

1 Basis of preparation and accounting policies

The preliminary announcement for the period ended 26 March 2016 has been prepared consistently with International Accounting Standards and International Financial Reporting Standards (collectively “IFRS”) as adopted by the European Union (EU) at 26 March 2016. Details of the accounting policies applied are those set out in De La Rue plc’s annual report 2015. For 2015/16 there is an additional accounting policy included in the Group Financial Statements covering Classification of assets held for resale which addresses the discontinued operations of the CPS business.

During the period a number of amendments to IFRS became effective and were adopted by the Group, none of which had a material impact on the Group’s net cash flows, financial position, total comprehensive income or earnings per share.

A number of other new and amended IFRS were issued during the year, which do not become effective until after 27 March 2016. IFRS 15 *Revenue from Contracts with Customers* (effective for the year ending 30 March 2019, not yet endorsed by the EU) provides a single, principles based, five step model to be applied to all sales contracts. Based on a provisional assessment, IFRS 15 is not expected to have a significant impact on the timing of revenue recognition in the Group. The group will continue to assess the impact during 2016/17. Otherwise, none of the new or amended IFRSs are expected to have a material impact on the Group for the 2016/17 period.

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 period ended 28 March 2015, apart from an additional accounting policy included in the Group Financial Statements covering Classification of assets held for resale which addresses the discontinued operations of the CPS business.

The financial information set out above does not constitute the Group’s statutory accounts for the periods ended 26 March 2016 or 28 March 2015. The financial information for the period ended 26 March 2016 is derived from the statutory accounts for the period ended 26 March 2016 which will be delivered to the registrar of companies. The auditor has reported on the accounts for the period ended 26 March 2016; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor 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.

These consolidated financial statements have been prepared on the going concern basis and using the historical cost convention, modified for certain items carried at fair value, as stated in the Group’s accounting policies.

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 Cash Processing Solutions (CPS) operation, primarily focused on the production of large banknote sorters and authentication machines for central banks, has been classified as a disposal group held for sale (see note 3).

1. Continuing operations only
2. Excluding the site managed on behalf of Bank of England
3. Including the site managed on behalf of Bank of England

2016	Currency	Identity Solutions	Product Authentication and Traceability	Unallocated	Total of Continuing operations	Discontinued operations	Total
	£m	£m	£m	£m	£m	£m	£m
Total revenue	353.3	65.8	39.5	–	458.6	33.9	492.5
Less: inter-segment revenue	(0.8)	–	(3.3)	–	(4.1)	(0.2)	(4.3)
Revenue	352.5	65.8	36.2	–	454.5	33.7	488.2
Underlying operating profit/(loss)	55.1	6.4	8.9	–	70.4	(7.9)	62.5
Exceptional items – operating (note 4, 3)	(13.1)	–	(0.5)	10.0	(3.6)	(26.0)	(29.6)
Operating profit/(loss)	42.0	6.4	8.4	10.0	66.8	(33.9)	32.9
Net interest expense				(4.8)	(4.8)	(0.2)	(5.0)
Retirement benefit obligations net finance expense				(7.1)	(7.1)	–	(7.1)
Profit/(loss) before taxation					54.9	(34.1)	20.8
Segment assets	238.4	38.9	20.8	143.3	441.4	11.2	452.6
Segment liabilities	(119.4)	(26.7)	(7.2)	(434.4)	(587.7)	(10.5)	(598.2)
Capital expenditure on property, plant and equipment	11.1	0.2	1.7	3.5	16.5	–	16.5
Capital expenditure on intangible assets	3.3	1.4	0.3	–	5.0	0.3	5.3
Depreciation of property, plant and equipment	17.0	2.6	1.4	2.0	23.0	–	23.0
Impairment of property, plant and equipment	5.2	–	–	–	5.2	–	5.2
Amortisation of intangible assets	2.2	0.7	0.1	–	3.0	0.2	3.2
Impairment of intangible assets	–	–	–	–	–	5.6	5.6

2015	Currency	Identity Solutions	Product Authentication and Traceability	Unallocated	Total of Continuing operations	Discontinued operations	Total
	£m	£m	£m	£m	£m	£m	£m
Total revenue	317.9	69.0	39.6	–	426.5	50.7	477.2
Less: inter-segment revenue	(0.8)	–	(2.9)	–	(3.7)	(1.4)	(5.1)
Revenue	317.1	69.0	36.7	–	422.8	49.3	472.1
Underlying operating profit/(loss)	50.5	11.1	7.5	–	69.1	0.4	69.5
Exceptional items – operating (note 4, 3)	(10.7)	–	(6.2)	–	(16.9)	(1.9)	(18.8)
Operating profit/(loss)	39.8	11.1	1.3	–	52.2	(1.5)	50.7
Net interest expense				(4.6)	(4.6)	(0.2)	(4.8)
Retirement benefit obligations net finance expense				(7.0)	(7.0)	–	(7.0)
Profit/(loss) before taxation					40.6	(1.7)	38.9
Segment assets	241.7	38.8	19.8	128.0	428.3	33.1	461.4
Segment liabilities	(128.8)	(21.6)	(9.1)	(437.7)	(597.2)	(11.1)	(608.3)
Capital expenditure on property, plant and equipment	19.6	0.9	1.0	1.8	23.3	–	23.3
Capital expenditure on intangible assets	3.8	0.6	0.9	–	5.3	1.0	6.3
Depreciation of property, plant and equipment	17.3	2.7	1.6	1.4	23.0	–	23.0
Amortisation of intangible assets	1.3	0.4	–	–	1.7	0.1	1.8
Impairment of intangible assets	–	–	3.8	–	3.8	–	3.8

3. Discontinued operations

The Cash Processing Solutions business (CPS) is presented as a disposal group held for sale following the conclusion of a root and branch review. The Board concluded that whilst CPS has a good product profile and long term customer relationships, it does not believe that this is a business which should form part of the Group's portfolio and has therefore decided to exit this market. This will enable the continuing Group to focus on its core business and future growth areas, as well as allow CPS to achieve its full potential under new dedicated ownership.

The CPS assets and liabilities that the group plans to dispose of were transferred into the disposal group at their carrying value. A charge of £23.4m arising on the remeasurement of the disposal group to the lower of the carrying amount and its fair value less costs to sell has been recognised in exceptional items. This has been applied first to non-current assets and then to inventory within the disposal group.

1. Continuing operations only
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In line with IFRS 5 no remeasurement has been applied to financial assets. The fair value reflects the anticipated sales price to be achieved upon completion.

No UK pension liability will transfer with the disposal group.

Results of the discontinued operation including the disposal group held for sale

	2016 £m	2015 £m
Revenue	33.7	49.3
Operating expenses – ordinary	(41.6)	(48.9)
Operating expenses – exceptional	(26.0)	(1.9)
Total operating expenses	(67.6)	(50.8)
Operating loss	(33.9)	(1.5)
Comprising:		
Underlying operating (loss)/profit	(7.9)	0.4
Exceptional items	(26.0)	(1.9)
Loss before interest and taxation	(33.9)	(1.5)
Interest income	–	0.1
Interest expense	(0.2)	(0.3)
Net finance expense	(0.2)	(0.2)
Loss before taxation	(34.1)	(1.7)
Comprising:		
Underlying (loss)/profit before tax	(8.1)	0.2
Exceptional items	(26.0)	(1.9)
Taxation	3.1	3.9
(Loss)/profit from discontinued operations	(31.0)	2.2
Comprising:		
Underlying (loss)/profit for the year	(7.2)	1.8
(Loss)/profit for the year on exceptional items	(23.8)	0.4

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Assets/liabilities held for sale/disposal group

	Notes	2016 £m	2015 £m
Assets classified as held for sale			
Derivative financial assets		0.2	–
Trade and other receivables		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)	–
Exceptional items on discontinued operations			
Site closures and restructuring		(2.6)	(1.9)
Assessment of carrying value following classification as an asset for sale		(23.4)	–
Exceptional items		(26.0)	(1.9)
Tax credit on exceptional items		2.2	2.3

Site closure and restructuring costs in 2015/16 were £2.6m (2014/15: £1.9m) comprising £0.7m (2014/15: £1.5m) in staff compensation, and £1.9m (2014/15: £nil) for site exit costs and £nil (2014/15: £0.4m) in other associated reorganisation costs.

Asset impairments of £23.4m arising on the remeasurement of the disposal group to fair value less costs to sell have been recognised. The impairment has been applied to software intangibles of £1.6m, goodwill of £4.0m and inventories of £17.8m.

The cash cost for exceptional items in the period was £1.0m (2014/15: £1.7m).

Tax credits relating to the exceptional items arising in the period were £0.3m (2014/15: £0.4m). In addition there was an exceptional credit of £1.9m in respect of the determination of the tax treatment of prior year discontinued exceptional items (2014/15: £1.9m).

Accumulated foreign currency translation gains and losses within the disposal group held for sale

The Group has accumulated foreign currency translation gains and losses in relation to the entities included within the disposal group. IAS 21 requires recycling of these foreign currency translation gains or losses, which have previously been taken direct to reserves, through the income statement at the point of disposal. At 26 March 2016 these foreign exchange gains or losses have not been recycled. If a sale of the disposal group had been completed as at 26 March 2016 the amount that would have been recycled through the income statement is c£3.5m gain.

Subsequent to the year end the disposal of the CPS business has been completed, refer to note 10.

4. Exceptional items

	2016 £m	Restated 2015 £m
Site relocation and restructuring	(9.2)	(2.8)
Invocation of guarantees	–	(13.3)
Sale of land	9.5	–
Warranty provisions	1.3	3.0
Asset impairment	(5.2)	(3.8)
Exceptional items in operating profit	(3.6)	(16.9)
Tax credit on exceptional items	2.3	2.4

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Site relocation and restructuring costs in 2015/16 were £9.2m net (2014/15: £2.8m net). Restructuring costs were incurred as part of the redesign of the organisation structure and the optimisation of manufacturing capabilities including the impact of the manufacturing footprint review which will reduce our banknote print production capacity from eight billion to six billion notes a year².

The £9.2m net exceptional operating charge in respect of site relocation and restructuring (2014/15: £2.8m) comprised £8.4m (2014/15: £2.8m) in staff compensation, £1.0m (2014/15: £1.9m) for site exit costs offset by credits on existing provisions of £0.2m (2014/15: £1.2m) in staff compensation and £nil (2014/15: £0.7m) for site exit costs. The £9.2m charge was split between the operating segments as follows: Currency £8.7m, Product Authentication and Traceability £0.5m.

The sale of surplus land in Overton generated a profit of £9.5m while surplus warranty provisions of £1.3m, previously charged as exceptional items (2014/15: £3.0m) were released in the period.

Following a review of capitalised assets, £5.2m of tangible assets within the Currency segment were written down representing assets linked with specific products whose future income streams are forecast to be insufficient to support the current carrying value.

The net cash cost of exceptional items for continuing operations in the period was £12.5m. £17.6m of cash cost of exceptional items related to prior periods and predominantly reflected the settlement of the invocation of guarantees provided for as a post balance sheet event in 2014/15.

In addition the following exceptional items were incurred in the prior year: £13.3m of charges in relation to the invocation of guarantees and £3.8m write off on first generation software within the Product Authentication and Traceability segment.

Tax credits relating to continuing exceptional items arising in the period were £1.8m (2014/15 £2.4m). In addition there was an exceptional credit of £0.5m (2014/15: £nil) in respect of the determination of the tax treatment of a prior year exceptional restructuring item.

5 Taxation

	2016 £m	Restated 2015 £m
Consolidated income statement		
Current tax:		
UK corporation tax:		
– Current tax	8.3	6.1
– Adjustment in respect of prior years	(0.1)	(1.2)
	8.2	4.9
Overseas tax charges:		
– Current year	2.2	2.8
– Adjustment in respect of prior years	(0.7)	(0.3)
	1.5	(2.5)
Total current income tax charge	9.7	7.4
Deferred tax:		
– Origination and reversal of temporary differences, UK	(3.3)	0.3
– Origination and reversal of temporary differences, overseas	(0.1)	–
Total deferred tax (credit)/charge	(3.4)	0.3
Income tax expense reported in the consolidated income statement in respect of continuing operations	6.3	7.7
Income tax expense in respect of discontinued operations (note 3)	(3.1)	(3.9)
Total income tax charge in the consolidated income statement	3.2	3.8
Tax on continuing operations attributable to:		
– Ordinary activities	8.6	10.1
– Exceptional items	(2.3)	(2.4)

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Tax on discontinuing operations attributable to:

– Ordinary activities	(0.9)	(1.6)
– Exceptional items	(2.2)	(2.3)

Consolidated statement of comprehensive income:

– On remeasurement of net defined benefit liability	5.4	(16.0)
– On cash flow hedges	1.4	(0.1)
– On foreign exchange on quasi-equity balances	0.4	0.2
Income tax charge/(credit) reported within comprehensive income	7.2	(15.9)

Consolidated statement of changes in equity:

– On share options	0.3	0.5
Income tax charge reported within equity	0.3	0.5

The tax on the Group's consolidated profit before tax for continuing operations differs from the UK tax rate of 20 per cent as follows:

	2016			Restated 2015		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Profit before tax	58.5	(3.6)	54.9	57.5	(16.9)	40.6
Tax calculated at UK tax rate of 20 per cent (2014/15: 21 per cent)	11.7	(0.7)	11.0	12.1	(3.5)	8.6
Effects of overseas taxation	(1.1)	-	(1.1)	(1.4)	-	(1.4)
(Credits)/charges not allowable for tax purposes	(1.5)	0.8	(0.7)	1.1	0.9	2.0
Increase in unutilised tax losses	-	(1.9)	(1.9)	-	0.4	0.4
Adjustments in respect of prior years	(0.1)	(0.5)	(0.6)	(1.5)	(0.2)	(1.7)
Change in UK tax rate	(0.4)	-	(0.4)	(0.2)	-	(0.2)
Tax charge/(credit)	8.6	(2.3)	6.3	10.1	(2.4)	7.7

The underlying effective tax rate excluding exceptional items was 14.7 per cent (restated 2014/15: 17.6 per cent).

6 Earnings per share

	2016 Continuing operations pence per share	2016 Discontinued operations pence per share	2016 Total pence per share	Restated 2015 Continuing operations pence per share	Restated 2015 Discontinued operations pence per share	Restated 2015 Total pence per share
Earnings per share						
Basic earnings per share	46.8	(30.6)	16.2	31.8	2.2	34.0
Diluted earnings per share	46.2	(30.2)	16.0	31.3	2.1	33.4
Underlying earnings per share						
Basic earnings per share	48.1	(7.1)	41.0	46.1	1.8	47.9
Diluted earnings per share	47.5	(7.0)	40.5	45.5	1.8	47.3

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

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

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

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

1. Continuing operations only
2. Excluding the site managed on behalf of Bank of England
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Earnings	2016 Continuing operations £m	2016 Discontinued operations £m	2016 Total £m	Restated 2015 Continuing operations £m	Restated 2015 Discontinued operations £m	Restated 2015 Total £m
Earnings for basic and diluted earnings per share	47.4	(31.0)	16.4	32.1	2.2	34.3
Exceptional items	3.6	26.0	29.6	16.9	1.9	18.8
Less: Tax on exceptional items	(2.3)	(2.2)	(4.5)	(2.4)	(2.3)	(4.7)
Earnings for underlying earnings per share	48.7	(7.2)	41.5	46.6	1.8	48.4

Weighted average number of ordinary shares	2016 Number m	2015 Number m
For basic earnings per share	101.3	101.0
Dilutive effect of share options	1.3	1.5
For diluted earnings per share	102.6	102.5

7 Equity dividends

	2016 £m	2015 £m
Final dividend for the period ended 29 March 2014 of 28.2p paid on 1 August 2014	–	28.5
Interim dividend for the period ended 27 September 2014 of 8.3p paid on 7 January 2015	–	8.3
Final dividend for the period ended 28 March 2015 of 16.7p paid on 1 August 2015	16.9	–
Interim dividend for the period ended 26 September 2015 of 8.3p paid on 6 January 2016	8.4	–
	25.3	36.8

A final dividend per equity share of 16.7p has been proposed for the period ended 26 March 2016. If approved by shareholders the dividend will be paid on 3 August 2016 to ordinary shareholders on the register at 24 June 2016. In accordance with IFRS accounting requirements this dividend has not been accrued in these consolidated financial statements.

8 Analysis of net debt

	2016 £m	2015 £m
Cash at bank and in hand	40.5	28.6
Short term bank deposits	-	2.2
Bank overdrafts	(2.6)	(1.9)
Total cash and cash equivalents	37.9	28.9
Borrowings due within one year	(144.0)	(139.9)
Net debt	(106.1)	(111.0)

9 Contingent liabilities

De La Rue has extensive international operations and is subject to various legal and regulatory regimes, including those covering taxation matters from which, in the ordinary course of business, contingent liabilities can arise. While the outcome of litigation and disputes can never be predicted with certainty, having regard to legal advice received and the insurance arrangements of the Company and its subsidiaries, the Directors believe that adequate provision has been made to cover these matters. The Group 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.

The Company has received notification from the relevant UK law enforcement authorities that they have closed their investigation related to certain paper mis-certification issues in 2010. No action has been taken against the Company.

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10 Events since the balance sheet date

Since the year end the following material events have occurred:

Non-adjusting event

On 22 May 2016 the sale of the Cash Processing Solutions business was completed. The sale is expected to result in a profit on disposal in the range of £nil to £3m, which will be recognised in the half year ending 24 September 2016. This estimated profit includes the loss on disposal of certain current assets and certain liabilities held for sale (refer to note 3), and the recycling through the income statement of accumulated foreign exchange translation gains recorded in reserves and the estimated costs of disposal.

In addition to the cash payment upon completion and deferred cash payments there is also a contingent element of consideration which is dependent upon the disposed business meeting certain future targets. This contingent element of the consideration has not been factored into the estimated profit on disposal.

11 Dates

The consolidated accounts have been prepared as at 26 March 2016, being the last Saturday in March. The comparatives for the 2014/15 financial year are for the period ended 28 March 2015.

12 Statutory accounts

Statutory accounts for the period ended 26 March 2016 will be made available to shareholders for subsequent approval at the Annual General Meeting and copies will be available from the Company Secretary at De La Rue plc, De La Rue House, Jays Close, Viables, Hampshire, RG22 4BS.

13 Foreign exchange

Principal exchange rates used in translating the Group's results:

	2015/16		2014/15	
	Average	Year End	Average	Year End
US dollar	1.50	1.41	1.61	1.49
Euro	1.36	1.27	1.28	1.37

14 De La Rue financial calendar 2016/17

Ex-dividend date for 2015/16 final dividend	23 June 2016
Record date for final dividend	24 June 2016
Annual General Meeting	21 July 2016
Payment of 2015/16 final dividend	3 August 2016

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