Notes to the accounts

1 Segmental analysis

The Group's operations are managed and reported internally on a divisional basis that reflects the different characteristics of each business. These divisions have been disclosed as reportable segments because they are the components that the Board monitors regularly in making decisions about operating matters such as allocating resources to businesses and assessing performance. Each division has its own managing director who reports directly to the Chief Executive. The principal financial information reviewed by the Board, which is the Group's chief operating decision maker, is revenue and operating profit before exceptional items, measured on an IFRS basis. The Group's segments are:

- Currency – provides printed banknotes, banknote paper and banknote security features
- Cash Processing Solutions – primarily focused on the production of large sorters for central banks, complementing the Currency business
- Security Products – produces security documents, including authentication labels and tax stamps
- Identity Systems – involved in the production of passports, including ePassports, together with other secure identity products

2011	**Currency £m**	**Cash Processing Solutions £m**	**Security Products £m**	**Identity Systems £m**	**Exceptional items £m**	**Total £m**
Total revenue	**289.0**	**57.4**	**63.3**	**62.8**	**–**	**472.5**
Less: Inter segment revenue	**(0.6)**	**–**	**(8.0)**	**–**	**–**	**(8.6)**
Revenue	**288.4**	**57.4**	**55.3**	**62.8**	**–**	**463.9**
Operating profit before exceptional items	**28.5**	**0.5**	**9.0**	**2.4**	**–**	**40.4**
Exceptional items – operating (note 3)	**(29.0)**	**–**	**–**	**–**	**13.4**	**(15.6)**
Operating profit/(loss)	**(0.5)**	**0.5**	**9.0**	**2.4**	**13.4**	**24.8**
Profit on sale of associated undertaking						**55.1**
Net interest expense						**(3.8)**
Retirement benefit obligations net finance expense						**(3.3)**
Profit before taxation						**72.8**
Segment assets	**197.1**	**35.3**	**23.9**	**53.7**	**–**	**310.0**
Unallocated assets						**115.5**
Total assets						**425.5**
Segment liabilities	**(106.2)**	**(22.6)**	**(10.8)**	**(28.2)**	**–**	**(167.8)**
Unallocated liabilities						**(240.9)**
Total liabilities						**(408.7)**
Capital expenditure on property, plant and equipment	**6.1**	**0.8**	**1.7**	**14.6**	**–**	**23.2**
Capital expenditure on intangible assets	**2.3**	**2.7**	**–**	**2.0**	**–**	**7.0**
Depreciation of property, plant and equipment	**15.8**	**2.1**	**2.4**	**2.9**	**–**	**23.2**
Amortisation of intangible assets	**0.4**	**0.6**	**–**	**0.2**	**–**	**1.2**

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

2010	Currency £m	Cash Processing Solutions £m	Security Products £m	Identity Systems £m	Exceptional items £m	Total £m
Total revenue	411.2	56.9	74.9	32.0	–	575.0
Less: Inter segment revenue	(1.1)	–	(12.8)	–	–	(13.9)
Revenue	410.1	56.9	62.1	32.0	–	561.1
Operating profit/(loss) before exceptional items	95.3	(3.5)	14.8	2.6	–	109.2
Exceptional items – operating (note 3)	–	(7.5)	–	–	–	(7.5)
Operating profit/(loss)	95.3	(11.0)	14.8	2.6	–	101.7
Share of profits of associated companies after taxation						6.3
Net interest expense						(5.1)
Retirement benefit obligations net finance expense						(6.3)
Profit before taxation						96.6
Segment assets	194.4	39.5	24.9	30.2	–	289.0
Unallocated assets						157.2
Total assets						446.2
Segment liabilities	(120.3)	(20.9)	(13.4)	(14.6)	–	(169.2)
Unallocated liabilities						(267.5)
Total liabilities						(436.7)
Capital expenditure on property, plant and equipment	31.5	1.7	0.9	7.2	–	41.3
Capital expenditure on intangible assets	3.2	–	0.2	0.7	–	4.1
Depreciation of property, plant and equipment	14.4	2.7	2.3	0.8	–	20.2
Amortisation of intangible assets	1.5	1.0	0.1	0.2	–	2.8

Notes to the accounts continued

1 Segmental analysis continued
Unallocated assets principally comprise centrally managed property, plant and equipment, associates and other investments, deferred tax assets, current tax assets, derivative financial instrument assets and cash and cash equivalents which are used as part of the Group's financing offset arrangements. Unallocated liabilities comprise borrowings, derivative financial instrument liabilities, current and non current tax liabilities, deferred tax liabilities, retirement benefit obligations, and centrally held accruals and provisions.

Geographic analysis of revenue by origin

	2011 £m	2010 £m
UK	**369.7**	466.0
Other countries	**94.2**	95.1
	463.9	561.1

Geographic analysis of non current assets

	2011 £m	2010 £m
UK	**104.0**	104.9
Malta	**37.5**	37.6
Sri Lanka	**21.7**	18.9
Other countries	**22.2**	23.6
	185.4	185.0

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

Major customers
There were no major customers from whom the Group derived revenues of greater than 10 per cent in the year (2010: one customer of £78.0m in the Currency segment).

2 Operating profit

	2011 £m	2010 £m
Operating profit is arrived at after charging/(crediting):		
Cost of inventories recognised as an expense	**99.9**	125.5
Net impairment of inventories	**0.2**	3.5
Depreciation of property, plant and equipment:		
– purchased	**23.2**	18.4
– leased	**–**	1.8
Amortisation of other intangibles	**1.2**	2.8
Impairment of trade receivables	**–**	–
Operating leases:		
– hire of plant and equipment	**2.2**	1.9
– hire of property	**3.5**	3.6
Auditor's remuneration:		
– Fees payable to the Company's auditors for the audit of the Company's consolidated Financial Statements	**0.2**	0.2
– Fees payable to the Company's auditors and its associates for other services:		
– audit of the Company's subsidiaries pursuant to legislation	**0.4**	0.5
– tax services	**0.1**	0.2
– other services	**0.2**	–
Research and non capitalised development expense	**10.3**	9.9
Loss on disposal of property, plant and equipment	**1.4**	0.9
Reorganisation costs (see note 3: exceptional items)	**–**	4.8
Foreign exchange (losses)/gains	**1.0**	(8.4)

Auditor's remuneration relates to fees paid to the Company's current auditors KPMG Audit Plc.

3 Exceptional items

	2011 £m	2010 £m
Curtailment gain on closure of defined benefit scheme to further accrual	**16.0**	–
Costs relating to paper production quality issues	**(29.0)**	–
Corporate costs	**(2.6)**	–
Reorganisation of CPS	**–**	(4.8)
Legacy overseas indirect tax	**–**	(2.7)
Exceptional items in operating profit	**(15.6)**	(7.5)
Profit on sale of associate undertaking	**55.1**	–
Total exceptional items	**39.5**	(7.5)
Tax on exceptional items	**3.6**	2.4

The curtailment gain is a result of the closure, to further accruals from 2013, of the defined benefit pension scheme and the freeze in pensionable salary increases from the current year. These changes result in a reduction in the pension liabilities.

The Group has identified paper production quality and certification issues as more fully described in note 27: Contingent liabilities. Provision has been made for the costs associated with the issues identified at this stage and which include the write off of inventories and trade receivables and other costs relating to the investigation and rectification of these matters. Provision has not been made for the potential costs of resolutions or for potential fines from regulatory authorities. The nature and extent of these resolutions and potential fines will be the subject of ongoing discussion, the outcome of which cannot be estimated reliably at present.

Corporate costs of £2.6m were incurred in relation to the engagement of legal and professional advisors following a takeover approach for the Group.

The profit arising on the sale of an associated undertaking is in respect of the sale of the Group's share in Camelot, the UK national lottery operator, which was completed on 8 July 2010. The gain shown represents the consideration received of £77.6m, net of expenses, and the cost of investment.

Exceptional charges of £7.5m in the prior year represent the resolution of a legacy overseas indirect tax issue and the reorganisation of CPS. Reorganisation costs principally comprised redundancy charges and rationalisation of products and site capabilities.

Tax credits relating to exceptional items arising in the year were £1.1m (2010: £1.0m). In addition, there was also an exceptional tax credit of £2.5m in respect of the determination of the tax treatment of prior year exceptional items (2010: £1.4m prior year credit).

4 Interest income and expense

	2011 £m	2010 £m
Recognised in the Income Statement		
Interest income:		
– Cash and cash equivalents	**0.9**	0.3
Interest expense:		
– Bank overdrafts	**(0.9)**	(0.5)
– Bank loans	**(2.8)**	(2.9)
– Finance leases	**–**	(0.1)
– Other including amortisation of finance arrangement fees	**(1.0)**	(1.9)
Total interest expense calculated using the effective interest method	**(4.7)**	(5.4)
Retirement benefit obligation net finance expense (note 24)	**(3.3)**	(6.3)

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 £0.2m (2010: £0.3m charge) and is included within interest expense under the 'Bank loans' heading.

Notes to the accounts continued

5 Taxation

	2011 £m	2010 £m
Consolidated Income Statement		
Current tax		
UK Corporation tax:		
– Current tax	**0.7**	19.5
– Adjustment in respect of prior years	**(4.2)**	(4.3)
	(3.5)	15.2
Overseas tax charges:		
– Current year	**2.9**	5.2
– Adjustment in respect of prior years	**3.4**	(0.7)
	6.3	4.5
Total current income tax expense	**2.8**	19.7
Deferred tax:		
– Origination and reversal of temporary differences, UK	**3.3**	6.1
– Origination and reversal of temporary differences, Overseas	**(0.7)**	0.4
Total deferred tax expense	**2.6**	6.5
Total income tax expense in the consolidated Income Statement	**5.4**	26.2
Consolidated Statement of Comprehensive Income		
– On pension actuarial adjustments	**(7.7)**	(20.3)
– On cash flow hedges	**1.9**	1.9
– On foreign exchange on quasi equity balances	**0.5**	(3.0)
Income tax credit reported within comprehensive income	**(5.3)**	(21.4)
Consolidated Statement of Changes in Equity		
– On share options	**0.5**	0.1
Income tax credit reported within equity	**0.5**	0.1

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 28 per cent as follows:

			2011			2010
	Before exceptionals £m	Exceptional items £m	Total £m	Before exceptionals £m	Exceptional items £m	Total £m
Profit before tax	**33.3**	**39.5**	**72.8**	104.1	(7.5)	96.6
Tax calculated at UK tax rate of 28 per cent	**9.3**	**11.1**	**20.4**	29.1	(2.1)	27.0
Effects of overseas taxation	**(1.4)**	**–**	**(1.4)**	(1.9)	–	(1.9)
Non taxable disposal of investment in Camelot	**–**	**(15.4)**	**(15.4)**	–	–	–
Expenses not deductible for tax purposes	**1.2**	**1.5**	**2.7**	1.1	1.1	2.2
Adjustment for tax on profits of associate	**–**	**–**	**–**	(1.8)	–	(1.8)
(Utilisation)/increase in unutilised tax losses	**(0.7)**	**1.7**	**1.0**	(0.2)	–	(0.2)
Adjustments in respect of prior years	**0.7**	**(2.5)**	**(1.8)**	2.3	(1.4)	0.9
Change in UK tax rate	**(0.1)**	**–**	**(0.1)**	–	–	–
Tax charge/(credit)	**9.0**	**(3.6)**	**5.4**	28.6	(2.4)	26.2

The underlying effective tax rate excluding exceptional items was 27.0 per cent (2010: 27.5 per cent).

6 Earnings per share

	2011 pence per share	2010 pence per share
Earnings per share		
Basic earnings per share	**67.6**	71.0
Diluted earnings per share	**67.2**	70.5
Headline earnings per share		
Basic earnings per share	**24.0**	76.2
Diluted earnings per share	**23.9**	75.7

Basic earnings per share is calculated by dividing the earnings attributable to ordinary 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 all dilutive potential ordinary shares.

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

	2011 £m	2010 £m
Earnings for basic and diluted earnings per share	**66.9**	69.9
Exceptional items	**(39.5)**	7.5
Less: Tax on exceptional items	**(3.6)**	(2.4)
Earnings for headline earnings per share	**23.8**	75.0

Weighted average number of ordinary shares

	2011 Number m	2010 Number m
For basic earnings per share	**99.0**	98.4
Dilutive effect of share options	**0.6**	0.7
For diluted earnings per share	**99.6**	99.1

7 Equity dividends

	2011 £m	2010 £m
Final dividend for the year ended 27 March 2010 of 28.2p paid on 5 August 2010	**27.9**	–
Interim dividend for the period ended 25 September 2010 of 14.1p paid on 12 January 2011	**14.0**	–
Final dividend for the year ended 28 March 2009 of 27.4p paid on 31 July 2009	**–**	27.0
Interim dividend for the period ended 26 September 2009 of 14.1p paid on 13 January 2010	**–**	13.9
	41.9	40.9

A final dividend per equity share of 28.2 pence has been proposed for the year ended 26 March 2011, payable on 4 August 2011. In accordance with IFRS accounting requirements, this dividend has not been accrued in these consolidated Financial Statements.

Notes to the accounts continued

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 28 March 2009	53.6	282.0	16.0	14.5	366.1
Exchange differences	(0.1)	0.3	0.1	(0.5)	(0.2)
Additions	–	17.9	0.6	22.8	41.3
Transfers from assets in the course of construction	–	13.2	1.7	(14.9)	–
Disposals	–	(6.9)	(0.6)	(1.9)	(9.4)
At 27 March 2010	53.5	306.5	17.8	20.0	397.8
Exchange differences	(0.4)	(2.1)	(0.2)	(0.1)	(2.8)
Additions	–	8.8	0.9	13.5	23.2
Transfers from assets in the course of construction	1.1	11.8	0.6	(13.5)	–
Reclassifications	–	(3.5)	3.5	–	–
Disposals	(0.1)	(6.6)	(1.9)	(0.7)	(9.3)
At 26 March 2011	**54.1**	**314.9**	**20.7**	**19.2**	**408.9**
Accumulated depreciation					
At 28 March 2009	20.0	186.2	11.6	–	217.8
Exchange differences	–	0.3	0.1	–	0.4
Depreciation charge for the year	1.2	17.4	1.6	–	20.2
Disposals	–	(5.8)	(0.4)	–	(6.2)
At 27 March 2010	21.2	198.1	12.9	–	232.2
Exchange differences	(0.1)	(1.3)	(0.2)	–	(1.6)
Depreciation charge for the year	1.5	20.1	1.6	–	23.2
Reclassifications	–	(3.2)	3.2	–	–
Disposals	(0.1)	(5.6)	(1.2)	–	(6.9)
At 26 March 2011	**22.5**	**208.1**	**16.3**	**–**	**246.9**
Net book value at 26 March 2011	**31.6**	**106.8**	**4.4**	**19.2**	**162.0**
Net book value at 27 March 2010	32.3	108.4	4.9	20.0	165.6
Net book value at 28 March 2009	33.6	95.8	4.4	14.5	148.3

Included within plant and machinery are assets held under finance leases with net book value of £0.2m (2010: £0.2m). Additions include £nil (2010: £0.1m) for plant and machinery held under finance leases. Leased assets are pledged as security for the related finance lease liabilities.

Land and buildings includes £4.1m (2010: £4.3m) of land that is not subject to depreciation.

Property, plant and equipment do not include any capitalised interest.

9 Intangible assets

	Goodwill £m	Development costs £m	Software assets £m	Distribution rights £m	Total £m
Cost					
At 28 March 2009	8.3	10.4	5.8	0.4	24.9
Exchange differences	0.2	(0.2)	–	–	–
Additions	–	2.3	1.8	–	4.1
At 27 March 2010	8.5	12.5	7.6	0.4	29.0
Exchange differences	(0.1)	(0.5)	–	–	(0.6)
Additions	–	5.6	1.4	–	7.0
Disposals	–	(1.6)	(0.6)	–	(2.2)
At 26 March 2011	**8.4**	**16.0**	**8.4**	**0.4**	**33.2**
Accumulated amortisation					
At 28 March 2009	0.3	1.2	4.7	0.4	6.6
Exchange differences	0.1	–	–	–	0.1
Amortisation for the year	–	1.5	1.3	–	2.8
Impairment	0.2	–	–	–	0.2
At 27 March 2010	0.6	2.7	6.0	0.4	9.7
Exchange differences	–	(0.1)	–	–	(0.1)
Amortisation for the year	–	1.1	0.1	–	1.2
Disposals	–	(0.9)	–	–	(0.9)
At 26 March 2011	**0.6**	**2.8**	**6.1**	**0.4**	**9.9**
Carrying value at 26 March 2011	**7.8**	**13.2**	**2.3**	**–**	**23.3**
Carrying value at 27 March 2010	7.9	9.8	1.6	–	19.3
Carrying value at 28 March 2009	8.0	9.2	1.1	–	18.3

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:

	2011 £m	2010 £m
Currency	**4.3**	4.3
Cash Processing Solutions	**3.5**	3.6
	7.8	7.9

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 amount are based on value in use calculations which are based on cash flow projections covering a five year period based on the 2011/12 budget plus a terminal year. 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 central banks' banknote circulation policies

(ii) The Group's knowledge of its customer base, gained through its long standing 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 13.4 per cent (2010: 13.4 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.

Notes to the accounts continued

10 Investments

	Associated companies		
	Equity shares £m	Redeemable shares £m	Total £m
At 28 March 2009	11.1	10.0	21.1
Share of post tax profits	6.3	–	6.3
Dividends paid	(6.8)	–	(6.8)
Reclassification as non current assets held for sale	(10.5)	(10.0)	(20.5)
At 27 March 2010 and 26 March 2011	**0.1**	**–**	**0.1**

At 27 March 2010, the principal associate of the Group was Camelot Group plc, in which the Group had a 20 per cent equity holding. The Group held 10,000,000 redeemable shares of £1 each in Camelot Group plc. The redeemable shares did not carry any voting rights but ranked equally with ordinary shares for dividend and return of capital purposes. On 25 March 2010, the Group announced the proposed sale of its investment in Camelot Group plc and the investment was reclassified as a non current asset held for sale from that date.

11 Non current assets held for sale

The sale of the Group's investment in Camelot to Ontario Teachers' Pension Plan was completed on 8 July 2010, for a consideration of £77.6m.

12 Inventories

	2011 £m	2010 £m
Raw materials	**21.2**	19.5
Work in progress	**26.6**	23.0
Finished goods	**19.7**	18.5
	67.5	61.0

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

Provisions of £3.6m recognised in pre exceptional operating expenses were made against inventories in 2011 (2010: £5.2m). The Group also reversed provisions of £3.4m (2010: £1.7m), being part of an inventory write down that was not subsequently required.

13 Trade and other receivables

	2011 £m	2010 £m
Trade receivables	**75.3**	71.1
Provision for impairment	**(4.7)**	(3.9)
Net trade receivables	**70.6**	67.2
Amounts due from associated companies and joint ventures	**0.3**	0.6
Other receivables	**13.2**	4.8
Prepayments	**5.6**	3.9
	89.7	76.5

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.

14 Financial instruments

Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
  - Currency risk
  - Interest rate risk

The Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk and the management of capital are set out below.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Committee, which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board on its activities.

The Group's risk management policies are established 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. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Financial risk management is carried out by Group Treasury under policies approved by the Board.

Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. Group Treasury provides written principles for overall 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.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by the Internal Audit function. The Internal Audit function undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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.

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.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

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.

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 net 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.

Notes to the accounts continued

14 Financial instruments continued

Interest rate risk

All material financial assets and liabilities are maintained at floating rates of interest. Where the Group has forecast average levels of 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 debt for a period of at least 12 months.

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. The Board of Directors monitors earnings per share, which the Group defines as the earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year. The Board also monitors the level of dividends to ordinary shareholders. There were no changes to the Group's approach to capital management during the year.

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 2011 £m**	**Carrying amount 2011 £m**	Total fair value 2010 £m	Carrying amount 2010 £m
Financial assets					
Trade and other receivables (excluding prepayments)		**84.1**	**84.1**	72.6	72.6
Cash and cash equivalents		**32.6**	**32.6**	41.6	41.6
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**4.0**	**4.0**	3.6	3.6
– Forward exchange contracts not designated as cash flow hedges	Level 2	**3.5**	**3.5**	3.0	3.0
– Embedded derivatives	Level 2	**8.3**	**8.3**	14.6	14.6
Total financial assets		**132.5**	**132.5**	135.4	135.4
Financial liabilities					
Unsecured bank loans and overdrafts		**(63.7)**	**(63.7)**	(52.4)	(52.4)
Finance lease liabilities		**(0.1)**	**(0.1)**	(0.2)	(0.2)
Trade and other payables (excluding accruals)		**(47.2)**	**(47.2)**	(58.4)	(58.4)
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**(2.5)**	**(2.5)**	(3.3)	(3.3)
– Forward exchange contracts not designated as cash flow hedges	Level 2	**(5.4)**	**(5.4)**	(14.5)	(14.5)
– Embedded derivatives	Level 2	**(6.1)**	**(6.1)**	(8.4)	(8.4)
– Interest rate swaps	Level 2	**(0.1)**	**(0.1)**	(0.6)	(0.6)
Total financial liabilities		**(125.1)**	**(125.1)**	(137.8)	(137.8)

The ineffective portion of fair value hedges that was recognised in the Income Statement amounted to a gain of £0.2m (2010: £0.3m loss). The ineffective portion of cash flow hedges that was recognised in the Income Statement was a gain of £0.5m (2010: nil).

Fair value measurement basis for derivative financial instruments

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.

Determination of fair values of 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.

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 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 26 March 2011 the discount rate used was 1.0 per cent (2010: 1.0 per cent).

14 Financial instruments continued

Hedge reserves

Net movements in the hedge reserve are shown in the Group Statement of Changes in Equity. The hedge reserve balance at 27 March 2010 was £3.9m.

Comprehensive income for 2010/11 was £4.9m comprising £1.2m of fair value movements on new and continuing cash flow hedges, and a £5.9m charge transferred to the Income Statement on maturing cash flow hedges, less £0.3m ineffectiveness on derecognition of cash flow hedges. Deferred tax on the net income of £6.8m amounted to £1.9m.

The hedge reserve balance on 26 March 2011 was £1.0m.

Credit risk

Exposure to credit risk

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

	Notes	Carrying amount **2011** **£m**	 2010 £m
Trade and other receivables (excluding prepayments)	14	**84.1**	72.6
Cash and cash equivalents	16	**32.6**	41.6
Forward exchange contracts used for hedging		**7.5**	6.6
Embedded derivatives		**8.3**	14.6
		132.5	135.4

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

	Carrying amount **2011** **£m**	 2010 £m
UK and Ireland	**18.9**	8.8
Rest of Europe	**8.5**	6.2
The Americas	**10.0**	12.6
Rest of world	**46.7**	45.0
	84.1	72.6

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

	Carrying amount **2011** **£m**	 2010 £m
Banks and financial institutions	**41.0**	32.2
Government institutions	**21.1**	22.8
Distributors	**3.0**	4.1
Retail customers	**1.6**	1.3
End user customers	**7.3**	4.1
Other	**10.1**	8.1
	84.1	72.6

Impairment losses

The ageing of trade and other receivables at the reporting date was:

	Gross 2011 £m	**Impairment 2011 £m**	Gross 2010 £m	Impairment 2010 £m
Not past due	**55.2**	**–**	58.0	(0.2)
Past due 0-30 days	**18.7**	**–**	9.8	–
Past due 31-120 days	**11.0**	**(2.0)**	4.6	(0.8)
Past due more than 120 days	**3.9**	**(2.7)**	4.1	(2.9)
	88.8	**(4.7)**	76.5	(3.9)

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

	2011 £m	2010 £m
Balance at beginning of year	**(3.9)**	(4.1)
Impairment losses recognised	**(1.5)**	(0.7)
Impairment losses utilised	**0.7**	0.9
Balance at end of year	**(4.7)**	(3.9)

The allowance accounts in respect of trade receivables are used to record impairment 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 26 March 2011, the Group does not have any collective impairments on its trade receivables (2010: nil).

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

Notes to the accounts continued

14 Financial instruments continued

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.

26 March 2011	**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	**63.7**	**–**	**–**	**63.7**	**–**	**63.7**
Finance lease liabilities	**0.1**	**–**	**–**	**0.1**	**–**	**0.1**
Derivative financial liabilities						
Forward exchange contracts used for cash flow hedging:						
– Gross amount payable from currency derivatives	**179.3**	**11.5**	**–**	**190.8**	**(183.0)**	**7.8**
Interest rate swaps	**0.2**	**–**	**–**	**0.2**	**(0.1)**	**0.1**
	243.3	**11.5**	**–**	**254.8**	**(183.1)**	**71.7**

27 March 2010	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	52.4	–	–	52.4	–	52.4
Finance lease liabilities	0.2	0.1	–	0.3	(0.1)	0.2
Derivative financial liabilities						
Forward exchange contracts used for cash flow hedging:						
– Gross amount payable from currency derivatives	173.8	53.1	2.1	229.0	(211.2)	17.8
Interest rate swaps	1.1	0.2	–	1.3	(0.7)	0.6
	227.5	53.4	2.1	283.0	(212.0)	71.0

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.

Forward foreign exchange contracts

The net principal amounts of the outstanding forward foreign exchange contracts at 26 March 2011 are US dollar 35.0m, euro 69.7m, Swiss franc (16.1m), Canadian dollar (0.4m), and South African rand 4.3m.

The net principal amounts outstanding under forward contracts with maturities greater than 12 months are euro 10.3m. 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 26 March 2011 will be released to the Income Statement at various dates between one month and 36 months from the balance sheet date.

Cash management swaps

The Group uses currency swaps to manage the level of borrowings in foreign currencies. The fair value of cash management currency swaps at 26 March 2011 was nil (2010: 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 26 March 2011 are US dollar 8.1m, euro (4.7m), Canadian dollar 0.9m, Swiss franc (0.7m), South African rand 26.2m, Japanese yen 5.3m and Australian dollar (0.8m).

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 26 March 2011 was £2.2m (2010: £6.2m).

Balance sheet swaps

The Group uses 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 26 March 2011 was £0.2m (2010: nil). Gains and losses on balance sheet swaps are included in the consolidated Income Statement.

The principal amounts outstanding under balance sheet swaps at 26 March 2011 are US dollar 34.8m, euro 3.9m, Canadian dollar 0.8m, Swiss franc (5.7m), South African rand 3.8m, Mexican peso (53.7m), and Hong Kong dollar 2.2m.

14 Financial instruments continued

Market risk: Currency risk

Exposure to currency risk

Net investment hedging

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

Translation of monetary assets and liabilities

Where individual Group companies have monetary assets and liabilities in foreign currencies, the net exposure, where material, is hedged in order to minimise translational gains and losses in the Income Statement.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	2010	**2011**	2010
US dollar	**1.55**	1.58	**1.61**	1.49
Euro	**1.17**	1.13	**1.14**	1.11

Sensitivity analysis

A 10 per cent strengthening of sterling against the following currencies at 26 March 2011 and 27 March 2010 would have increased/(decreased) profit or loss by the amounts shown below, based on the Group's external monetary assets and liabilities excluding hedging transactions. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	2011 £m	2010 £m
US dollar	**0.2**	(1.7)
Euro	**(0.5)**	0.8

A 10 per cent weakening of sterling against the above currencies at 26 March 2011 and 27 March 2010 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Transactional exposure

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.

Market risk: Interest rate risk

Interest rate profile

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

	Carrying amount	
	2011 £m	2010 £m
Variable rate instruments		
Financial assets	**32.6**	41.6
Financial liabilities	**(63.8)**	(52.6)
	(31.2)	(11.0)

As at 26 March 2011 the Group does not hold any fixed rate instruments.

Where the Group has forecast average levels of net debt above £50m on a continuing basis, Group policy is to maintain a minimum of 50 per cent of the Group's average net debt fixed for a period of at least 12 months.

The Group has reduced its exposure to cash flow interest rate risk through interest rate swaps with notional principal amounts of £50m, which have the effect of fixing the interest cost on £50m of borrowings under the Group's committed bank facility until May 2011 at an average rate of 1.74 per cent against receipt of 1 month LIBOR. As at 26 March 2011 £50m of the interest rate swaps were treated as ineffective because of reduced levels of sterling debt. The cumulative fair value of these swaps has been shown in the Income Statement.

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. The analysis is performed on the same basis for 2010.

	Profit and Loss		Equity	
	100bp increase £m	100bp decrease £m	100bp increase £m	100bp decrease £m
Variable rate instruments cash flow sensitivity (net)				
26 March 2011	**(0.2)**	**0.2**	**–**	**–**
27 March 2010	0.3	(0.3)	0.3	(0.3)

Notes to the accounts continued

15 Cash and cash equivalents

	2011 £m	2010 £m
Cash at bank and in hand	**31.9**	35.1
Short term bank deposits	**0.7**	6.5
	32.6	41.6

The effective interest rate on short term bank deposits was 0.5 per cent (2010: 1.0 per cent) and subject to one day notice for repayment.

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 LIBID 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 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:

	2011 £m	2010 £m
Deferred tax assets	**27.8**	36.5
Deferred tax liabilities	**(1.0)**	(0.3)
	26.8	36.2

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

	2011 £m	2010 £m
Beginning of the year	**36.2**	29.3
Exchange differences	**(0.2)**	(0.2)
Income statement charge	**(2.6)**	(6.5)
Tax credited to equity	**(6.6)**	13.6
End of the year	**26.8**	36.2

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 28 March 2009	7.4	0.4	0.8	1.4	10.0
Recognised in the Income Statement	0.9	–	0.5	(0.8)	0.6
At 27 March 2010	8.3	0.4	1.3	0.6	10.6
Recognised in the Income Statement	0.5	–	0.6	(0.1)	1.0
Recognised in equity	–	–	–	0.4	0.4
At 26 March 2011	**8.8**	**0.4**	**1.9**	**0.9**	**12.0**

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
Assets					
At 28 March 2009	(2.9)	(19.4)	–	(17.0)	(39.3)
Recognised in the Income Statement	1.4	(0.5)	(0.3)	5.3	5.9
Recognised in equity	0.1	(15.6)	–	1.9	(13.6)
Exchange differences	–	–	–	0.2	0.2
At 27 March 2010	(1.4)	(35.5)	(0.3)	(9.6)	(46.8)
Recognised in the Income Statement	(0.3)	3.6	(0.7)	(1.0)	1.6
Recognised in equity	0.5	4.2	–	1.5	6.2
Exchange differences	–	–	–	0.2	0.2
At 26 March 2011	**(1.2)**	**(27.7)**	**(1.0)**	**(8.9)**	**(38.8)**

16 Deferred taxation continued

Other deferred assets and liabilities predominantly relate to tax associated with provisions (£4.1m), and overseas tax credits (£4.1m).

Deferred income 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 income tax assets of £3.2m (2010: £2.5m) in respect of losses amounting to £12.6m (2010: £9.8m) that can be carried forward against future taxable income.

Unremitted earnings totalled £429.3m at 26 March 2011 (2010: £558.9m). Deferred income 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 £337.0m are carried forward at 26 March 2011 (2010: £337.0m). No deferred tax asset has been recognised in respect of these losses.

UK tax rate

Finance (No 2) Act 2010 was substantively enacted on 27 July 2010 and included legislation to reduce the main rate of UK corporation tax from 28 per cent to 27 per cent from 1 April 2011. For the year ended 26 March 2011, as the reduction in statutory rate by 1 per cent has been substantively enacted, deferred tax has been recognised on the Balance Sheet at 27 per cent and therefore the UK deferred tax liabilities/assets have been reduced accordingly.

A further reduction to the main rate was announced in the 2011 Budget on 23 March 2011 reducing the rate by an additional 1 per cent to 26 per cent from April 2011. This will be substantively enacted after 26 March 2011 and therefore has not been reflected in the deferred tax figures on the Balance Sheet.

17 Trade and other payables

	2011 £m	2010 £m
Current liabilities		
Payments received on account	**54.6**	42.9
Trade payables	**23.8**	26.9
Amounts owed to associated companies	**1.9**	1.1
Social security and other taxation	**3.4**	2.0
Deferred income	**5.1**	3.7
Accrued expenses	**59.8**	63.2
Other payables	**15.8**	24.4
	164.4	164.2
Non current liabilities		
Payments received on account	**–**	1.1
Other payables	**2.4**	4.0
	2.4	5.1

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 14.

Notes to the accounts continued

18 Borrowings

This note provides information about the contractual terms of 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 14.

	Currency	Nominal interest rate	Year of maturity	**Face value 2011 £m**	**Carrying amount 2011 £m**	Face value 2010 £m	Carrying amount 2010 £m
Current liabilities							
Unsecured bank loans and overdrafts	CHF	1.60%	2011	**0.3**	**0.3**	–	–
Unsecured bank loans and overdrafts	EUR	2.63%	2011	**1.6**	**1.6**	0.2	0.2
Unsecured bank loans and overdrafts	LKR	12.50%	2011	**0.3**	**0.3**	0.1	0.1
Unsecured bank loans and overdrafts	INR	15.50%	2011	**0.2**	**0.2**	–	–
Unsecured bank loans and overdrafts	GBP	2.64%	2011	**37.1**	**37.1**	25.0	25.0
Unsecured bank loans and overdrafts	USD	2.34%	2011	**21.7**	**21.7**	22.9	22.9
Unsecured bank loans and overdrafts	BRL	16.90%	2011	**2.5**	**2.5**	3.4	3.4
Finance leases	GBP	1.00%	2011	**0.1**	**0.1**	0.1	0.1
				63.8	**63.8**	51.7	51.7
Non current liabilities							
Unsecured bank loans repayable by instalments	EUR	0%	2011	**–**	**–**	0.8	0.8
Finance leases	GBP	1.00%	2011	**–**	**–**	0.1	0.1
				–	**–**	0.9	0.9
Total interest bearing liabilities				**63.8**	**63.8**	52.6	52.6

In 2011, bank loans and overdrafts of £109.1m (2010 £107.9m) were pooled for interest purposes against cash and cash equivalents.

As at 26 March 2011, the Group has a total of undrawn committed borrowing facilities, all maturing in more than two years, of £120.9m (2010: £125.2m).

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2011 £m	**Interest 2011 £m**	**Present value of minimum lease payments 2011 £m**	Future minimum lease payments 2010 £m	Interest 2010 £m	Present value of minimum lease payments 2010 £m
Less than one year	**0.1**	**–**	**0.1**	0.2	(0.1)	0.1
Between one and five years	**–**	**–**	**–**	0.1	–	0.1
	0.1	**–**	**0.1**	0.3	(0.1)	0.2

19 Provisions for liabilities and charges

	Restructuring £m	Business disposals £m	Warranty £m	Other £m	Total £m
At 27 March 2010	5.8	1.1	13.9	5.3	26.1
Exchange differences	–	–	–	(0.3)	(0.3)
Charge for the year	–	–	22.6	0.9	23.5
Utilised in year	(3.4)	–	(11.0)	(2.0)	(16.4)
Released in year	–	–	(5.6)	(0.3)	(5.9)
At 26 March 2011	**2.4**	**1.1**	**19.9**	**3.6**	**27.0**

Restructuring provisions relate to exceptional amounts set aside for various reorganisations, principally within CPS. Most of the utilisation of these provisions is likely within the next year.

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 the year.

Warranty provisions include £5.0m in respect of the paper production quality issues described in note 3: Exceptional items, which are expected to be utilised within twelve months.

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

20 Share capital

	2011 £m	2010 £m
Issued and fully paid		
99,202,592 ordinary shares of $44^{152}/_{175}$ p each (2010: 98,882,856 ordinary shares of $44^{152}/_{175}$ p each)	**44.5**	44.4
111,673,300 deferred shares of 1p each (2010: 111,673,300 deferred shares of 1p each)	**1.1**	1.1
	45.6	45.5

	2011		2010	
	Ordinary shares '000	**Deferred shares '000**	Ordinary shares '000	B shares/ Deferred shares '000
Allotments during the year				
Shares in issue at 27 March 2010/28 March 2009	**98,883**	**111,673**	97,787	111,673
Issued under executive share option plans	**18**	**–**	49	–
Issued under savings related share option scheme	**163**	**–**	415	–
Issued under US employee share purchase plan	**14**	**–**	16	–
Issued under deferred bonus and matching share plan	**125**	**–**	616	–
Shares in issue at 26 March 2011/27 March 2010	**99,203**	**111,673**	98,883	111,673

The deferred shares carry no voting rights and are unlisted.

21 Share based payments

At 26 March 2011, De La Rue plc 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 De La Rue's share based compensation plans are set out in the table below:

	Expense recognised for the year		Liability at end of year	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Annual bonus plan	**0.1**	–	**–**	–
Deferred bonus and matching plan	**0.5**	0.9	**–**	–
Performance share plan	**0.1**	–	**–**	–
Recruitment share award	**0.6**	–	**–**	–
Retention share award	**0.4**	–	**–**	–
Savings related share option plan	**0.2**	0.6	**–**	–
US employee share plan	**–**	0.1	**–**	–
	1.9	1.6	**–**	–

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	Deferred bonus and matching plan	Executive share option plan	Performance share plan
Dates of current year grants	26 Nov 2010	n/a	n/a	26 Nov 2010 31 Jan 2011
Number of options granted	92,939	n/a	n/a	137,263 111,433
Exercise price	n/a	n/a	n/a	n/a
Contractual life (years)	3	n/a	n/a	3
Settlement	Shares	Shares	Shares	Shares
Vesting period (years)	3	n/a	n/a	3
Dividend yield	n/a	n/a	n/a	n/a
Fair value per option at grant date	£5.60	n/a	n/a	£4.87 £5.97

Arrangement	Recruitment share award	Retention share award	Savings related share option plan	US employee share plan
Dates of current year grants	31 Jan 2011	31 Jan 2011	23 Dec 2010	01 Jan 2011
Number of options granted	65,549	45,844	1,515,182	17,644 (estimated)
Exercise price	n/a	n/a	444.14	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	4.5%	n/a
Fair value per option at grant date	£6.87	£6.87	£1.28 for 3 year plan £1.38 for 5 year plan	n/a

An expected volatility rate of 30 per cent (2010: 25 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 in the region of 1.5 or 2.4 per cent depending on exact grant date.

Reconciliations of option movements over the year to 26 March 2011 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 42 to 50.

	2011 Number of options '000	2010 Number of options '000
Options outstanding at start of year	**–**	–
Granted	**93**	–
Forfeited	**–**	–
Exercised	**–**	–
Expired	**–**	–
Outstanding at end of year	**93**	–
Exercisable at year end	**–**	–

The shares have been allocated based on a share price of 559.5p.

21 Share based payments continued

Deferred Bonus and Matching Plan

The Plan is open to eligible senior executives around the Group. 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 performance conditions are described in more detail on page 49. The TSR performance condition has been incorporated into the Monte Carlo simulation model used to estimate the fair value of these options.

	2011 Number of options '000	2010 Number of options '000
Options outstanding at start of year	**422**	887
Granted – deferred shares	**–**	82
Granted – matching shares	**–**	117
Forfeited	**(70)**	(72)
Exercised	**(118)**	(592)
Expired	**–**	–
Outstanding at end of year	**234**	422
Exercisable at year end	**–**	–

In 2010 the deferred and matching shares were based on a share price of 858.55p.

Executive Share Option Plan

The Executive Share Option Plan was open to eligible senior executives around 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 Price Index. If this condition is not met at the end of the performance period the options will lapse. For grants of options before April 2004 retesting of the performance target was allowed twice, on the fourth and fifth anniversaries of the grant date. A pre vesting forfeiture rate of 5 per cent per annum has been assumed.

	2011		2010	
	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	**10**	**388.05**	40	373.59
Granted	**–**	**–**	–	–
Forfeited	**–**	**–**	–	–
Exercised	**–**	**–**	(30)	368.59
Expired	**–**	**–**	–	–
Outstanding at end of year	**10**	**388.05**	10	388.05
Exercisable at year end	**10**	**388.05**	10	388.05

The range of exercise prices for the share options outstanding at the end of the year is 340.50p - 407.42p (2010: 340.50p - 407.42p).

The remaining contractual life of the outstanding share options is up to 5 July 2015 (2010: up to 5 July 2015).

Executive Share Option Scheme

The Company operated an Executive Share Option Scheme with a HM Revenue & Customs approved section and unapproved section which expired on 31 December 2004. Options granted under the Scheme since July 1996 can only be exercised if performance targets are met. The performance condition that has been applied to the 1997 grant and to all subsequent grants of options up to and including 2001 is that options can only be exercised if the total return of a share over a consecutive three year period exceeds the total return of the median ranked company in the FTSE 250 Index over the same period. Options granted in 1996 are normally exercisable only if the total return of a share over a rolling three year period exceeds the average total return of the FTSE All Share Index. A pre vesting forfeiture rate of 5 per cent per annum has been assumed.

	2011		2010	
	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	**18**	**487.88**	37	505.56
Exercised	**(18)**	**487.49**	(19)	522.30
Expired	**–**	**–**	–	–
Outstanding at end of year	**–**	**522.30**	18	487.88
Exercisable at year end	**–**	**522.30**	18	487.88

200 options remain outstanding and exercisable as at 26 March 2011. The exercise price for the share options outstanding at the end of the year was 522.30p (2010: 482.33p - 522.30p).

The remaining contractual life of the outstanding share options is up to 3 July 2011.

Notes to the accounts continued

21 Share based payments continued

Performance Share Plan

For details of the Performance Share Plan, refer to the Remuneration report on pages 42 to 50.

	2011 Number of options '000	2010 Number of options '000
Options outstanding at start of year	**–**	–
Granted	**249**	–
Forfeited	**–**	–
Exercised	**–**	–
Expired	**–**	–
Outstanding at end of year	**249**	–
Exercisable at year end	**–**	–

The shares have been allocated based on a share price of 559.5p for the 26 November 2010 grants, and 686.5p for the 31 January 2011 grants.

Retention and Recruitment Share Award

For details of the Recruitment Share Award and Retention Share Award, refer to the Remuneration report on pages 42 to 50.

	Retention share award		Recruitment share award	
	2011 Number of options '000	2010 Number of options '000	**2011 Number of options '000**	2010 Number of options '000
Options outstanding at start of year	**–**	–	**–**	–
Granted	**46**	–	**66**	–
Forfeited	**–**	–	**–**	–
Exercised	**–**	–	**–**	–
Expired	**–**	–	**–**	–
Outstanding at end of year	**46**	–	**66**	–
Exercisable at year end	**–**	–	**–**	–

The shares have been allocated 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.

		2011		2010
	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	**1,107**	**686.87**	1,225	565.31
Granted	**1,515**	**444.14**	348	819.55
Forfeited	**(397)**	**754.58**	(42)	691.21
Exercised	**(163)**	**379.31**	(415)	443.54
Expired	**(12)**	**647.72**	(9)	475.50
Outstanding at end of year	**2,050**	**519.01**	1,107	686.87
Exercisable at year end	**155**	**720.31**	12	470.74

The range of exercise prices for the share options outstanding at the end of the year is 357.00p – 819.55p (2010: 303.31p – 819.55p). The weighted average remaining contractual life of the outstanding share options is 1 September 2014 (2010: 1 September 2012).

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 2010/11, 14,014 shares (2009/10: 16,110 shares) were allotted pursuant to the plan. It is estimated that 17,644 shares will be required to satisfy the Company's 2011/12 obligations in respect of employees' savings under the plan as at 26 March 2011.

Market share purchase of shares by the 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 26 March 2011.

22 Notes to the Group Cash Flow Statement

	2011 £m	2010 £m
Disposal of subsidiary undertakings		
Consideration received, satisfied in cash	–	1.9
Net cash disposed of	–	–
Disposal costs paid	–	(2.9)
Disposal of subsidiary undertakings (net of cash disposed)	–	(1.0)

	2011 £m	2010 £m
Analysis of net debt		
Cash at bank and in hand	**31.9**	35.1
Short term bank deposits	**0.7**	6.5
Bank overdrafts	**(9.2)**	(3.8)
Total cash and cash equivalents	**23.4**	37.8
Borrowings due within one year	**(54.6)**	(47.9)
Borrowings due after one year	–	(0.9)
Net debt	**(31.2)**	(11.0)

23 Group operating leases

	2011 Property £m	2011 Plant and equipment £m	2010 Property £m	2010 Plant and equipment £m
Total commitments due:				
– Within one year	**3.2**	**0.2**	3.4	0.2
– Between one and five years	**5.1**	**0.2**	9.6	0.1
– Over five years	**26.4**	–	34.2	0.1
	34.7	**0.4**	47.2	0.4

24 Retirement benefit obligations

The Group operates pension plans throughout the world covering the majority of employees. These plans 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.

(i) 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 28 March 2009	(67.5)	(2.2)	(69.7)	19.4	(50.3)
Exchange differences	–	0.1	0.1	–	0.1
Current service cost included in operating profit	(4.5)	(0.2)	(4.7)	1.3	(3.4)
Net finance expense	(6.2)	(0.1)	(6.3)	1.7	(4.6)
Actuarial gains and losses arising over the year	(72.4)	0.1	(72.3)	20.3	(52.0)
Cash contributions and benefits paid	25.9	–	25.9	(7.3)	18.6
Transfers	(0.1)	–	(0.1)	0.1	–
At 27 March 2010	(124.8)	(2.3)	(127.1)	35.5	(91.6)
Exchange differences	–	0.1	0.1	–	0.1
Current service cost included in operating profit	(7.6)	(0.2)	(7.8)	2.2	(5.6)
Curtailments	16.0	–	16.0	(4.5)	11.5
Net finance expense	(3.2)	(0.1)	(3.3)	0.9	(2.4)
Actuarial gains and losses arising over the year	(31.1)	0.1	(31.0)	8.7	(22.3)
Cash contributions and benefits paid	50.2	–	50.2	(14.1)	36.1
Change in tax rate	–	–	–	(1.0)	(1.0)
At 26 March 2011	**(100.5)**	**(2.4)**	**(102.9)**	**27.7**	**(75.2)**

Notes to the accounts continued

24 Retirement benefit obligations continued

Amounts recognised in the consolidated Balance Sheet:

	2011 UK £m	**2011 Overseas £m**	**2011 Total £m**	2010 UK £m	2010 Overseas £m	2010 Total £m
Fair value of plan assets	**638.5**	**0.3**	**638.8**	569.2	0.3	569.5
Present value of funded obligations	**(732.0)**	**(0.4)**	**(732.4)**	(687.3)	(0.4)	(687.7)
Funded defined benefit pension plans	**(93.5)**	**(0.1)**	**(93.6)**	(118.1)	(0.1)	(118.2)
Present value of unfunded obligations	**(7.0)**	**(2.3)**	**(9.3)**	(6.7)	(2.2)	(8.9)
Net liability	**(100.5)**	**(2.4)**	**(102.9)**	(124.8)	(2.3)	(127.1)

Amounts recognised in the consolidated Income Statement:

	2011 UK £m	**2011 Overseas £m**	**2011 Total £m**	2010 UK £m	2010 Overseas £m	2010 Total £m
Included in employee benefits expense:						
– Current service cost	**(7.6)**	**(0.2)**	**(7.8)**	(4.5)	(0.2)	(4.7)
Included in profit from operations:						
– Curtailments	**16.0**	**–**	**16.0**	–	–	–
Included in net finance expense:						
– Expected return on plan assets	**35.7**	**–**	**35.7**	26.4	–	26.4
– Interest expense	**(38.9)**	**(0.1)**	**(39.0)**	(32.6)	(0.1)	(32.7)
Net finance expense	**(3.2)**	**(0.1)**	**(3.3)**	(6.2)	(0.1)	(6.3)
Total recognised in the consolidated Income Statement	**5.2**	**(0.3)**	**4.9**	(10.7)	(0.3)	(11.0)
Actual return on plan assets	**46.4**	**–**	**46.4**	143.8	–	143.8

Amounts recognised in the Statement of Comprehensive Income:

	2011 UK £m	**2011 Overseas £m**	**2011 Total £m**	2010 UK £m	2010 Overseas £m	2010 Total £m
Actuarial gain on plan assets	**10.7**	**–**	**10.7**	117.4	–	117.4
Actuarial (losses)/gains on defined benefit pension obligations	**(41.8)**	**0.1**	**(41.7)**	(189.8)	0.1	(189.7)
Amounts recognised in the Statement of Comprehensive Income	**(31.1)**	**0.1**	**(31.0)**	(72.4)	0.1	(72.3)

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

	2011 UK %	**2011 Overseas %**	**2011 Total %**	2010 UK %	2010 Overseas %	2010 Total %
Equities	**56.7**	**–**	**56.7**	58.9	–	58.9
Bonds	**22.1**	**–**	**22.1**	19.4	–	19.4
Gilts	**19.3**	**–**	**19.3**	19.0	–	19.0
Other	**1.9**	**100.0**	**1.9**	2.7	100.0	2.7

Other UK assets comprise cash. Categories of plan assets for overseas plans have not been disclosed as these plans are not considered sufficiently material to warrant such disclosure.

Principal actuarial assumptions:

	2011 UK %	**2011 Overseas %**	2010 UK %	2010 Overseas %
Future salary increases	**–**	**3.00**	4.10	3.00
Future pension increases – past service	**3.80**	**0.43**	3.70	0.43
Future pension increases – future service	**3.50**	**–**	3.50	–
Discount rate	**5.60**	**5.30**	5.80	5.80
Inflation rate	**3.60**	**2.00**	3.50	2.00
Expected return on plan assets:				
– Equities	**8.50**	**–**	8.25	–
– Bonds	**5.60**	**–**	5.80	–
– Gilts	**4.20**	**–**	4.60	–
– Other	**–**	**5.30**	–	2.80

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 26 March 2011 and 27 March 2010 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 20.6 years (2010: 20.5 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 period in respect of the De La Rue pension plans in the UK.

24 Retirement benefit obligations continued
History of experience gains and losses:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of plan assets	**638.8**	569.5	428.1	523.2	537.6
Present value of defined benefit pension obligations	**(741.7)**	(696.6)	(497.8)	(548.5)	(645.7)
Net liability	**(102.9)**	(127.1)	(69.7)	(25.3)	(108.1)
Cumulative actuarial gains and losses recognised in the Statement of Comprehensive Income	**(121.1)**	(90.1)	(17.8)	57.2	(16.3)
Experience (losses)/gains arising on defined benefit pension obligations:					
– Amount	**(7.7)**	(38.3)	(0.1)	0.3	16.2
– Percentage of present value of defined benefit pension obligations	**1.0%**	5.5%	–	0.1%	2.5%
Experience gains/(losses) arising on plan assets:					
– Amount	**10.7**	117.4	(123.7)	(43.6)	(9.6)
– Percentage of plan assets	**1.7%**	20.6%	28.9%	8.3%	1.8%

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 2009 and updated to 26 March 2011. The plan is valued formally every three years, the next valuation being as at April 2012.

Changes in the fair value of UK plan assets:

	2011 £m	2010 £m
At 27 March 2010/28 March 2009	**569.2**	427.3
Expected return on plan assets (before expenses)	**38.1**	26.4
Plan administration and investment management expenses	**(2.4)**	(2.4)
Actuarial gains	**10.7**	117.4
Employer contributions	**50.2**	25.4
Plan participant contributions	**3.1**	3.1
Claims from insurance policy	**0.5**	0.5
Benefits paid	**(30.0)**	(28.0)
Life assurance premiums	**(0.5)**	(0.4)
Transfers	**(0.4)**	(0.1)
At 26 March 2011/27 March 2010	**638.5**	569.2

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

	2011 £m	2010 £m
At 27 March 2010/28 March 2009	**(694.0)**	(494.8)
Current service cost	**(7.6)**	(4.5)
Curtailments	**16.0**	–
Interest cost	**(38.9)**	(32.6)
Actuarial losses	**(41.8)**	(189.8)
Plan participant contributions	**(3.1)**	(3.1)
Benefits paid	**29.5**	28.0
Plan administration and investment management expenses	**–**	2.4
Life assurance premiums	**0.5**	0.4
Transfers	**0.4**	–
At 26 March 2011/27 March 2010	**(739.0)**	(694.0)

Movements in the fair value of plan assets and defined benefit pension obligations for overseas plans have not been disclosed as these plans are not considered sufficiently material to warrant such disclosure. The Group expects to contribute around £18m to its UK pension fund in 2011/12.

(ii) 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 £1.8m (2010: £1.4m).

Notes to the accounts continued

25 Employees

	2011 number	2010 number
Average number of employees		
United Kingdom and Ireland	**2,061**	2,021
Rest of Europe	**685**	688
The Americas	**252**	302
Rest of World	**999**	935
	3,997	3,946
Average number of employees		
Currency	**2,469**	2,440
Cash Processing Solutions	**698**	739
Security Products	**563**	606
Identity Systems	**267**	161
	3,997	3,946

	2011 £m	2010 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	**128.9**	133.9
Social security costs	**9.0**	7.8
Share incentive schemes	**1.6**	1.0
Sharesave schemes	**0.3**	0.6
Pension costs	**9.6**	6.1
	149.4	149.4

26 Capital commitments

	2011 £m	2010 £m
The following commitments existed at the balance sheet date:		
– Contracted but not provided for in the accounts	**4.0**	22.1

27 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.

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 is implementing a number of measures arising from the findings of the investigation.

Provision, as described in note 3: Exceptional items, has been made for the costs associated with the paper production issues identified at this stage, including the write off of inventories and trade receivables and other costs relating to the investigation and rectification of these matters.

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

28 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 £22.8m (2010: £12.7m) for the purchase of ink and other consumables. At the balance sheet date there were creditor balances of £1.9m (2010: £1.1m) 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

	2011 £'000	2010 £'000
Salaries and other short term employee benefits	**2,267.3**	2,661.4
Termination benefits	**333.0**	1,578.9
Retirement benefits:		
– Defined contribution	**24.5**	31.2
– Defined benefit	**113.4**	422.8
Share based payments	**1,051.3**	801.0
	3,789.5	5,495.3

Key management comprises members of the Board (including fees of Non-executive Directors) and the Executive Committee. Key management compensation includes 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.