NOTES TO THE ACCOUNTS

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

Currency
- provides printed banknotes, banknote paper and banknote security features

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

		Solutions				
2012	**Currency £m**	**Cash Processing Solutions £m**	**Security Products £m**	**Identity Systems £m**	**Exceptional items £m**	**Total £m**
Total revenue	**332.6**	**65.7**	**65.4**	**75.2**	**–**	**538.9**
Less: Inter segment revenue	**(0.6)**	**–**	**(10.0)**	**–**	**–**	**(10.6)**
Revenue	**332.0**	**65.7**	**55.4**	**75.2**	**–**	**528.3**
Operating profit before exceptional items	**45.3**	**2.0**	**7.3**	**8.5**	**–**	**63.1**
Exceptional items – operating (note 3)	**(6.5)**	**–**	**(14.3)**	**–**	**(4.0)**	**(24.8)**
Operating profit/(loss)	**38.8**	**2.0**	**(7.0)**	**8.5**	**(4.0)**	**38.3**
Net interest expense						**(4.1)**
Retirement benefit obligations net finance expense						**(1.3)**
Profit before taxation						**32.9**
Segment assets	**194.8**	**40.7**	**22.7**	**48.6**	**–**	**306.8**
Unallocated assets						**101.5**
Total assets						**408.3**
Segment liabilities	**(101.0)**	**(25.4)**	**(13.3)**	**(27.0)**	**–**	**(166.7)**
Unallocated liabilities						**(287.2)**
Total liabilities						**(453.9)**
Capital expenditure on property, plant and equipment	**25.4**	**0.9**	**2.0**	**2.8**	**–**	**31.1**
Capital expenditure on intangible assets	**1.6**	**2.1**	**–**	**0.4**	**–**	**4.1**
Depreciation of property, plant and equipment	**15.9**	**1.9**	**3.3**	**3.0**	**–**	**24.1**
Amortisation of intangible assets	**0.9**	**0.5**	**–**	**1.1**	**–**	**2.5**

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

		Solutions				
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 (loss)/profit	(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

NOTES TO THE ACCOUNTS CONTINUED

1 Segmental analysis continued

Unallocated assets principally comprise deferred tax assets of £40.4m (2010/11: £27.8m), cash and cash equivalents of £24.0m (2010/11: £32.6m) which are used as part of the Group's financing offset arrangements and derivative financial instrument assets of £5.9m (2010/11: £15.5m) as well as current tax assets, associates and centrally managed property, plant and equipment.

Unallocated liabilities principally comprise retirement benefit obligations of £145.6m (2010/11: £102.9m), borrowings of £48.8m (2010/11: £63.8m), current tax liabilities of £33.6m (2010/11: £33.1m) and derivative financial instrument liabilities of £6.5m (2010/11: £14.1m) as well as deferred tax liabilities and centrally held accruals and provisions.

Geographic analysis of revenue by origin

	2012 £m	2011 £m
UK	**444.0**	369.7
Other countries	**84.3**	94.2
	528.3	463.9

Geographic analysis of non current assets

	2012 £m	2011 £m
UK	**110.5**	104.0
Malta	**33.7**	37.5
Sri Lanka	**20.0**	21.7
Other countries	**21.0**	22.2
	185.2	185.4

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

Major customers

There were no major customers from whom more than 10 per cent of Group revenue in the year was derived (2010/11: none).

2 Expenses by nature (excluding exceptional items)

	2012 £m	2011 £m
Cost of inventories recognised as an expense	**132.8**	99.9
Net impairment of inventories	**0.3**	0.2
Depreciation of property, plant and equipment:	**24.1**	23.2
Amortisation of intangibles	**2.5**	1.2
Operating leases:		
– hire of plant and equipment	**1.4**	2.2
– hire of property	**3.6**	3.5
Amounts payable to KPMG Audit Plc and its associates:		
– audit of these consolidated Financial Statements	**0.2**	0.2
– audit of the financial statements of subsidiaries pursuant to legislation	**0.4**	0.4
– taxation services	**0.2**	0.1
– other	**0.1**	0.2
Research and non capitalised development expense	**10.6**	10.3
Loss on disposal of property, plant and equipment	**3.0**	1.4
Employee costs (including Directors' emoluments) (note 23)	**159.0**	149.4
Foreign exchange (gains)/losses	**(1.0)**	1.0

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

3 Exceptional items

	2012 £m	2011 £m
Site relocation and restructuring	**(24.1)**	–
Curtailment gain on closure of defined benefit scheme to further accrual	**–**	16.0
Costs relating to paper production quality issues	**(0.7)**	(29.0)
Corporate costs	**–**	(2.6)
Exceptional items in operating profit	**(24.8)**	(15.6)
Profit on sale of associate undertaking	**–**	55.1
Total exceptional items	**(24.8)**	39.5
Tax credit on exceptional items	**13.2**	3.6

Exceptional costs of £24.8m have been incurred in 2011/12 mainly in connection with the closure of three sites and the relocation of manufacturing activity including £11.3m in staff compensation, £1.1m of fixed asset impairment charges, £8.8m for site exit costs and £2.9m in associated reorganisation costs. The exceptional charge also includes additional costs (reported under the Currency segment) of £0.7m associated with the paper quality issue that arose in 2010/11.

Exceptional costs in the prior year related to the following:

- A curtailment gain following the closure of the defined benefit pension scheme to further accruals from 2013
- An exceptional charge relating to the paper production quality issues incurred in the year ended 26 March 2011 of £29.0m included production and rectification costs of £19.9m, a £0.9m impairment of receivables, legal costs of £3.5m and other costs of £4.7m mainly relating to losses on derivatives related to sales and purchase contracts rendered ineffective by the cancellation of shipments. 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. The issue is more fully described in note 25: Contingent liabilities
- Corporate costs 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.

Tax credits relating to exceptional items arising in the year were £6.2m (2010/11: £1.1m). In addition, there was an exceptional credit of £7.0m (2010/11: £2.5m) in respect of the determination of the tax treatment of prior year exceptional items.

4 Interest income and expense

	2012 £m	2011 £m
Recognised in the Income Statement		
Interest income:		
– cash and cash equivalents	**0.3**	0.9
Interest expense:		
– bank overdrafts	**(0.3)**	(0.9)
– bank loans	**(2.7)**	(2.8)
– other, including amortisation of finance arrangement fees	**(1.4)**	(1.0)
Total interest expense calculated using the effective interest method	**(4.4)**	(4.7)
Retirement benefit obligation net finance expense (note 22)	**(1.3)**	(3.3)

All finance income and expense arises in respect of assets and liabilities not restated to fair value through the Income Statement.

The gain to the Income Statement in respect of the ineffective portion of derivative financial instruments was £nil (2010/11: £0.2m) and is included within interest expense under the 'Bank loans' heading.

NOTES TO THE ACCOUNTS CONTINUED

5 Taxation

	2012 £m	2011 £m
Consolidated Income Statement		
Current tax		
UK Corporation tax:		
– Current tax	**7.6**	0.7
– Adjustment in respect of prior years	**(6.8)**	(4.2)
	0.8	(3.5)
Overseas tax charges:		
– Current year	**3.7**	2.9
– Adjustment in respect of prior years	**1.0**	3.4
	4.7	6.3
Total current income tax expense	**5.5**	2.8
Deferred tax:		
– Origination and reversal of temporary differences, UK	**(6.3)**	3.3
– Origination and reversal of temporary differences, Overseas	**1.5**	(0.7)
Total deferred tax (credit)/expense	**(4.8)**	2.6
Total income tax expense in the consolidated Income Statement	**0.7**	5.4
Attributable to:		
– Ordinary activities	**13.9**	9.0
– Exceptional items	**(13.2)**	(3.6)
Consolidated Statement of Comprehensive Income		
– On pension actuarial adjustments	**(12.7)**	(7.7)
– On cash flow hedges	**(0.8)**	1.9
– On foreign exchange on quasi equity balances	**–**	0.5
Income tax credit reported within comprehensive income	**(13.5)**	(5.3)
Consolidated Statement of Changes in Equity		
– On share options	**(0.4)**	0.5
Income tax (credit)/expense reported within equity	**(0.4)**	0.5

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 26 per cent as follows:

	2012			2011		
	Before exceptionals £m	**Exceptional items £m**	**Total £m**	Before exceptionals £m	Exceptional items £m	Total £m
Profit before tax	**57.7**	**(24.8)**	**32.9**	33.3	39.5	72.8
Tax calculated at UK tax rate of 26 per cent (2010/11: 28 per cent)	**15.0**	**(6.4)**	**8.6**	9.3	11.1	20.4
Effects of overseas taxation	**(1.3)**	**–**	**(1.3)**	(1.4)	–	(1.4)
Non taxable disposal of investment in Camelot	**–**	**–**	**–**	–	(15.4)	(15.4)
Expenses not deductible for tax purposes	**1.2**	**0.5**	**1.7**	1.2	1.5	2.7
Increase in/(usage of) unutilised tax losses	**0.1**	**(0.3)**	**(0.2)**	(0.7)	1.7	1.0
Adjustments in respect of prior years	**(0.7)**	**(7.0)**	**(7.7)**	0.7	(2.5)	(1.8)
Change in UK tax rate	**(0.4)**	**–**	**(0.4)**	(0.1)	–	(0.1)
Tax charge/(credit)	**13.9**	**(13.2)**	**0.7**	9.0	(3.6)	5.4

The underlying effective tax rate excluding exceptional items was 24.1 per cent (2010/11: 27.0 per cent).

6 Earnings per share

	2012 pence per share	2011 pence per share
Earnings per share		
Basic earnings per share	**31.8**	67.6
Diluted earnings per share	**31.5**	67.2
Headline earnings per share		
Basic earnings per share	**43.5**	24.0
Diluted earnings per share	**43.1**	23.9

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 the dilutive effect of share options.

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

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

Earnings

	2012 £m	2011 £m
Earnings for basic and diluted earnings per share	**31.6**	66.9
Exceptional items	**24.8**	(39.5)
Less: Tax on exceptional items	**(13.2)**	(3.6)
Earnings for headline earnings per share	**43.2**	23.8

Weighted average number of ordinary shares

	2012 Number m	2011 Number m
For basic earnings per share	**99.3**	99.0
Dilutive effect of share options	**0.9**	0.6
For diluted earnings per share	**100.2**	99.6

7 Equity dividends

	2012 £m	2011 £m
Final dividend for the year ended 26 March 2011 of 28.2p paid on 4 August 2011	**28.0**	–
Interim dividend for the period ended 24 September 2011 of 14.1p paid on 6 January 2012	**14.0**	–
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
	42.0	41.9

A final dividend per equity share of 28.2 pence has been proposed for the period ended 31 March 2012, payable on 2 August 2012. In accordance with IFRS accounting requirements this dividend has not been accrued in these consolidated Financial Statements. If approved by shareholders, the dividend will be paid on 2 August 2012 to ordinary shareholders on the register at 6 July 2012.

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 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
Exchange differences	(0.2)	(4.8)	(0.2)	(0.1)	(5.3)
Additions	2.2	6.3	2.9	19.7	31.1
Transfers from assets in the course of construction	5.1	12.6	1.9	(22.6)	(3.0)
Disposals	(1.0)	(8.8)	(1.4)	(0.4)	(11.6)
At 31 March 2012	**60.2**	**320.2**	**23.9**	**15.8**	**420.1**
Accumulated depreciation					
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
Exchange differences	(0.1)	(3.1)	(0.2)	–	(3.4)
Depreciation charge for the year	1.5	19.7	2.9	–	24.1
Disposals	–	(7.5)	(0.9)	–	(8.4)
At 31 March 2012	**23.9**	**217.2**	**18.1**	**–**	**259.2**
Net book value at 31 March 2012	**36.3**	**103.0**	**5.8**	**15.8**	**160.9**
Net book value at 26 March 2011	31.6	106.8	4.4	19.2	162.0
Net book value at 27 March 2010	32.3	108.4	4.9	20.0	165.6

The net book value of assets held under finance leases in the current and prior year was not material.

9 Intangible assets

	Goodwill £m	Development costs £m	Software assets £m	Distribution rights £m	Total £m
Cost					
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
Exchange differences	(0.2)	–	–	–	(0.2)
Additions	–	3.7	0.4	–	4.1
Disposals	–	(0.5)	(0.1)	–	(0.6)
At 31 March 2012	**8.2**	**19.2**	**8.7**	**0.4**	**36.5**
Accumulated amortisation					
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
Exchange differences	(0.1)	–	0.1	–	–
Amortisation for the year	–	1.5	1.0	–	2.5
Disposals	–	–	(0.1)	–	(0.1)
At 31 March 2012	**0.5**	**4.3**	**7.1**	**0.4**	**12.3**
Carrying value at 31 March 2012	**7.7**	**14.9**	**1.6**	**–**	**24.2**
Carrying value at 26 March 2011	7.8	13.2	2.3	–	23.3
Carrying value at 27 March 2010	7.9	9.8	1.6	–	19.3

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:

	2012 £m	2011 £m
Currency	**4.3**	4.3
Cash Processing Solutions	**3.4**	3.5
	7.7	7.8

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 latest projections approved by management 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 13.2 per cent (2010/11: 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.

10 Inventories

	2012 £m	2011 £m
Raw materials	**24.3**	21.2
Work in progress	**26.8**	26.6
Finished goods	**17.5**	19.7
	68.6	67.5

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

Provisions of £3.1m recognised in pre exceptional operating expenses were made against inventories in 2011/12 (2010/11: £3.6m). The Group also reversed provisions of £2.8m (2010/11: £3.4m), being part of an inventory write down that was not subsequently required.

11 Trade and other receivables

	2012 £m	2011 £m
Trade receivables	**69.1**	75.3
Provision for impairment	**(4.7)**	(4.7)
Net trade receivables	**64.4**	70.6
Amounts due from associated companies and joint ventures	**–**	0.3
Other receivables	**10.6**	13.2
Prepayments	**8.6**	5.6
	83.6	89.7

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

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

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

	Gross 2012 £m	Impairment 2012 £m	Gross 2011 £m	Impairment 2011 £m
Not past due	**49.6**	**–**	55.2	–
Past due 0-30 days	**17.2**	**–**	18.7	–
Past due 31-120 days	**7.1**	**(0.9)**	11.0	(2.0)
Past due more than 120 days	**5.8**	**(3.8)**	3.9	(2.7)
	79.7	**(4.7)**	88.8	(4.7)

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

	2012 £m	2011 £m
Balance at beginning of year	**(4.7)**	(3.9)
Impairment losses recognised	**(1.1)**	(1.5)
Impairment losses utilised/released	**1.1**	0.7
Balance at end of year	**(4.7)**	(4.7)

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 31 March 2012, the Group does not have any collective impairments on its trade receivables (2010/11: £nil).

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

12 Financial risk

Financial risk management

Overview

The Group's Treasury department, acting in accordance with policies approved by the Board, is responsible for the management of financial risks faced by the Group. The Group's activities expose it to a variety of financial risks, the most significant of which are liquidity risk, market risk and credit risk.

The Group's financial risk management policies are established and reviewed regularly to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Group Treasury identifies, evaluates and in certain cases hedges financial risks in close cooperation with the Group's operating units. Group Treasury provides written principles for overall financial risk management as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, use of derivative financial instruments and the investment of excess liquidity.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages this risk by ensuring that it maintains sufficient levels of committed borrowing facilities and cash and cash equivalents. The level of headroom needed is reviewed annually as part of the Group's planning process.

A maturity analysis of the carrying amount of the Group's borrowings is shown overleaf in the reporting of financial risk section together with associated fair values.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return:

(a) Currency risk

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

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

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

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

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

(b) Interest rate risk

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

Credit risk

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

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

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

12 Financial risk continued

Reporting of financial risks

Fair values

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

	Fair value measurement basis	**Total fair value 2012 £m**	**Carrying amount 2012 £m**	Total fair value 2011 £m	Carrying amount 2011 £m
Financial assets					
Trade and other receivables (excluding prepayments)		**75.0**	**75.0**	84.1	84.1
Cash and cash equivalents		**24.0**	**24.0**	32.6	32.6
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**2.1**	**2.1**	4.0	4.0
– Short duration swap contracts designated as fair value hedges	Level 2	**0.1**	**0.1**	0.1	0.1
– Foreign exchange fair value hedges – other economic hedges	Level 2	**3.2**	**3.2**	3.4	3.4
– Embedded derivatives	Level 2	**0.5**	**0.5**	8.3	8.3
Total financial assets		**104.9**	**104.9**	132.5	132.5
Financial liabilities					
Unsecured bank loans and overdrafts		**(48.8)**	**(48.8)**	(63.7)	(63.7)
Finance lease liabilities		**–**	**–**	(0.1)	(0.1)
Trade and other payables (excluding accruals)		**(50.0)**	**(50.0)**	(47.2)	(47.2)
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**(3.8)**	**(3.8)**	(2.5)	(2.5)
– Short duration swap contracts designated as fair value hedges	Level 2	**(0.1)**	**(0.1)**	(0.3)	(0.3)
– Foreign exchange fair value hedges – other economic hedges	Level 2	**(1.6)**	**(1.6)**	(5.1)	(5.1)
– Embedded derivatives	Level 2	**(1.0)**	**(1.0)**	(6.1)	(6.1)
– Interest rate swaps	Level 2	**–**	**–**	(0.1)	(0.1)
Total financial liabilities		**(105.3)**	**(105.3)**	(125.1)	(125.1)

Fair value measurement basis for derivative financial instruments

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

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

Forward exchange contracts used for hedging

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

Interest rate swaps

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

Embedded derivatives

The fair value of embedded derivatives is calculated based on the present value of forecast future exposures on relevant sales and purchase contracts and using quoted forward foreign exchange rates at the balance sheet date. The movement in fair value of embedded derivatives is shown within revenue or operating expenses as appropriate, depending on the nature of the transaction.

Determination of fair values of non derivative financial assets and liabilities

Trade and other receivables and payables

Due to their short maturities, trade and other payables, and trade and other receivables have been stated at their book values which approximate 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 31 March 2012 the discount rate used was 1.0 per cent (2010/11: 1.0 per cent).

Hedge reserves

Net movements in the hedge reserve are shown in the Group Statement of Changes in Equity. The hedge reserve balance at 26 March 2011 was £1.0m.

Comprehensive income after tax was £2.2m comprising a gain of £0.8m of fair value movements on new and continuing cash flow hedges, and a £2.5m gain to the Income Statement on maturing cash flow hedges, less £0.3m ineffectiveness charge on derecognition of cash flow hedges. Deferred tax on the net income of £3.0m amounted to £0.8m.

The hedge reserve balance on 31 March 2012 was (£1.2m).

12 Financial risk continued

Hedge reserve movements in the Income Statement were as follows:

	Revenue £m	Operating expense £m	Interest expense £m	Exceptional items £m	Total £m
31 March 2012					
– Maturing cash flow hedges	**1.1**	**1.4**	**–**	**–**	**2.5**
– Ineffectiveness on derecognition of cash flow hedges	**–**	**(0.1)**	**–**	**(0.2)**	**(0.3)**
	1.1	**1.3**	**–**	**(0.2)**	**2.2**
26 March 2011					
– Maturing cash flow hedges	(5.3)	(0.6)	–	–	(5.9)
– Ineffectiveness on derecognition of cash flow hedges	0.6	(0.1)	(0.2)	–	0.3
	(4.7)	(0.7)	(0.2)	–	(5.6)

The ineffective portion of fair value hedges that was recognised in the Income Statement amounted to a loss of £0.5m (2010/11: £nil). The ineffective portion of cash flow hedges that was recognised in the Income Statement was a loss of £0.3m (2010/11: £0.3m gain).

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.

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

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						
Gross amount payable from currency derivatives						
– Forward exchange contracts designated as cash flow hedges	40.5	(0.1)	–	40.4	(37.9)	2.5
– Short duration swap contracts designated as fair value hedges	(12.1)	–	–	(12.1)	12.4	0.3
– Fair value hedges – other economic hedges	150.9	11.6	–	162.5	(157.5)	5.0
Interest rate swaps	0.2	–	–	0.2	(0.1)	0.1
	243.3	11.5	–	254.8	(183.1)	71.7

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

As at 31 March 2012, the Group has a total of undrawn committed borrowing facilities, all maturing in more than one year, of £127.7m (2010/11: £120.9m in more than two years).

NOTES TO THE ACCOUNTS CONTINUED

12 Financial risk continued

Forward foreign exchange contracts

The net principal amounts of the outstanding forward foreign exchange contracts at 31 March 2012 are US dollar 54.8m, euro (40.0m), Swiss franc (12.0m), Japanese yen (1.7bn) and Singapore dollar 23.7m.

The net principal amounts outstanding under forward contracts with maturities greater than 12 months are euro (0.4m) and Japanese yen (1.3bn). These forward contracts are designated as cash flow hedges or fair value hedges as appropriate.

Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts at 31 March 2012 will be released to the Income Statement at various dates between one month and 42 months from the balance sheet date.

Short duration swap contracts

(i) Cash management swaps

The Group uses short duration currency swaps to manage the level of borrowings in foreign currencies. The fair value of cash management currency swaps at 31 March 2012 was £nil (2010/11: £nil). Gains and losses on cash management swaps are included in the consolidated Income Statement.

The principal amounts outstanding under cash management currency swaps at 31 March 2012 are US dollar (10.8m), euro 4.2m, Canadian dollar 1.0m, Swiss franc 0.3m, South African rand 20.4m, Australian dollar (0.9m), Singapore dollar 0.1m, and Swedish Krona 0.8m.

(ii) Balance sheet swaps

The Group uses short duration currency swaps to manage the translational exposure of monetary assets and liabilities denominated in foreign currencies. The fair value of balance sheet swaps as at 31 March 2012 was £nil (2010/11: (£0.2m)). Gains and losses on balance sheet swaps are included in the consolidated Income Statement.

The principal amounts outstanding under balance sheet swaps at 31 March 2012 are US dollar 25.6m, euro (11.8m), Swiss franc (6.8m), South African rand 4.8m, and Mexican peso (50.7m).

Embedded derivatives

Embedded derivatives relate to sales and purchase contracts denominated in currencies other than the functional currency of the customer/supplier, or a currency that is not deemed to be a commonly used currency of the country in which the customer/supplier is based. The net fair value of embedded derivatives at 31 March 2012 was (£0.5m) (2010/11: £2.2m).

Gains and losses on fair value hedges

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

Market risk: Currency risk

Exposure to currency risk

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	**2012**	2011
US dollar	**1.60**	1.55	**1.60**	1.61
Euro	**1.16**	1.17	**1.20**	1.14

Sensitivity analysis

A 10 per cent strengthening of sterling against the following currencies at 31 March 2012 and 26 March 2011 would have increased/(decreased) profit or loss by the amounts shown below, based on the Group's external monetary assets and liabilities. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010/11.

	2012 £m	2011 £m
US dollar	**(0.8)**	0.2
Euro	**(0.5)**	(0.5)

A 10 per cent weakening of sterling against the above currencies at 31 March 2012 and 26 March 2011 would have had the following effect:

	2012 £m	2011 £m
US dollar	**1.0**	(0.2)
Euro	**0.6**	0.5

12 Financial risk continued

Interest rate risk

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

	Carrying amount 2012 £m	Carrying amount 2011 £m
Variable rate instruments		
Financial assets	**24.0**	32.6
Financial liabilities	**(48.8)**	(63.8)
	(24.8)	(31.2)

As at 31 March 2012 the Group does not hold any fixed rate instruments.

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit and loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit and Loss		Equity	
	100bp increase £m	100bp decrease £m	100bp increase £m	100bp decrease £m
Variable rate instruments cash flow sensitivity (net)				
31 March 2012	**(0.2)**	**0.3**	**–**	**–**
26 March 2011	(0.2)	0.2	–	–

Credit risk

Exposure to credit risk

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

	Notes	Carrying amount 2012 £m	Carrying amount 2011 £m
Trade and other receivables (excluding prepayments)	11	**75.0**	84.1
Cash and cash equivalents	13	**24.0**	32.6
Forward exchange contracts used for hedging		**5.4**	7.5
Embedded derivatives		**0.5**	8.3
		104.9	132.5

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

	Carrying amount 2012 £m	Carrying amount 2011 £m
UK and Ireland	**17.1**	18.9
Rest of Europe	**14.1**	8.5
The Americas	**8.0**	10.0
Rest of world	**35.8**	46.7
	75.0	84.1

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

	Carrying amount 2012 £m	Carrying amount 2011 £m
Banks and financial institutions	**29.5**	41.0
Government institutions	**21.0**	21.1
Distributors	**2.5**	3.0
Retail customers	**1.1**	1.6
End user customers	**9.0**	7.3
Other	**11.9**	10.1
	75.0	84.1

12 Financial risk continued

Capital management

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

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

	Notes	2012 £m	2011 £m
Total equity attributable to shareholders of the Company		**(49.5)**	13.3
Net debt	20	**(24.8)**	(31.2)
Group capital		**(74.3)**	(17.9)

The Group's debt financing is analysed in notes 12, 16 and 20.

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

The Group's objective is to maximise sustainable long term growth of the earnings per share. De La Rue's dividend policy is to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to enable the Group to achieve its strategy. The dividend per share objective is monitored against the target of a full year dividend cover of 1.75 times. The decision to pay dividends, and the amount of the dividends, will depend on, among other things the earnings, financial position, capital requirements, general business conditions, cash flows, net debt levels and share buy back plans.

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

13 Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	**24.0**	31.9
Short term bank deposits	**–**	0.7
	24.0	32.6

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 12.

14 Deferred taxation

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

	2012 £m	2011 £m
Deferred tax assets	**40.4**	27.8
Deferred tax liabilities	**(1.3)**	(1.0)
	39.1	26.8

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

	2012 £m	2011 £m
Beginning of the year	**26.8**	36.2
Exchange differences	**(0.2)**	(0.2)
Income statement credit/(charge)	**4.8**	(2.6)
Tax credited/(charged) to equity	**7.7**	(6.6)
End of the year	**39.1**	26.8

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 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
Recognised in the Income Statement	0.2	–	(0.2)	(0.3)	(0.3)
Recognised in equity	–	–	–	(0.4)	(0.4)
At 31 March 2012	**9.0**	**0.4**	**1.7**	**0.2**	**11.3**

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
Assets					
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)
Recognised in the Income Statement	(1.1)	(0.5)	(0.4)	(2.5)	(4.5)
Recognised in equity	(0.2)	(6.8)	–	(0.4)	(7.4)
Exchange differences	–	–	–	0.3	0.3
At 31 March 2012	**(2.5)**	**(35.0)**	**(1.4)**	**(11.5)**	**(50.4)**

Other deferred assets and liabilities predominantly relate to tax associated with provisions (£4.9m) and overseas tax credits (£3.8m).

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 £1.7m (2010/11: £3.2m) in respect of losses amounting to £7.0m (2010/11: £12.6m) that can be carried forward against future taxable income. Similarly, the Group has not recognised deferred income tax assets of £16.3m (2010/11: £18.5m) in respect of overseas tax credits that are carried forward for utilisation in future periods.

Unremitted earnings totalled £444.1m at 31 March 2012 (2010/11: £429.3m). 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 £330.2m are carried forward at 31 March 2012 (2010/11: £337.0m). No deferred tax asset has been recognised in respect of these losses.

UK tax rate

A reduction in the UK tax rate from 26 per cent to 25 per cent (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24 per cent (effective from 1 April 2012) was substantively enacted on 26 March 2012.

This will reduce the Group's future tax charge accordingly. The UK deferred tax assets and liabilities at 31 March 2012 have been calculated based on the rate of 24 per cent substantively enacted at the balance sheet date.

A further reduction to the main rate was announced in the 2012 Budget on 21 March 2012 reducing the rate by an additional 1 per cent to 23 per cent from April 2013 and a further 1 per cent to 22 per cent from April 2014. These amendments were not substantively enacted at 31 March 2012 and therefore have not been reflected in the deferred tax figures on the Balance Sheet.

NOTES TO THE ACCOUNTS CONTINUED

15 Trade and other payables

	2012 £m	2011 £m
Current liabilities		
Payments received on account	**40.9**	54.6
Trade payables	**30.0**	23.8
Amounts owed to associated companies	**0.1**	1.9
Social security and other taxation	**1.9**	3.4
Deferred income	**5.1**	5.1
Accrued expenses	**75.0**	59.8
Other payables	**17.2**	15.8
	170.2	164.4
Non current liabilities		
Other payables	**0.8**	2.4
	0.8	2.4

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

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

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

16 Borrowings

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 12.

	Currency	Nominal interest rate	Year of maturity	Face value 2012 £m	Carrying amount 2012 £m	Face value 2011 £m	Carrying amount 2011 £m
Current liabilities							
Unsecured bank loans and overdrafts	CHF	1.60%	2012	**–**	**–**	0.3	0.3
Unsecured bank loans and overdrafts	EUR	2.95%	2012	**0.3**	**0.3**	1.6	1.6
Unsecured bank loans and overdrafts	LKR	13.50%	2012	**0.1**	**0.1**	0.3	0.3
Unsecured bank loans and overdrafts	INR	17.75%	2012	**0.9**	**0.9**	0.2	0.2
Unsecured bank loans and overdrafts	GBP	2.81%	2012	**26.2**	**26.2**	37.1	37.1
Unsecured bank loans and overdrafts	USD	2.34%	2012	**21.3**	**21.3**	21.7	21.7
Unsecured bank loans and overdrafts	BRL	16.90%	2012	**–**	**–**	2.5	2.5
Finance leases	GBP	1.00%	2012	**–**	**–**	0.1	0.1
Total interest bearing liabilities				**48.8**	**48.8**	63.8	63.8

In 2012, bank overdrafts of £57.8m (2010/11: £109.1m) were pooled for interest purposes against credit balances.

As at 31 March 2012, the Group has a total of committed borrowing facilities, all maturing in more than one year, of £175m.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2012 £m	Interest 2012 £m	Present value of minimum lease payments 2012 £m	Future minimum lease payments 2011 £m	Interest 2011 £m	Present value of minimum lease payments 2011 £m
Less than one year	**–**	**–**	**–**	0.1	–	0.1
	–	**–**	**–**	0.1	–	0.1

17 Provisions for liabilities and charges

	Restructuring £m	Business disposals £m	Warranty £m	Other £m	Total £m
At 26 March 2011	2.4	1.1	19.9	3.6	27.0
Exchange differences	–	–	–	(0.1)	(0.1)
Charge for the year	20.8	–	12.3	1.2	34.3
Utilised in year	(1.9)	–	(6.6)	(0.3)	(8.8)
Released in year	–	–	(5.3)	–	(5.3)
At 31 March 2012	**21.3**	**1.1**	**20.3**	**4.4**	**47.1**
Expected to be utilised within 1 year	14.4	1.1	20.3	4.4	40.2
Expected to be utilised after 1 year	6.9	–	–	–	6.9

Restructuring provisions include £19.6m in respect of exceptional amounts provided in 2011/12 for various reorganisations, principally in Security Products, involving the closure of three sites and the relocation of manufacturing activity to Gateshead and Westhoughton. These provisions include amounts for staff compensation and site exit costs, which are expected to be utilised over three years reflecting the contractual commitments to which they relate.

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

Warranty provisions relate to present obligations for defective products and include known claims as well as anticipated claims that had not been reported at the balance sheet date. The provisions are management judgements based on information currently available, past history and experience of the products sold. However, it is inherent in the nature of the business that the actual liabilities may differ from the provisions. The precise timing of the utilisation of these provisions is uncertain but is generally expected to fall within the year. Warranty provisions include £5.0m in respect of the 2010 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.

18 Share capital

	2012 £m	2011 £m
Issued and fully paid		
99,498,423 ordinary shares of $44\tfrac{152}{175}$p each (2010/11: 99,202,592 ordinary shares of $44\tfrac{152}{175}$p each)	**44.6**	44.5
111,673,300 deferred shares of 1p each (2010/11: 111,673,300 deferred shares of 1p each)	**1.1**	1.1
	45.7	45.6

	2012		2011	
	Ordinary shares '000	**Deferred shares '000**	Ordinary shares '000	Deferred shares '000
Allotments during the year				
Shares in issue at 26 March 2011/27 March 2010	**99,203**	**111,673**	98,883	111,673
Issued under executive share option plans	**8**	**–**	18	–
Issued under savings related share option scheme	**241**	**–**	163	–
Issued under US employee share plan	**13**	**–**	14	–
Issued under deferred bonus and matching plan	**33**	**–**	125	–
Shares in issue at 31 March 2012/26 March 2011	**99,498**	**111,673**	99,203	111,673

The deferred shares carry no voting rights and are unlisted.

19 Share based payments
At 31 March 2012, 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 plans are set out in the table below:

	Expense recognised for the year		Liability at end of year	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Annual bonus plan	**0.2**	0.1	**–**	–
Deferred bonus and matching plan	**(0.1)**	0.5	**–**	–
Performance share plan	**2.2**	0.1	**–**	–
Recruitment share award	**0.1**	0.6	**–**	–
Retention share award	**0.1**	0.4	**–**	–
Savings related share option plan	**0.3**	0.2	**–**	–
US employee share plan	**–**	–	**–**	–
	2.8	1.9	**–**	–

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

Arrangement	Performance share plan	Savings related share option plan	US employee share plan
Dates of current year grants	23 June 2011	22 Dec 2011	01 Jan 2012
Number of options granted	871,265	214,826	12,745 (estimated)
Exercise price	n/a	722.66	See below
Contractual life (years)	3	3 or 5	1
Settlement	Shares	Shares	Shares
Vesting period (years)	3	3 or 5	1
Dividend yield	n/a	5.0%	n/a
Fair value per option at grant date	£7.34	£2.10 for 3 year plan £2.19 for 5 year plan	n/a

An expected volatility rate of 35 per cent (2010/11: 30 per cent) has been used for grants in the period. This rate is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life. The rate applied during the year was 0.5 or 1.1 per cent depending on the vesting period.

Reconciliations of option movements over the period to 31 March 2012 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 45 to 52.

	2012 Number of options '000	2011 Number of options '000
Options outstanding at start of year	**93**	–
Granted	**–**	93
Forfeited	**(12)**	–
Exercised	**–**	–
Expired	**–**	–
Outstanding at end of year	**81**	93
Exercisable at year end	**–**	–

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

19 Share based payments continued

Deferred Bonus and Matching Plan

The plan was 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 51. The TSR performance condition has been incorporated into the Monte Carlo simulation model used to estimate the fair value of these options.

	2012 Number of options '000	2011 Number of options '000
Options outstanding at start of year	**234**	422
Granted – deferred shares	**–**	–
Granted – matching shares	**–**	–
Forfeited	**(101)**	(70)
Exercised	**(29)**	(118)
Expired	**–**	–
Outstanding at end of year	**104**	234
Exercisable at year end	**–**	–

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. A pre vesting forfeiture rate of 5 per cent per annum has been assumed.

	2012		2011	
	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**	10	388.05
Granted	**–**	**–**	–	–
Forfeited	**–**	**–**	–	–
Exercised	**(8)**	**382.03**	–	–
Expired	**–**	**–**	–	–
Outstanding at end of year	**2**	**407.42**	10	388.05
Exercisable at year end	**2**	**407.42**	10	388.05

The exercise price for the share options outstanding at the end of the year is 407.42p (2010/11: 340.50p - 407.42p).

The remaining contractual life of the outstanding share options is up to 5 July 2015 (2010/11: 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.

	2012		2011	
	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	**–**	**522.30**	18	487.88
Exercised	**–**	**522.30**	(18)	487.49
Expired	**–**	**–**	–	–
Outstanding at end of year	**–**	**–**	–	522.30
Exercisable at year end	**–**	**–**	–	522.30

The 200 options that remained outstanding and exercisable as at 26 March 2011 were exercised during the year. There are no outstanding options at 31 March 2012.

NOTES TO THE ACCOUNTS CONTINUED

19 Share based payments continued

Performance Share Plan

For details of the Performance Share Plan, refer to the Remuneration report on pages 45 to 52.

	2012 Number of options '000	2011 Number of options '000
Options outstanding at start of year	**249**	–
Granted	**871**	249
Forfeited	**(24)**	–
Exercised	**–**	–
Expired	**–**	–
Outstanding at end of year	**1,096**	249
Exercisable at year end	**–**	–

The shares have been allocated based on a share price of 559.5p for the 26 November 2010 grants, 686.5p for the 31 January 2011 grants, and 759.8p for the 23 June 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 45 to 52.

	Retention share award		Recruitment share award	
	2012 Number of options '000	2011 Number of options '000	2012 Number of options '000	2011 Number of options '000
Options outstanding at start of year	**46**	–	**66**	–
Granted	**–**	46	**–**	66
Forfeited	**–**	–	**–**	–
Exercised	**–**	–	**–**	–
Expired	**–**	–	**–**	–
Outstanding at end of year	**46**	46	**66**	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.

	2012		2011	
	Number of options '000	Weighted average exercise price pence per share	Number of options '000	Weighted average exercise price pence per share
Options outstanding at start of year	**2,050**	**519.01**	1,107	686.87
Granted	**215**	**722.66**	1,515	444.14
Forfeited	**(146)**	**520.15**	(397)	754.58
Exercised	**(242)**	**659.49**	(163)	379.31
Expired	**(112)**	**743.09**	(12)	647.72
Outstanding at end of year	**1,765**	**510.22**	2,050	519.01
Exercisable at year end	**32**	**554.66**	155	720.31

The range of exercise prices for the share options outstanding at the end of the year is 444.14p – 819.55p (2010/11: 357.00p – 819.55p). The weighted average remaining contractual life of the outstanding share options is 1 September 2015 (2010/11: 1 September 2014).

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 2011/12, 12,745 shares (2010/11: 14,014 shares) were allotted pursuant to the plan. It is estimated that 13,000 shares will be required to satisfy the Company's 2012/13 obligations in respect of employees' savings under the plan as at 31 March 2012.

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

The De La Rue Employee Share Ownership Trust was established to administer shares granted under the various De La Rue Executive Share Option Schemes (ESOS) and the De La Rue Executive Share Option Plan (ESOP) (or any other share option plan established by the Company) to Executive Directors and senior employees. Ardel Trust Company (Guernsey) Limited is the Trustee. The Trustee held no shares at 31 March 2012.

20 Analysis of net debt

	2012 £m	2011 £m
Cash at bank and in hand	**24.0**	31.9
Short term bank deposits	**–**	0.7
Bank overdrafts	**(1.5)**	(9.2)
Total cash and cash equivalents	**22.5**	23.4
Borrowings due within one year	**(47.3)**	(54.6)
Net debt	**(24.8)**	(31.2)

21 Group operating leases

	2012 Property £m	2012 Plant and equipment £m	2011 Property £m	2011 Plant and equipment £m
Total commitments due:				
– Within one year	**2.8**	**0.1**	3.2	0.2
– Between one and five years	**2.6**	**0.2**	5.1	0.2
– Over five years	**25.4**	**–**	26.4	–
	30.8	**0.3**	34.7	0.4

22 Retirement benefit obligations

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

(a) Defined benefit pension plans

	UK defined benefit pension £m	Overseas defined benefit pension £m	Gross defined benefit pension £m	Deferred tax £m	Net defined benefit pension £m
At 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)
Exchange differences	–	0.1	0.1	–	0.1
Current service cost included in operating profit	(7.8)	(0.2)	(8.0)	2.0	(6.0)
Net finance expense	(1.3)	–	(1.3)	0.4	(0.9)
Actuarial gains and losses arising over the year	(63.6)	–	(63.6)	16.5	(47.1)
Cash contributions and benefits paid	29.9	0.2	30.1	(7.8)	22.3
Change in tax rate	–	–	–	(3.8)	(3.8)
At 31 March 2012	**(143.3)**	**(2.3)**	**(145.6)**	**35.0**	**(110.6)**

22 Retirement benefit obligations continued

Amounts recognised in the consolidated Balance Sheet:

	2012 UK £m	2012 Overseas £m	2012 Total £m	2011 UK £m	2011 Overseas £m	2011 Total £m
Fair value of plan assets	**697.6**	**–**	**697.6**	638.5	0.3	638.8
Present value of funded obligations	**(833.8)**	**–**	**(833.8)**	(732.0)	(0.4)	(732.4)
Funded defined benefit pension plans	**(136.2)**	**–**	**(136.2)**	(93.5)	(0.1)	(93.6)
Present value of unfunded obligations	**(7.1)**	**(2.3)**	**(9.4)**	(7.0)	(2.3)	(9.3)
Net liability	**(143.3)**	**(2.3)**	**(145.6)**	(100.5)	(2.4)	(102.9)

Amounts recognised in the consolidated Income Statement:

	2012 UK £m	2012 Overseas £m	2012 Total £m	2011 UK £m	2011 Overseas £m	2011 Total £m
Included in employee benefits expense:						
– Current service cost	**(7.8)**	**(0.2)**	**(8.0)**	(7.6)	(0.2)	(7.8)
Included in profit from operations:						
– Curtailments	**–**	**–**	**–**	16.0	–	16.0
Included in net finance expense:						
– Expected return on plan assets	**39.4**	**–**	**39.4**	35.7	–	35.7
– Interest expense	**(40.7)**	**–**	**(40.7)**	(38.9)	(0.1)	(39.0)
Net finance expense	**(1.3)**	**–**	**(1.3)**	(3.2)	(0.1)	(3.3)
Total recognised in the consolidated Income Statement	**(9.1)**	**(0.2)**	**(9.3)**	5.2	(0.3)	4.9
Actual return on plan assets	**60.8**	**–**	**60.8**	46.4	–	46.4

Amounts recognised in the Statement of Comprehensive Income:

	2012 UK £m	2012 Overseas £m	2012 Total £m	2011 UK £m	2011 Overseas £m	2011 Total £m
Actuarial gain on plan assets	**21.4**	**–**	**21.4**	10.7	–	10.7
Actuarial (losses)/gains on defined benefit pension obligations	**(85.0)**	**–**	**(85.0)**	(41.8)	0.1	(41.7)
Amounts recognised in the Statement of Comprehensive Income	**(63.6)**	**–**	**(63.6)**	(31.1)	0.1	(31.0)

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

	2012 UK %	2012 Overseas %	2012 Total %	2011 UK %	2011 Overseas %	2011 Total %
Equities	**51.4**	**–**	**51.4**	56.7	–	56.7
Bonds	**19.6**	**–**	**19.6**	22.1	–	22.1
Gilts	**21.3**	**–**	**21.3**	19.3	–	19.3
Other	**7.7**	**100.0**	**7.7**	1.9	100.0	1.9

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:

	2012 UK %	2012 Overseas %	2011 UK %	2011 Overseas %
Future salary increases	**–**	**–**	–	3.00
Future pension increases – past service	**3.70**	**–**	3.80	0.43
Future pension increases – future service	**3.20**	**–**	3.50	–
Discount rate	**4.80**	**–**	5.60	5.30
Inflation rate	**3.30**	**–**	3.60	2.00
Expected return on plan assets:				
– Equities	**8.50**	**–**	8.50	–
– Bonds	**4.80**	**–**	5.60	–
– Gilts	**2.90**	**–**	4.20	–
– Other	**–**	**–**	–	5.30

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 31 March 2012 and 26 March 2011 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 (2010/11: 20.6 years).

22 Retirement benefit obligations continued

All members of the overseas funded defined benefit pension scheme transferred from this scheme during the year. As a result, there are no liabilities or actuarial assumptions shown above for overseas pensions.

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

History of experience gains and losses:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of plan assets	**697.6**	638.8	569.5	428.1	523.2
Present value of defined benefit pension obligations	**(843.2)**	(741.7)	(696.6)	(497.8)	(548.5)
Net liability	**(145.6)**	(102.9)	(127.1)	(69.7)	(25.3)
Cumulative actuarial gains and losses recognised in the Statement of Comprehensive Income	**(184.7)**	(121.1)	(90.1)	(17.8)	57.2
Experience (losses)/gains arising on defined benefit pension obligations:					
– Amount	**(1.6)**	(7.7)	(38.3)	(0.1)	0.3
– Percentage of present value of defined benefit pension obligations	**0.2%**	1.0%	5.5%	–	(0.1%)
Experience gains/(losses) arising on plan assets:					
– Amount	**21.4**	10.7	117.4	(123.7)	(43.6)
– Percentage of plan assets	**3.1%**	1.7%	20.6%	(28.9%)	(8.3%)

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 31 March 2012. 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:

	2012 £m	2011 £m
At 26 March 2011/27 March 2010	**638.5**	569.2
Expected return on plan assets (before expenses)	**41.8**	38.1
Plan administration and investment management expenses	**(2.4)**	(2.4)
Actuarial gains	**21.4**	10.7
Employer contributions	**29.9**	50.2
Plan participant contributions	**2.8**	3.1
Claims from insurance policy	**0.9**	0.5
Benefits paid	**(33.9)**	(30.0)
Life assurance premiums	**(0.9)**	(0.5)
Transfers	**(0.5)**	(0.4)
At 31 March 2012/26 March 2011	**697.6**	638.5

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

	2012 £m	2011 £m
At 26 March 2011/27 March 2010	**(739.0)**	(694.0)
Current service cost	**(7.8)**	(7.6)
Curtailments	**–**	16.0
Interest cost	**(40.7)**	(38.9)
Actuarial losses	**(85.0)**	(41.8)
Plan participant contributions	**(2.8)**	(3.1)
Benefits paid	**33.0**	29.5
Plan administration and investment management expenses	**–**	–
Life assurance premiums	**0.9**	0.5
Transfers	**0.5**	0.4
At 31 March 2012/26 March 2011	**(840.9)**	(739.0)

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 £24m to its UK pension fund in 2012/13.

(b) Defined contribution pension plans

The Group operates a number of defined contribution plans for which the charge in the consolidated Income Statement for the year was £2.2m (2010/11: £1.8m).

NOTES TO THE ACCOUNTS CONTINUED

23 Employees

	2012 number	2011 number
Average number of employees		
United Kingdom and Ireland	**2,092**	2,061
Rest of Europe	**749**	685
The Americas	**262**	252
Rest of world	**836**	999
	3,939	3,997
Average number of employees		
Currency	**2,397**	2,469
Cash Processing Solutions	**681**	698
Security Products	**536**	563
Identity Systems	**325**	267
	3,939	3,997

	2012 £m	2011 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	**135.4**	128.9
Social security costs	**10.6**	9.0
Share incentive schemes	**2.5**	1.6
Sharesave schemes	**0.3**	0.3
Pension costs	**10.2**	9.6
	159.0	149.4

24 Capital commitments

	2012 £m	2011 £m
The following commitments existed at the balance sheet date:		
– Contracted but not provided for in the accounts	**22.0**	4.0

25 Contingent liabilities

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

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

Provision, 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 trade receivables and other costs relating to the investigation, production and rectification of these matters.

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

26 Related party transactions

During the year the Group traded on an arms length basis with the associated company Fidink (33.3 per cent owned). The Group's trading activities with this company included £16.3m (2010/11: £14.3m) for the purchase of ink and other consumables. At the balance sheet date there were creditor balances of £0.3m (2010/11: £1.9m) 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

	2012 £'000	2011 £'000
Salaries and other short term employee benefits	**3,612.3**	2,267.3
Termination benefits	**–**	333.0
Retirement benefits:		
– Defined contribution	**276.1**	24.5
– Defined benefit	**57.2**	113.4
Share based payments	**1,290.6**	1,051.3
	5,236.2	3,789.5

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