounts	**19.9**	22.0

25 Contingent liabilities

De La Rue has extensive international operations and is subject to various legal and regulatory regimes, including those covering taxation matters. While the outcome of litigation and other disputes can never be predicted with certainty, having regard to legal advice received and the insurance arrangements of the Company and its subsidiaries, the Directors believe that adequate provision has been made to cover these matters. The Group provides guarantees and performance bonds which are issued in the ordinary course of business. In the event that a guarantee or bond is called, provision may be required subject to the particular circumstances, including an assessment of its recoverability.

In July 2010 the Board commissioned an investigation by external lawyers into issues that had been brought to its attention internally. The investigation, which was completed in October 2010, found nothing of substance to support the matters raised other than in respect of some paper production issues where it was found that a small number of the many detailed specification parameters of some paper had fallen marginally short of specification. It was also established that certain paper specification test certificates had been deliberately falsified. The Board reported the findings of the investigation to the appropriate authorities, who are considering the matter, and has implemented a number of measures arising from the findings of the investigation.

Provision has been made in prior years for the costs associated with the paper production issues identified at this stage including the write off of trade receivables and other costs relating to the investigation, production and rectification of these matters.

Provision has not been made for the potential cost of resolutions or for potential fines from regulatory authorities. The nature and extent of these resolutions will be the subject of ongoing discussions, the outcome of which cannot be estimated reliably at present. The timing, response and outcome of the consideration by the authorities of the reported findings of the investigation is also uncertain and the financial consequences, if any, cannot be estimated reliably at present.

26 Related party transactions

During the year the Group traded on an arms length basis with the associated company Fidink (33.3 per cent owned). The Group's trading activities with this company included £17.4m (2011/12: £16.3m) for the purchase of security ink and other consumables. At the balance sheet date there were creditor balances of £1.7m (2011/12: £0.3m) with Fidink. Intra Group transactions between the parent and the fully consolidated subsidiaries or between fully consolidated subsidiaries are eliminated on consolidation. Such transactions were contracted on an arms length basis.

Key management compensation

	2013 £m	2012 £m
Salaries and other short term employee benefits	**2,968.2**	3,612.3
Termination benefits	**549.2**	–
Retirement benefits:		
– Defined contribution	**149.6**	276.1
– Defined benefit	**33.2**	57.2
Share based payments	**1,959.8**	1,290.6
	5,660.0	5,236.2

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