DE LA RUE PLC

22 November 2016

Solid performance underpinned by strong order book and good strategic progress

De La Rue plc (LSE: DLAR) (De La Rue, the "Group" or the "Company") announces its half year results for the six months ended 24 September 2016 (the period or half year).

KEY FINANCIALS

The figures below show continuing operations, excluding the Cash Processing Solutions business which was sold on 22 May 2016.

	Half year 2016/17 £m	Half year 2015/16 £m	*Change %*
Revenue	**189.5**	188.7	*0%*
Underlying operating profit*	**24.0**	23.6	*2%*
Underlying operating margin*	**12.7%**	12.5%	*20bpts*
Underlying profit before tax*	**18.2**	17.6	*3%*
Reported profit before tax	**17.2**	25.1	*(31%)*
Underlying earnings per share**	**14.0p**	14.6p	*(4%)*
Reported earnings per share	**13.2p**	25.0p	*(47%)*
Dividend per share	**8.3p**	8.3p	*0%*

* Before net exceptional charge of £1.0m (H1 2015/16: £7.5m income).

** Underlying EPS is calculated before exceptional charge and income, and exceptional tax credits of £0.2m (H1 2015/16: £3.0m).

The Directors are of the opinion that these measures give a better indication of underlying performance.

FINANCIAL HIGHLIGHTS

- Half year performance in line with expectations, full year outlook unchanged
- Year on year revenue flat and underlying operating profit up 2% despite the impact of a c£30m contract which concluded in H2 2015/16
- Currency revenue down 2%, underlying operating profit up 3%
- Product Authentication and Traceability revenue up 10% and underlying operating profit up 24%
- Net debt increased by £9.4m to £115.5m
- Group 12 month order book remained strong at £409m, providing good visibility for the rest of the year and beyond
- Concluded pension deficit funding plan with reduced cash contributions in 2017/18 and 2018/19
- Interim dividend maintained at 8.3p

STRATEGIC AND OPERATIONAL HIGHLIGHTS

Optimise & Flex – on track to deliver operational flexibility and planned cost savings

- Banknote Print volumes up 22% to 3.3bn notes, reflecting success in winning both overspill and relationship orders
- Banknote Paper volumes up 8% to 5,300 tonnes

- Successful launch of new Bank of England £5 polymer notes, designed and printed by De La Rue. Printing of £10 polymer notes underway
- Agreement to enter 60/40 joint venture with the Government of Kenya, which will strengthen our position in East Africa
- Restructuring of manufacturing footprint on track

Invest & Build – good momentum building in growth segments

- Good momentum in Polymer
  - Second significant volume customer win
  - 15 note issuing authorities secured since launch in 2012
- Holographic foil security feature for polymer launched and issued into circulation on the Gibraltar £100 during H1, further enhancing our polymer offering
- Active™ - our latest security thread with lenticular technology - in circulation on first note on Bahamas $10
- Secured two multi-year Identity Solutions contracts with Qatar and Barbados
- DLR Certify™ track and trace system successfully deployed with Cameroon as the first customer

Martin Sutherland, Chief Executive Officer of De La Rue, commented:

"De La Rue's half year results are in line with our expectations. The Currency business has shown strength and resilience despite the impact from the conclusion of a material contract last year. Both Banknote Print and Banknote Paper have performed well with increased volumes.

"De La Rue continues to make good progress against our 2020 strategic plan. We have further strengthened our position in the fast growing East Africa region through the agreement to form a joint venture with the Government of Kenya. I am also pleased with the progress in Polymer where we have secured a second volume customer. We now supply polymer substrate to 15 issuing authorities, representing c40% of total polymer customers. Although the contribution to the Group from Polymer is still small, we are optimistic about its potential growth in the coming years.

"In non Currency businesses, we have secured two multi-year Identity Solutions contracts and gained early traction in the enterprise market for Product Authentication and Traceability.

"While we expect little impact in the current financial year, as a major UK-based exporter with more than 80% of our revenue from outside the UK, we believe that we would benefit from a sustained weakness of Sterling. We are also encouraged by our 12 month closing order book of £409m and the early strategic momentum in the key future growth areas. We remain confident of the business' outlook for the rest of the year and beyond."

Enquiries:

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A presentation to analysts will take place at 9:00 am GMT on 22 November 2016 at the Lincoln Centre, 18 Lincoln's Inn Fields, WC2A 3ED. The presentation will also be accessible via a conference call and an audio webcast. Dial-ins for the conference call are +44 (0) 20 3059 8125, passcode: De La Rue. An archive of the conference call is available for a week from midday 22 November 2016, which is accessible via +44 (0) 121 260 4861, passcode: 4596 218#. For the live webcast, please register at www.delarue.com where a replay will also be available subsequently.

About De La Rue
De La Rue's purpose is to enable every citizen to participate securely in the global economy. As a trusted partner of governments, central banks and commercial organisations, De La Rue provides products and services that underpin the integrity of trade, personal identity and the movement of goods.

As the world's largest designer and commercial printer of banknotes, De La Rue designs, manufactures and delivers banknotes, banknote substrates and security features to customers in a world where currency will continue to be a key part of the developing payments eco-system. De La Rue is the only fully integrated supplier of both paper and polymer banknotes, and creates security features that ensure banknotes are protected against counterfeiting.

De La Rue is the world's largest commercial designer and printer of passports, delivering national and international identity tokens and software solutions for governments in a world that is increasingly focused on the importance of a legal and secure identity for every individual.

De La Rue also creates and delivers secure product identifiers and 'track and trace' software for governments and commercial customers alike to help to tackle the challenge of illicit or counterfeit goods and the collection of revenue and excise duties.

De La Rue is listed on the London Stock Exchange (LSE:DLAR). For further information visit www.delarue.com

Cautionary note regarding forward-looking statements

These results include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "plans", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout these results and the information incorporated by reference into these results and include statements regarding the intentions, beliefs or current expectations of the directors, De La Rue or the Group concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of De La Rue and the industry in which it operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond De La Rue's ability to control or predict. Forward-looking statements are not guarantees of future performance. The Group's actual results of operations, financial condition, liquidity, dividend policy and the development of the industry in which it operates may differ materially from the impression created by the forward-looking statements contained in these results and/or the information incorporated by reference into these results. In addition, even if the results of operations, financial condition, liquidity and dividend policy of the Group and the development of the industry in which it operates, are consistent with the forward-looking statements contained in these results and/or the information incorporated by reference into these results, those results or developments may not be indicative of results or developments in subsequent periods.

Other than in accordance with its legal or regulatory obligations, De La Rue does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

INTERIM STATEMENT

De La Rue's half year results were in line with expectations, with revenue flat and underlying operating profit up 2%. Implementation of the strategic plan is progressing well with the restructuring of the manufacturing footprint on track and an agreement to form a joint venture with the Government of Kenya. The Group's 12 month closing order book remained strong at £409m (H1 2015/16: £405m) at the end of the period.

In the first half of the year, we successfully mitigated the impact of the conclusion of a security features contract which contributed annual revenue of c£30m with good performance in Banknotes and Banknote Paper. Revenue in Currency was 2% lower than the prior year but underlying operating profit was up 3%.

Identity Solutions performed as expected with revenue up 6% and operating profit down 26%. Margins were in line with those in the FY2015/16. Product Authentication and Traceability performed well with revenue up 10% and operating profit up 24%, driven by higher volumes from existing customers.

FINANCIAL RESULTS

All numbers below are shown for continuing operations only and exclude the Cash Processing Solutions business which was sold on 22 May 2016. The loss from the discontinued operations in the period was £6.2m. See Note 3 in the accounts for details of the discontinued operations.

Group revenue was flat at £189.5m (H1 2015/16: £188.7m) in the first half. Underlying operating profit was up 2% at £24.0m (H1 2015/16: £23.6m). Underlying profit before tax increased by 3% to £18.2m (H1 2015/16: £17.6m) and underlying earnings per share was 4% lower at 14.0p (H1 2015/16: 14.6p). Exceptional net charges in the period were £1.0m (H1 2015/16: exceptional net gains of £7.5m), consisting of £1.6m site relocation and restructuring costs which were offset by £0.5m income relating to release of warranty provisions and a £0.1m gain from a land sale. This resulted in profit before tax of £17.2m (H1 2015/16: £25.1m), down 31% year-on-year.

Underlying operating cash flow, comprising underlying operating profit adjusted for depreciation and the movement in working capital, was £25.0m (H1 2015/16: £61.1m). Net debt at 24 September 2016 was £115.5m up £9.4m since the year end mainly due to an adverse working capital movement. Inventory increased in preparation for sales in the second half of the year.

DIVIDEND

An interim dividend of 8.3p has been declared for the half year ended 24 September 2016 (H1 2015/16: 8.3p), payable on 11 January 2017 to shareholders on the register on 9 December 2016.

STRATEGIC PROGRESS

During the first half, we have made good strategic progress in our three areas of focus: Optimise and Flex, Invest and Build, and the culture change programme.

Optimise and Flex

Optimise and Flex aims to mitigate the risks in the product lines that are challenged by pricing and/or limited growth potential, i.e. Banknote Paper, or that face unpredictable demands, i.e. Banknote Print.

To better align De La Rue's capacity with historic volumes and the unpredictability in the banknote market, in December 2015 we announced our manufacturing footprint restructuring programme to improve efficiency and reduce costs. The programme will see a significant reduction in our banknote production capacity but with an ability to flex with changeable shift patterns and the use of outsourcing partners.

We have agreed changes to working practices in a number of sites, significantly improving labour flexibility. During the period, we have decommissioned two lines in Malta and upgraded a banknote print line in Gateshead, UK. We have also refined the implementation plan to give us a better blend of outsourcing with a more flexible in house production capacity, which involves keeping the remaining banknote print line open in Malta. The plan to deliver c£13m savings per annum from FY2018/19 with £15m incremental capital expenditure remains on track.

In August 2016 we agreed to enter into a joint venture with the Government of Kenya which will acquire a 40% interest in De La Rue's wholly owned subsidiary in Kenya for £5.0m. Leveraging our existing long term strategic relationship with the Government of Kenya, the joint venture will further strengthen our ties with the country and secure our position as a supply hub of currency and security solutions for the East Africa region. The transaction is expected to complete by the end of the financial year.

Our view of the banknote paper market remains unchanged. We continue to pursue strategic partnerships to rationalise capacity and reduce ongoing capital requirements. Discussions with a number of potential partners are ongoing.

Invest and Build
Invest and Build aims to invest in and grow the product lines that are exposed to higher growth and more predictable markets, namely Polymer and Security Features in the Currency segment, Identity Solutions and Product Authentication and Traceability.

Momentum in polymer continues. We gained market share by becoming the joint supplier of polymer substrate in a large market. While we expect limited contribution to the Group's profitability from Polymer in the short term, we believe it has significant growth potential in the coming years.

Security Features has progressed well strategically. We launched holographic foil on polymer with the issue of the Gibraltar £100 note in September 2016. As the most versatile product category in our portfolio, Security Features can be applied across all other product lines. Our renewed focus on holographic features will help to increase return on assets by utilising the features in banknotes as well as other security products.

Identity Solutions have seen some early success in the first half with the winning of two multi-year ePassport and service contracts – Qatar and Barbados. We have also increased our focus on selling individual components and standalone service contracts to State Print Works (SPWs) and commercial operators.

Product Authentication and Traceability has also made good progress. Just a year after launch, DLR Certify™ was successfully deployed in Cameroon. We also gained traction in the enterprise market, with initial discussions with a number of large commercial organisations about bespoke digital solutions.

We aim to accelerate growth in Invest and Build product lines through partnerships and bolt-on acquisitions, with the main focus on security features. Discussions with a number of potential technology partners are ongoing.

Drive a high performing culture
As part of the culture change programme, we launched the second phase of the Leadership Development Programme, focusing on developing the agility and capability to lead and inspire others to perform at the highest levels while working effectively in a matrix organisation. In June 2016 we hosted our first Above & Beyond Recognition Awards to recognise and celebrate both individual and team achievements in the past year.

We aim to create a leaner, more dynamic and agile organisation. The total headcount as at the end of September 2016 was 3,067, 14% fewer than a year ago.

OPERATING REVIEWS

Currency

	Half Year 2016/17	Half Year 2015/16	*Change*
Banknote print volume (bn notes)	**3.3**	2.7	*22%*
Banknote paper volume ('000 tonnes)	**5.3**	4.9	*8%*
	£m	£m	
Revenue	**136.4**	139.8	*(2%)*
Operating profit*	**14.3**	13.9	*3%*
Operating margin*	**10.5%**	10.0%	*50bpts*

*Segmental operating profit is stated before exceptional items

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

Performance in the segment has benefited from strong volumes in Banknote Print and Banknote Paper, but offset by the conclusion of an important contract in December 2015. Currency revenue was 2% lower year on year at £136.4m (H1 2015/16: £139.8m), while operating profit was 3% higher, reflecting a better business mix.

The commercial banknote market continues to be buoyant, however orders remain unpredictable due to overspill work from SPWs. Banknote Print volumes increased by 22% during the period to 3.3bn notes (H1 2015/16: 2.7bn), partly by winning overspill orders. Banknote Print revenue was up 8% year on year, with gross profit up 4%.

The new Bank of England £5 polymer notes, designed and printed by De La Rue, were successfully entered into circulation in September. Production of the new £10 polymer notes is now underway.

Banknote Paper volumes increased by 8% to 5,300 tonnes (H1 2015/16: 4,900 tonnes), also benefiting from overspill orders. Banknote Paper revenue was up 6% in the period, offset by lower margins from a different mix of contracts.

There was a 70% increase in Polymer revenue and a doubling of gross profit in the period, although it remains a small part of the Group. We now supply our Safeguard® polymer substrate to 15 issuing authorities across 21 denominations. All three new Scottish £5 notes that were designed and printed on Safeguard® successfully went into circulation in the last two months.

Security Features performance was adversely impacted by the concluded contract. We have made considerable progress on mitigating the impact with several new wins, including the UAE and Dominican Republic. Active™, our latest security thread based on lenticular technology, went into full circulation for the first time with the new Bahamas $10 note in September 2016.

The 12 month order book for Currency remained strong at £322m (H1 2015/16: £318m) at the period end.

Identity Solutions

	Half Year 2016/17 £m	Half Year 2015/16 £m	*Change*
Revenue	**33.5**	31.5	*6%*
Operating profit*	**3.4**	4.6	*(26%)*
Operating margin*	**10.0%**	14.6%	*(460bpts)*

*Segmental operating profit is stated before exceptional items

Revenue grew 6% to £33.5m (H1 2015/16: £31.5m) primarily due to timing of deliveries. Operating profit fell to £3.4m (H1 2015/16: £4.6m), mainly due to the contractual reduction in contribution from a large contract as previously announced. Operating margin in the second half is expected to be in line with the first half.

Our focus on ePassport, digital and service offerings has borne fruit, securing multi-year contracts with Barbados and Qatar to provide ePassport and service solutions.

We have also made considerable progress on our strategy to sell to SPWs and commercial operators with a number of repeat and new orders for individual passport components. The sales pipeline for Identity Solutions remains strong.

Product Authentication & Traceability

	Half Year 2016/17 £m	Half Year 2015/16 £m	*Change*
Revenue	**21.5**	19.6	*10%*
Operating profit*	**6.3**	5.1	*24%*
Operating margin*	**29.3%**	26.0%	*330bpts*

*Segmental operating profit is stated before exceptional items

Revenue grew by 10% to £21.5m (H1 2015/16: £19.6m), while operating profit increased by 24% to £6.3m (H1 2015/16: £5.1m).

DLR Certify™, our first track and trace software solution, was successfully launched in Cameroon during the period. The end-to-end solution authenticates each pack of cigarettes with uniquely coded tax stamps that also enable the product to be traced through the supply chain with the DLR Certify™ system, thus protecting its citizens and tax revenue from illicit trade.

Ongoing joint R&D projects with existing enterprise customers have progressed well, which further strengthen our longstanding relationships.

EXCEPTIONAL ITEMS

The net exceptional charge in the period was £1.0m, comprising £1.6m costs relating to site relocation and structure, offset by £0.5m gain from the release of warranty provisions and £0.1m income from land sale. Tax credits relating to exceptional items arising in the period were £0.2m.

INTEREST
The Group’s net interest charge was £2.2m (H1 2015/16: £2.3m). The IAS19 related finance cost, which represents the difference between the imputed interest on pension liabilities and assets, was £3.6m (H1 2015/16: £3.7m).

FOREIGN EXCHANGE IMPACT
The currency market has become more volatile following the UK Referendum vote. The majority of our sales are invoiced in Sterling and as the Group hedges all confirmed foreign currency orders and purchases, we expect little impact from the foreign exchange movement in the 2016/17 financial year. However, as a major UK-based exporter with more than 80% of revenue from outside the UK, De La Rue is expected to benefit from competitive advantages presented by the weakness of Sterling.

PENSION DEFICIT AND FUNDING
The Group’s formal triennial funding valuation of the UK defined benefit pension scheme was finalised in June 2016. The underlying funding deficit as at 5 April 2015 was valued at £252m. The Group agreed a revised funding plan with the Trustee to eliminate the deficit over a period of 12 years from 31 March 2016. The plan will see the existing funding payment schedule extended from 2022 to 2028.

The cash contributions to the scheme will be £13.0m and £13.5m in 2017 and 2018 respectively, increasing to £20.5m in 2019 and then rising by 4% per annum to 2022. It will be frozen at £23.0m per year between 2023 and 2028. In the year ended 26 March 2016, the Group made funding payments and management fees totalling £19.1m. The Group will continue to pay annual fees of £1.6m for managing the scheme in addition to the cash contributions. The next triennial funding valuation is due in April 2018.

The valuation of the pension scheme under IAS 19 indicates a scheme post tax deficit at 24 September 2016 of £297.7m (26 March 2016: £178.4m), reflecting a decrease in the discount rate used to value the scheme liabilities (2.10% in H1 2016/17 compared with 3.50% in FY 2015/16) and the Group funding contributions. The increase was partly offset by the higher than expected returns on scheme assets.

In common with other final salary schemes, the scheme valuation is very sensitive to any movement in the discount rate, with a 0.25% increase in discount rate resulting in a £49m decrease in liabilities or vice versa and hence the deficit would reduce should interest and discount rates increase in the future.

The charge to operating profit in respect of the UK defined benefit pension scheme for the half year was £0.6m (H1 2015/16: £0.5m). In addition, under IAS 19 there was a finance charge of £3.6m arising from the difference between the interest cost on liabilities and the interest income on scheme assets (H1 2015/16: £3.7m).

BOARD CHANGES
Nick Bray, Chief Financial Officer of Sophos Group plc, joined the Board as a Non-executive Director and Chair of the Audit Committee at the AGM on 21 July 2016. Nick brings extensive and highly relevant experience in the technology and information security industries to the Board. He succeeds Victoria Jarman, who stepped down at the AGM.

OUTLOOK
The Group’s 12 month order book at £409m provides good visibility for the rest of the year and the Board is encouraged by the early strategic momentum in the Invest and Build product lines. The outlook for the year remains unchanged.

- **ends** -

Martin Sutherland
Chief Executive Officer

Jitesh Sodha
Chief Financial Officer

22 November 2016

DIRECTORS REPORT

Principal risks and uncertainties

Throughout its global operations De La Rue faces various risks, both internal and external, which could have a material impact on the Group's performance. The Group manages the risks inherent in its operations in order to mitigate exposure to all forms of risks, where practical, and to transfer risk to insurers, where cost effective.

The Group analyses the risks that it faces under the following broad headings: strategic risks (technological revolution, strategy implementation, changes to the market environment and economic conditions), operational risks, legal/ regulatory, information risks and financial risks (currency risk, credit risk, liquidity risk, interest rate risk and commodity price risk).

As described in the 2016 Annual Report, the principal risks include failure to innovate, timing of contract awards and political factors, loss of a key customer or contract, product security, product integrity, reputational damage, supplier failure, health and safety failure, environmental breach, loss of a key site, contract issues, breach of competition regulations, loss of core IT systems, information security and actions of its employees and third parties. These risks, along with the risk management systems and processes used to manage them remain unchanged since the Annual Report was published.

The main risks and uncertainties faced by the Group for the remaining six months of the year and the risk management systems and processes used to manage them are unchanged from those described further in the 2016 Annual Report, a copy of which is available on request from the Company's registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 6 to 24 of the strategic report in the 2016 Annual Report. In addition, pages 86 to 89 of the 2016 Annual Report include the Group's objectives, policies and processes for financial risk management, details of its financial instruments and hedging activities and its exposure to credit risk, liquidity risk and commodity pricing risk. The financial position of the Group, its liquidity position and borrowing facilities are described on page 26 of the 2016 Annual Report. As described on page 26 of the 2016 Annual Report, the Group meets its funding requirements through cash generated from operations and a revolving credit facility which expires in December 2019.

The Group's updated forecasts and projections, which cover a period of more than twelve months from the date of the interim statement, taking into account reasonably possible changes in normal trading performance, show that the Group should be able to operate within its currently available facilities. The Group has sufficient financial resources together with assets that are expected to generate cash flow in the normal course of business. As a consequence and notwithstanding the net liability position being reported in the consolidated balance sheet, which has primarily arisen due to the value of the deficit in the retirement benefit obligations, the Directors have a reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the condensed interim financial statements.

A copy of the 2016 Annual Report is available at www.delarue.com or on request from the Company's registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS.

Responsibility Statement of the Directors in respect of the Interim Statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS34 'Interim Financial Reporting' as adopted by the EU;

- the Interim Management Statement includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statement; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions to those described in the last Annual Report that could do so.

The Board

The Board of Directors of De La Rue plc at 26 March 2016 and their respective responsibilities can be found on pages 38 and 43 of the De La Rue plc Annual Report 2016. Since that date the following changes have taken place:

- Victoria Jarman stepped down as Non-executive Director and Chair of the Audit Committee at the conclusion of the AGM on 21 July 2016
- Nick Bray was appointed as Non-executive Director and Chair of the Audit Committee on 21 July 2016

For and on behalf of the Board

Philip Rogerson
Chairman
22 November 2016

INDEPENDENT REVIEW REPORT TO DE LA RUE PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 24 September 2016 which comprises the Group condensed consolidated interim income statement, the Group condensed consolidated interim statement of comprehensive income, the Group condensed consolidated interim balance sheet, the Group condensed consolidated interim statement of cash flows, the Group condensed consolidated interim statement of changes in equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 24 September 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Ian Bone
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
Canary Wharf,
London, E14 5GL
22 November 2016

GROUP CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT - UNAUDITED
FOR THE HALF YEAR ENDED 24 SEPTEMBER 2016

	Notes	**2016/17 Half Year**	Re-presented* 2015/16 Half Year	2015/16 Full Year
		£m	£m	£m
Revenue	2	**189.5**	188.7	454.5
Operating expenses - ordinary		**(165.5)**	(165.1)	(384.1)
Operating (expenses)/income - exceptional	4	**(1.0)**	7.5	(3.6)
Total operating expenses		**(166.5)**	(157.6)	(387.7)
Operating profit		**23.0**	31.1	66.8
Comprising:				
Underlying operating profit	2	**24.0**	23.6	70.4
Exceptional items	4	**(1.0)**	7.5	(3.6)
Profit before interest and taxation		**23.0**	31.1	66.8
Interest income		**-**	-	0.1
Interest expense		**(2.2)**	(2.3)	(4.9)
Net retirement benefit obligation finance cost		**(3.6)**	(3.7)	(7.1)
Net finance expense		**(5.8)**	(6.0)	(11.9)
Profit before taxation		**17.2**	25.1	54.9
Comprising:				
Underlying profit before tax		**18.2**	17.6	58.5
Exceptional items	4	**(1.0)**	7.5	(3.6)
Taxation - UK		**(1.0)**	(1.3)	(4.9)
- Overseas		**(1.7)**	2.3	(1.4)
Total taxation		**(2.7)**	1.0	(6.3)
Profit for the period from continuing operations		**14.5**	26.1	48.6
Comprising:				
Underlying profit for the period		**15.3**	15.6	49.9
(Loss)/profit for the period on exceptional items	4	**(0.8)**	10.5	(1.3)
Loss from discontinued operations	3	**(6.2)**	(5.9)	(31.0)
Profit for the period		**8.3**	20.2	17.6
Profit attributed to equity shareholders of the company				
Profit for the period from continuing operations		**13.4**	25.3	47.4
Loss for the period from discontinued operations		**(6.2)**	(5.9)	(31.0)
Total profit attributable to equity shareholders of the company		**7.2**	19.4	16.4
Profit attributed to non-controlling interests				
Profit for the period from continuing operations		**1.1**	0.8	1.2
Total profit attributable to non-controlling interests		**1.1**	0.8	1.2
Profit for the period		**8.3**	20.2	17.6

Profit for the period attributable to the Company's equity holders			
Earnings per ordinary share			
Basic			
Basic EPS continuing operations	**13.2p**	25.0p	46.8p
Basic EPS discontinued operations	**(6.1p)**	(5.8p)	(30.6p)
Total Basic Earnings per share	**7.1p**	19.2p	16.2p
Diluted			
Diluted EPS continuing operations	**12.9p**	24.6p	46.2p
Diluted EPS discontinued operations	**(6.0p)**	(5.7p)	(30.2p)
Total Diluted Earnings per share	**6.9p**	18.9p	16.0p

*2015/16 H1 figures have been re-presented for the impact of discontinued operations – see Note 3

GROUP CONDENSED CONSOLIDATED INTERIM
STATEMENT OF COMPREHENSIVE (LOSS)/INCOME - UNAUDITED
FOR THE HALF YEAR ENDED 24 SEPTEMBER 2016

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full Year £m
Profit for the financial period	**8.3**	20.2	17.6
Other comprehensive income			
Items that are not reclassified subsequently to income statement:			
Re-measurement (losses)/gains on retirement benefit obligations	**(141.0)**	20.1	5.4
Tax related to remeasurement of net defined benefit liability	**21.8**	(4.0)	(5.4)
Items that may be reclassified subsequently to income statement:			
Foreign currency translation difference for foreign operations	**(4.6)**	(2.1)	1.5
Foreign currency translation recycled on disposal of discontinued operations	**4.5**	-	-
Change in fair value of cash flow hedges	**7.1**	(0.5)	4.1
Change in fair value of cash flow hedges transferred to income statement	**(3.2)**	2.8	1.6
Change in fair value of cash flow hedges transferred to non-current assets	**(0.3)**	-	1.5
Income tax relating to components of other comprehensive income	**1.6**	(0.5)	(1.8)
Other comprehensive (loss)/income for the period, net of tax	**(114.1)**	15.8	6.9
Total comprehensive (loss)/income for the period	**(105.8)**	36.0	24.5
Total comprehensive income for the period attributable to:			
Equity shareholders of the Company	**(106.9)**	35.2	23.3
Non-controlling interests	**1.1**	0.8	1.2
	(105.8)	36.0	24.5

GROUP CONDENSED CONSOLIDATED INTERIM
BALANCE SHEET - UNAUDITED
AT 24 SEPTEMBER 2016

	Notes	**2016/17 Half Year £m**	2015/16 Half Year £m	2015/16 Full Year £m
ASSETS				
Non-current assets				
Property, plant and equipment		**162.7**	175.3	167.0
Intangible assets		**14.4**	16.8	13.4
Investments in associates		**0.1**	0.1	0.1
Deferred tax assets		**67.9**	43.2	41.6
Derivative financial instruments	8	**0.6**	0.5	1.9
		245.7	235.9	224.0
Current assets				
Inventories		**75.2**	83.0	67.1
Trade and other receivables		**91.1**	82.7	93.5
Current tax assets		**0.2**	1.1	1.3
Derivative financial instruments	8	**31.0**	6.1	15.0
Cash and cash equivalents		**11.6**	52.4	40.5
Assets classified as held for sale	3	**-**	-	11.2
		209.1	225.3	228.6
Total assets		**454.8**	461.2	452.6
LIABILITIES				
Current Liabilities				
Borrowings		**(127.1)**	(155.7)	(146.6)
Trade and other payables		**(163.0)**	(179.1)	(171.5)
Current tax liabilities		**(20.9)**	(17.2)	(17.6)
Derivative financial instruments	8	**(22.6)**	(7.9)	(12.0)
Provisions for liabilities and charges		**(14.7)**	(9.9)	(9.0)
Liabilities classified as held for sale	3	**-**	-	(10.5)
		(348.3)	(369.8)	(367.2)
Non-current liabilities				
Retirement benefit obligations	10	**(361.1)**	(212.4)	(219.9)
Deferred tax liabilities		**(2.9)**	(1.5)	(1.6)
Derivative financial instruments	8	**(1.0)**	(1.0)	(1.2)
Provisions for liabilities and charges		**(1.8)**	(1.6)	(6.9)
Other non-current liabilities		**(7.0)**	(1.0)	(1.4)
		(373.8)	(217.5)	(231.0)
Total liabilities		**(722.1)**	(587.3)	(598.2)
Net liabilities		**(267.3)**	(126.1)	(145.6)
EQUITY				
Ordinary share capital		**46.7**	46.6	46.6
Share premium account		**36.6**	35.6	35.7
Capital redemption reserve		**5.9**	5.9	5.9
Hedge reserve	8	**5.3**	(1.7)	2.3
Cumulative translation adjustment		**(12.4)**	(15.9)	(12.3)
Other reserves		**(83.8)**	(83.8)	(83.8)
Retained earnings		**(273.0)**	(119.3)	(146.6)
Total equity attributable to shareholders of the Company		**(274.7)**	(132.6)	(152.2)
Non-controlling interests		**7.4**	6.5	6.6
Total equity		**(267.3)**	(126.1)	(145.6)

GROUP CONDENSED CONSOLIDATED INTERIM
STATEMENT OF CASH FLOWS – UNAUDITED
FOR THE HALF YEAR ENDED 24 SEPTEMBER 2016

	Notes	**2016/17 Half Year £m**	2015/16 Half Year £m	2015/16 Full Year £m
Cash flows from operating activities				
Profit before tax*		**11.8**	19.6	20.8
Adjustments for:				
Finance income and expense		**5.8**	6.1	12.1
Depreciation		**12.0**	10.9	23.0
Amortisation		**1.5**	2.0	3.2
(Increase)/decrease in inventories		**(6.6)**	(12.5)	5.0
(Increase)/decrease in trade and other receivables		**(2.5)**	19.4	(2.0)
(Decrease)/increase in trade and other payables		**(1.8)**	9.2	11.4
(Decrease)/increase in reorganisation provisions		**(0.9)**	(3.2)	0.4
Special pension fund contribution		**(4.2)**	(8.4)	(19.1)
(Profit)/loss on disposal of property, plant and equipment and software intangibles		**0.8**	(9.4)	(7.6)
Asset impairments		**-**	-	10.8
Other non-cash movements		**0.8**	(3.6)	0.9
Cash generated from operations		**16.7**	30.1	58.9
Tax paid		**(0.8)**	(1.0)	(4.7)
Net cash flows from operating activities		**15.9**	29.1	54.2
Cash flows from investing activities				
Proceeds from sale of discontinued operation		**2.1**	-	-
Purchases of property, plant and equipment and software intangibles		**(6.3)**	(10.8)	(25.0)
Development expenditure capitalised		**(2.5)**	(0.9)	(3.0)
Proceeds from sale of property, plant and equipment		**-**	9.7	9.9
Net cash flows from investing activities		**(6.7)**	(2.0)	(18.1)
Net cash flows before financing activities		**9.2**	27.1	36.1
Cash flows from financing activities				
Proceeds from issue of share capital		**1.0**	0.1	0.3
(Repayment of)/proceeds from borrowings, net		**(17.3)**	14.1	3.6
Interest received		**-**	0.1	0.1
Interest paid	5	**(2.0)**	(1.8)	(4.2)
Dividends paid to shareholders		**(16.9)**	(16.9)	(25.3)
Dividends paid to non-controlling interests		**(0.3)**	-	(0.3)
Net cash flows from financing activities		**(35.5)**	(4.4)	(25.8)
Net (decrease)/increase in cash and cash equivalents in the period		**(26.3)**	22.7	10.3
Cash and cash equivalents at the beginning of the period		**37.9**	28.9	28.9
Exchange rate effects		**(0.1)**	(0.7)	(1.3)
Cash and cash equivalents at the end of the period	8	**11.5**	50.9	37.9
Cash and cash equivalents consist of:				
Cash at bank and in hand		**9.4**	50.2	40.5
Short term deposits	4	**2.2**	2.2	-
Bank overdrafts		**(0.1)**	(1.5)	(2.6)
	8	**11.5**	50.9	37.9

*Profit before tax includes continuing and discontinued operations. The cash flows relating to discontinued operations are included within Note 3

GROUP CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY - UNAUDITED
FOR THE HALF YEAR ENDED 24 SEPTEMBER 2016

	Attributable to equity shareholders							Non-controlling interest	Total equity
	Share capital	Share premium account	Capital redemption reserve	Hedge reserve	Cumulative translation adjustment	Other reserve	Retained earnings		
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 28 March 2015	46.5	35.5	5.9	(3.5)	(13.8)	(83.8)	(139.4)	5.7	(146.9)
Profit for the period	-	-	-	-	-	-	19.4	0.8	20.2
Other comprehensive income, net of tax	-	-	-	1.8	(2.1)	-	16.1	-	15.8
Total comprehensive income	-	-	-	1.8	(2.1)	-	35.5	0.8	36.0
Transactions with owners of the company recognised directly in equity:									
Share capital issued	0.1	0.1	-	-	-	-		-	0.2
Employee share scheme:									
- value of services provided	-	-	-	-	-	-	1.7	-	1.7
Income tax on income and expenses recognised directly in equity	-	-	-	-	-	-	(0.2)	-	(0.2)
Dividends paid	-	-	-	-	-	-	(16.9)	-	(16.9)
Balance at 26 September 2015	46.6	35.6	5.9	**(1.7)**	**(15.9)**	**(83.8)**	**(119.3)**	**6.5**	**(126.1)**
Profit for the period	-	-	-	-	-	-	(3.0)	0.4	(2.6)
Other comprehensive income, net of tax	-	-	-	4.0	3.6	-	(16.5)	-	(8.9)
Total comprehensive income	-	-	-	4.0	3.6	-	(19.5)	0.4	(11.5)
Transactions with owners of the company recognised directly in equity:									
Share capital issued	-	0.1	-	-	-	-	-	-	0.1
Employee share scheme:									
- value of services provided	-	-	-	-	-	-	0.7	-	0.7
Income tax on income and expenses recognised directly in equity	-	-	-	-	-	-	(0.1)	-	(0.1)
Dividends paid	-	-	-		-	-	(8.4)	(0.3)	(8.7)
Balance at 28 March 2016	46.6	35.7	5.9	2.3	(12.3)	(83.8)	(146.6)	6.6	(145.6)
Profit for the period	-	-	-	-	-	-	7.2	1.1	8.3
Other comprehensive income, net of tax	-	-	-	3.0	(0.1)	-	(117.0)	-	(114.1)
Total comprehensive income	-	-	-	3.0	(0.1)	-	(109.8)	1.1	(105.8)
Transactions with owners of the company recognised directly in equity:									
Share capital issued	0.1	0.9	-	-	-	-		-	1.0
Employee share scheme:									
- value of services provided	-	-	-	-	-	-	(0.5)	-	(0.5)
Income tax on income and expenses recognised directly in equity	-	-	-	-	-	-	0.8	-	0.8
Dividends paid	-	-	-	-	-	-	(16.9)	(0.3)	(17.2)
Balance at 24 September 2016	46.7	36.6	5.9	**5.3**	**(12.4)**	**(83.8)**	**(273.0)**	**7.4**	**(267.3)**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

1 Basis of preparation and accounting policies

This statement is the condensed consolidated financial information of the Company and its subsidiaries (together referred to as the 'Group') and the Group's interests in associates and jointly controlled entities as at and for the half year ended 24 September 2016. It has been prepared in accordance with the requirements of IAS34 Interim Financial Reporting as adopted by the European Union.

The condensed consolidated interim financial statements have been prepared as at 24 September 2016, being the last Saturday in September. The comparatives for 2015/16 financial year are for the half year ended 26 September 2015 and the full year ended 26 March 2016. The condensed consolidated financial statements were approved by the Board of Directors on 22 November 2016.

The Group completed the sale of the Cash Processing Solutions business on 22 May 2016. The results of the subsidiaries disposed of are included in the condensed consolidated interim financial statements until that date.

The condensed consolidated financial statements do not constitute financial statements as defined in section 434 of the Companies Act 2006 and do not include all of the information and disclosures required for the full annual financial statements. They should be read in conjunction with the Group's Annual Report 2016 which is available on request from the Company's registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS or at www.delarue.com

The comparative figures for the financial period ended 24 March 2016 are not the Company's statutory accounts for that financial period. Those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The auditor's report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The half yearly results for the current and comparative periods are unaudited. The auditors have carried out a review of the interim statement 2016/17 and their report is set out on page [10].

These condensed financial statements have been prepared using the same accounting policies as used in the preparation of the Group's annual financial statements for the period ended 26 March 2016, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

In applying the accounting policies, management has made appropriate estimates in many areas, and the actual outcome may differ from those calculated. The key sources of estimation uncertainty at the balance sheet date were the same as those that applied to the consolidated financial statements of the Group for the year ended 26 March 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

2 Segmental analysis

The continuing operations of the Group have three main operating units: Currency, Identity Solutions and Product Authentication and Traceability. The Board, which is the Group's Chief Operating Decision Maker, monitors the performance of the Group at this level and there are therefore three reportable segments. The principal financial information reviewed by the Board is revenue and underlying operating profit, measured on an IFRS basis.

The Group's segments are:

- Currency – provides printed banknotes, banknote paper and polymer substrates and banknote security features
- Identity Solutions – involved in the provision of passport, ePassport, national ID and eID, driving licence and voter registration schemes
- Product Authentication and Traceability (previously Security Products) – produces security documents, including authentication labels, brand licensing products, government documents, cheques and postage stamps

Inter-segmental transactions are eliminated upon consolidation.

Discontinued operations – The Group completed the sale of the Cash Processing Solutions business on 22 May 2016 (see note 3).

Analysis by operating segment

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full Year £m
Revenue by operating segment			
Currency	**136.4**	139.8	353.3
Identity Systems	**33.5**	31.5	65.8
Product Authentication and Traceability	**21.5**	19.6	39.5
Eliminations	**(1.9)**	(2.2)	(4.1)
Total of Continuing operations	**189.5**	188.7	454.5
Discontinued operations	**4.9**	16.1	33.9
Unallocated – discontinued operations	**-**	-	(0.2)
	194.4	204.8	488.2

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full Year £m
Operating profit by operating segment			
Currency	**14.3**	13.9	55.1
Identity Systems	**3.4**	4.6	6.4
Product Authentication and Traceability	**6.3**	5.1	8.9
Total of Continuing operations	**24.0**	23.6	70.4
Discontinued operations	**(2.3)**	(4.7)	(7.9)
Operating profit before exceptional items	**21.7**	18.9	62.5
Exceptional items - Currency	**0.1**	(2.1)	(13.1)
Exceptional items - Identity Systems	**-**	-	-
Exceptional items - Product Authentication and Traceability	**-**	(0.2)	(0.5)
Exceptional items – Discontinued operations	**(3.1)**	(0.7)	(26.0)
Exceptional items – unallocated	**(1.1)**	9.8	10.0
Operating profit	**17.6**	25.7	32.9
Net finance expense	**(2.2)**	(2.4)	(5.0)
Retirement benefit obligations net finance expense	**(3.6)**	(3.7)	(7.1)
Profit before taxation	**11.8**	19.6	20.8

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

Analysis by operating segment (continued)

	2016/17 Half Year	2015/16 Half Year	2015/16 Full Year
	£m	£m	£m
Assets by operating segment			
Currency	**240.0**	230.4	238.4
Identity Systems	**35.8**	39.7	38.9
Product Authentication and Traceability	**22.3**	19.8	20.8
Unallocated assets	**156.7**	138.5	143.3
Total Continuing operations	**454.8**	428.4	441.4
Discontinued operations	**-**	32.8	11.2
	454.8	461.2	452.6
Liabilities by operating segment			
Currency	**(123.4)**	(128.5)	(119.4)
Identity Systems	**(25.8)**	(22.0)	(26.7)
Product Authentication and Traceability	**(9.6)**	(6.6)	(7.2)
Unallocated liabilities	**(563.3)**	(419.4)	(434.4)
Total Continuing operations	**(722.1)**	(576.5)	(587.7)
Discontinued operations	**-**	(10.8)	(10.5)
	(722.1)	(587.3)	(598.2)

3 Discontinued operations

The Group completed the sale of the entire issued share capital of Cash Processing Solutions Limited and related subsidiaries (together "CPS") to CPS Topco Limited, a company owned by Privet Capital on 22 May 2016.

Under the terms of the agreement, De La Rue received £2.1m upon completion of the transaction. In addition, deferred consideration totalling £1.5m will be payable in two equal instalments on the first and second anniversaries of the transaction. The Group is also entitled to further contingent consideration and liable for certain contingent liabilities following the sale. In the event that certain performance related and event driven milestones are achieved by CPS c£3m would be receivable. In the event that significant reductions in working capital are achieved by CPS, amounts would be receivable in relation to this. If certain cash balances can be repatriated to the UK c£2m would be receivable, net of contingent tax liabilities on these transactions. As the amounts involved, timing and likelihood of these transactions cannot be determined at the period end, these have not been included in the figures below.

No pension liability transferred as part of the disposal.

Results of the discontinued operation:

	Note	**2016/17 Half Year £m**	2015/16 Half Year £m	2015/16 Full Year £m
Revenue	2	**4.9**	16.1	33.7
Operating expenses - ordinary		**(7.2)**	(20.8)	(41.6)
Operating expenses - exceptional		**(3.1)**	(0.7)	(26.0)
Total operating expenses		**(10.3)**	(21.5)	(67.6)
Operating loss		**(5.4)**	(5.4)	(33.9)
Comprising:				
Underlying operating profit	2	**(2.3)**	(4.7)	(7.9)
Exceptional items		**(3.1)**	(0.7)	(26.0)
Loss before interest and taxation		**(5.4)**	(5.4)	(33.9)
Interest income		**-**	-	-
Interest expense		**-**	(0.1)	(0.2)
Net finance expense		**-**	(0.1)	(0.2)
Loss before taxation		**(5.4)**	(5.5)	(34.1)
Comprising:				
Underlying profit before tax		**(2.3)**	(4.8)	(8.1)
Exceptional items		**(3.1)**	(0.7)	(26.0)
Taxation		**(0.8)**	(0.4)	3.1
Loss for the period from discontinued operations		**(6.2)**	(5.9)	(31.0)
Comprising:				
Underlying profit for the period		**(2.3)**	(5.3)	(7.2)
Loss for the period on exceptional items		**(3.9)**	(0.6)	(23.8)

Assets/Liabilities held for sale/disposal group

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full year £m
Assets classified as held for sale			
Intangible assets	**-**	-	-
Derivative financial assets	**-**	-	0.2
Inventories	**-**	-	-
Trade and other receivable	**-**	-	11.0
	-	-	11.2
Liabilities classified as held for sale			
Trade and other payables	**-**	-	(10.0)
Derivative financial liabilities	**-**	-	(0.3)
Provisions for liabilities and charges	**-**	-	(0.2)
	-	-	(10.5)

Cash flows from discontinued operations

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full year £m
Net cash from/(used in) operating activities	**5.1**	(0.8)	(3.3)
Net cash used in investing activities	**-**	(0.3)	(0.3)
Net cash used in financing activities	**(0.1)**	(0.1)	(0.1)
Net cash from/(used in) discontinued operations	**5.0**	(1.2)	(3.7)

Exceptional items on discontinued operations

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full year £m
Site relocation and restructuring	**-**	(0.7)	(2.6)
Remeasurement of carrying value following classification as an asset for sale	**-**	-	(23.4)
Loss on disposal of discontinued operations	**(3.1)**	-	-
Asset impairment			
Total exceptional items	**(3.1)**	(0.7)	(26.0)
Exceptional items – tax (charge)/credit	**(0.8)**	0.1	2.2

Loss on disposal of discontinued operations

	2016/17 Half Year £m
Amount paid/payable by purchaser	**4.4**
Disposal costs paid/accrued	**(3.2)**
Reserves recycled on disposal	**(4.5)**
Net assets and liabilities disposed	**0.2**
Total exceptional items	**(3.1)**

4 Exceptional Items

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full year £m
Site relocation and restructuring	**(1.6)**	(3.1)	(9.2)
Warranty provisions	**0.5**	1.1	1.3
Sale of land	**0.1**	9.5	9.5
Asset impairment	**-**	-	(5.2)
Total exceptional items	**(1.0)**	7.5	(3.6)
Exceptional items – tax credit	**0.2**	3.0	2.3

Net exceptional charge in the period was £1.0m (H1 2015/16: £7.5m income, Full Year 2015/16: £3.6m charge) predominantly in relation to site relocation and restructuring costs. Surplus warranty provisions of £0.5m (previously charged as exceptional items) have been released in the period (H1 2015/16: £1.1m, Full year 2015/16: £1.3m). Restructuring costs of £1.6m were incurred in the period as part of the continuing redesign of the organisation structure and the optimisation of manufacturing capabilities. The cash cost of exceptional items in the period was £2.4m (H1 2015/16: £10.8m) predominantly reflecting site relocation and restructuring costs from the current and prior periods.

Tax credits relating to exceptional items arising in the period were £0.2m (H1 2015/16: £3.0m, Full Year 2015/16: £2.3m).

5 Taxation

A tax charge of 15.8% (restated H1 2015/16: 12.9%, Full Year 2015/16: 14.7%) has been provided based on management's best estimate of the effective rate of tax for the year arising on the profits before exceptional items giving rise to tax for the period of £2.9m. This is offset by tax credits of £0.2m on exceptional items recognised in the period as described in note 4, resulting in an overall tax charge for the period of £2.7m.

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) were substantively enacted as at 15 September 2016. This will reduce the company's future current tax charge accordingly. The UK deferred tax asset at 24 September 2016 (which has been calculated based on the rate of 17% substantively enacted at the balance sheet date).

FINANCIAL STATEMENTS – UNAUDITED

6 Earnings per share

	2016/17 Half Year pence per share	2015/16 Half Year pence per share	2015/16 Full year pence per share
Earnings per share			
Basic earnings per share from continuing operations	**13.2**	25.0	46.8
Diluted earnings per share from continuing operations	**12.9**	24.6	46.2
Basic earnings per share from discontinued operations	**(6.1)**	(5.8)	(30.6)
Diluted earnings per share from discontinued operations	**(6.0)**	(5.7)	(30.2)
Basic earnings per share	**7.1**	19.2	16.2
Diluted earnings per share	**6.9**	18.9	16.0
Underlying earnings per share			
Basic earnings per share from continuing operations	**14.0**	14.6	48.1
Diluted earnings per share from continuing operations	**13.7**	14.4	47.5
Basic earnings per share from discontinued operations	**(2.3)**	(5.2)	(7.1)
Diluted earnings per share from discontinued operations	**(2.2)**	(5.1)	(7.0)
Basic earnings per share	**11.7**	9.4	41.0
Diluted earnings per share	**11.5**	9.3	40.5

Earnings per share are based on the profit for the period attributable to equity shareholders as shown in the Group condensed consolidated income statement. The weighted average number of ordinary shares used in the calculations is 101,462,770 (H1 2015/16: 101,235,799) for basic earnings per share and 103,725,369 (H1 2015/16: 102,988,888) for diluted earnings per share after adjusting for dilutive share options.

The Directors are of the opinion that the publication of the underlying earnings per share is useful as it gives a better indication of underlying business performance.

Reconciliations of the earnings used in the calculations are set out below.

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full year £m
Earnings for basic earnings per share – continuing operations	**13.4**	25.3	47.4
Earnings for basic earnings per share - discontinued operations	**(6.2)**	(5.9)	(31.0)
Earnings for basic earnings per share	**7.2**	19.4	16.4
Add: Exceptional items (excluding non-controlling interests)	**4.1**	(6.8)	29.6
Less: Tax on exceptional items	**0.6**	(3.1)	(4.5)
Earnings for underlying earnings per share	**11.9**	9.5	41.5

7 Equity dividends

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full year £m
Final dividend for the year ended 28 March 2015 of 16.7p paid on 1 August 2015	-	16.9	16.9
Interim dividend for the period ended 26 September 2015 of 8.3p paid on 6 January 2016	-	-	8.4
Final dividend for the year ended 26 March 2016 of 16.7p paid on 3 August 2016	**16.9**	-	-
	16.9	16.9	25.3

The Directors declared a dividend of 8.3p per share for the half year ended 24 September 2016 which will be paid on 11 January 2017 and will utilise £8.4m of shareholders' funds. In accordance with IFRS the interim dividend has not been accrued in these condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

8 Financial instruments

Carrying amounts versus fair values

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

Financial assets	**Total fair value Sep 2016 £m**	**Carrying amount Sep 2016 £m**	Fair Value Discontinued operations Mar 2016 £m	Fair Value Continuing operation Mar 2016 £m	Carrying Amount Continuing operations Mar 2016 £m
Trade and other receivables[1]	**81.2**	**81.2**	10.8	88.7	88.7
Cash and cash equivalents	**11.6**	**11.6**	-	40.5	40.5
Derivative financial instruments:					
- Forward exchange contracts designated as cash flow hedges[3]	**10.1**	**10.1**	-	5.0	5.0
- Short duration swap contracts designated as fair value hedges[3]	**0.1**	**0.1**	-	0.1	0.1
- Foreign exchange fair value hedges - other economic hedges[3]	**3.4**	**3.4**	0.1	3.6	3.6
- Embedded derivatives[3]	**18.0**	**18.0**	0.1	8.2	8.2
- Interest rate swaps[3]	**-**	**-**	-	-	-
Total financial assets	**124.4**	**124.4**	11.0	146.1	146.1
Financial liabilities					
Unsecured bank loans and overdrafts	**(127.1)**	**(127.1)**	-	(146.6)	(146.6)
Trade and other payables[2]	**(54.4)**	**(54.4)**	(1.8)	(61.3)	(61.3)
Derivative financial instruments:					
- Forward exchange contracts designated as cash flow hedges[3]	**(2.8)**	**(2.8)**	-	(1.8)	(1.8)
- Short duration swap contracts designated as fair value hedges[3]	**-**	**-**	-	(0.3)	(0.3)
- Foreign exchange fair value hedges - other economic hedges[3]	**(18.8)**	**(18.8)**	(0.3)	(10.1)	(10.1)
- Embedded derivatives[3]	**(1.1)**	**(1.1)**	-	(0.7)	(0.7)
- Interest rate swaps[3]	**(0.9)**	**(0.9)**	-	(0.3)	(0.3)
Total financial liabilities	**(205.1)**	**(205.1)**	(2.1)	(221.1)	(221.1)

[1] Excluding prepayments

[2] Excluding accrued expenses, deferred income and payments received on account

[3] Level 2 valuation

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. The financial assets and liabilities detailed in the above table are level 2 valuations. The details of how the fair value of each class of financial instrument is determined are covered on pages 102 and 103 of the Group's Annual Report 2016.

Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the Group's Annual Report 2016.

9 Analysis of net debt

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full year £m
Cash at bank and in hand	**9.4**	50.2	40.5
Short term bank deposits	**2.2**	2.2	-
Bank overdrafts	**(0.1)**	(1.5)	(2.6)
Cash and cash equivalents	**11.5**	50.9	37.9
Other debt due within one year	**(127.0)**	(154.2)	(144.0)
Net debt at end of period	**(115.5)**	(103.3)	(106.1)

The Group has a revolving credit facility of £250m. As the draw downs on this facility are typically rolled over on terms of between one and three months the borrowings are disclosed as a current liability. This is notwithstanding the long term nature of this facility which expires in December 2019.

As at 24 September 2016, the Group has a total of undrawn committed borrowing facilities, all maturing in more than one year, of £123.0m (26 September 2015: £95.8m, 28 March 2016: £106.0m, all maturing in more than one year). The amount of loans drawn on the £250m facility is £127.0m.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

10 Retirement benefit obligations

The Group has pension plans, devised in accordance with local conditions and practices in the country concerned, covering the majority of employees. The assets of the Group's plans are generally held in separately administered trusts or are insured.

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full year £m
UK retirement benefit obligations	**(358.7)**	(209.8)	(217.6)
Overseas retirement benefit obligations	**(2.4)**	(2.6)	(2.3)
Retirement benefit obligations	**(361.1)**	(212.4)	(219.9)

The majority of the Group's retirement benefit obligations are in the UK:

Amounts recognised in the consolidated Balance Sheet:			
Fair value of plan assets	**1,007.8**	825.7	861.9
Present value of funded obligations	**(1,357.9)**	(1,028.1)	(1,072.2)
Funded defined benefit pension plans	**(350.1)**	(202.4)	(210.3)
Present value of unfunded obligations	**(8.6)**	(7.4)	(7.3)
Net liability	**(358.7)**	(209.8)	(217.6)
Amounts recognised in the consolidated Income Statement:			
Included in employee benefits expense:			
Administrative expenses	**(0.6)**	(0.5)	(1.2)
Included in net finance cost:			
Net retirement benefit obligation finance cost	**(3.6)**	(3.7)	(7.1)
Total recognised in the consolidated Income Statement	**(4.2)**	(4.2)	(8.3)

Principal actuarial assumptions:	**2016/17 Half Year UK %**	2015/16 Half Year UK %	2015/16 Full year UK %
Future pension increases – past service	**3.60**	3.60	3.60
Discount rate	**2.10**	3.80	3.50
Inflation rate	**3.10**	3.20	3.10

At 26 March 2016 mortality assumptions were based on tables issued by Club Vita, with future improvements in line with the CMI model, CMI_2013 and a long term rate of 1.25 per cent per annum.

Recognition of the deficit in accordance with IFRS results in the negative net assets shown on the balance sheet. The Group announced on 1 July 2016 that it has agreed a revised funding plan with the Trustee to eliminate the deficit over a period of 12 years from 31 March 2016. The plan will see the existing funding payment schedule extended from 2022 to 2028.

The cash contributions to the Scheme will be £13.0m and £13.5m in 2017 and 2018 respectively, increasing to £20.5m in 2019 and increasing by 4% a year to 2022. The amount of contributions will be frozen at £23.0m per year between 2023 and 2028. The Group will continue to pay annual fees of £1.6m for managing the Scheme in addition to the cash contributions shown below. In the year ended 26 March 2016, the Group made funding payments and management fees totalling £19.1m.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

11 Related party transactions

During the year the Group traded on an arms length basis with the associated company Fidink (33.3% owned). The Group's trading activities with Fidink in the period comprise £10.2m (H1 2015/16: £13.1m) for the purchase of ink and other consumables on an arms length basis. At the balance sheet date there was £2.5m (H1 2015/16: £6.4m) owing to this company.

12 Contingent assets and liabilities

De La Rue has extensive international operations and is subject to various legal and regulatory regimes, including those covering taxation matters from which, in the ordinary course of business, contingent liabilities can arise. While the outcome of litigation, disputes and investigations by regulatory authorities 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 also 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.

Contingent assets and liabilities exist in relation to the sale of the CPS business – see Note 3 for further information.

13 Capital commitments

	2016/17 Half Year £m	2015/16 Half Year £m	2015/16 Full year £m
The following commitments existed at the balance sheet date:			
Contracted but not provided for in the accounts	**16.3**	2.9	10.3

14 De La Rue financial calendar: 2016/17

Ex dividend date for interim dividend	8 December 2016
Record date for interim dividend	9 December 2016
Payment of interim dividend	11 January 2017
Financial year end	25 March 2017