The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No.596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

17 June 2020

DE LA RUE

2019/20 FULL YEAR RESULTS AND PUBLICATION OF ANNUAL REPORT 2020

De La Rue plc (LSE: DLAR) ("De La Rue", the "Group" or the "Company") announces its full year results for the year ended 28 March 2020 (the "period", "FY" or "full year"). The comparative period was the twelve months ended 30 March 2019.

Financial Summary	FY 2019/20 £m	FY 2018/19 (4) £m	Change
Adjusted revenue(3)*	**426.7**	**516.6**	**-17.4%**
Currency	281.6	398.9	-29.4%
Authentication	68.5	42.7	+60.4%
Identity Solutions	76.6	75.0	+2.1%
IFRS revenue	**466.8**	**564.8**	**-17.4%**
Gross profit	**105.9**	**162.4**	**-34.8%**
Adjusted operating expenses *(1)	**(82.2)**	**(102.3)**	**-19.6%**
Adjusted operating profit *(1)	**23.7**	**60.1**	**-60.6%**
IFRS operating profit	**42.8**	**31.5**	**+35.9%**
Adjusted EPS basic (p) *(2)	12.1p	42.9p	-71.8%
IFRS EPS basic from continuing operations (p)	33.1p	18.8p	+76.1%
Dividend per share (p)	-	25.0p	n/a

(1) Excludes exceptional items net credits of £20.0m (FY 2018/19: net charges of £27.9m) and amortisation of acquired intangible assets of £0.9m (FY 2018/19: £0.7m)

(2) Excludes exceptional items net credits net of tax of £22.5m (FY 2018/19: net charges net of tax £23.7m) and amortisation of acquired intangible assets net of tax of £0.7m (FY 2018/19: £1.0m)

(3) Adjusted revenue figures were labelled as "excluding paper" in the FY 2018/19 release

(4) Comparative Authentication and Identity Solutions results for FY 2018/19 have been restated in line with the adjustment noted in note 2 to present the results of one of the Group's subsidiaries solely in the Authentication division consistent with where management of the subsidiary's business now falls. The impact of this has been the transfer of the following amounts from the Identity Solutions results to Authentication: Revenue of £3.4m, gross profit of £2.1m and operating profit and profit before tax of £1.6m that would have been presented in the Identity Solutions division previously.

* This is a non-IFRS measure. Adjusted revenue excludes "pass through revenue" relating to non-novated paper business contracts where the group earns nil margin. See note 13 for reconciliation of non-IFRS measures to comparable IFRS measures.

FY 2019/20 financial performance

- Adjusted revenue of £426.7m (FY 2018/19: £516.6m) and IFRS revenue (which includes "pass-through" revenue on paper and International Identity Solutions non-novated contracts) of £466.8m (FY 2018/19: £564.8m). Both were lower reflecting a decline in Currency volumes and average price which more than offset the significant increase in Authentication revenue. We saw broadly flat adjusted revenues in Identity Solutions as the impact of the sale of International Identity Solutions in October 2019 was mitigated by higher revenue on the UK Passport production contract during the period.
- Gross profit of £105.9m (FY 2018/19: £162.4m), due to lower currency volumes and price, the sale of International Identity Solutions and negative manufacturing variances, more than offsetting the growth in Authentication and increased profits on the UK Passport production contract.

- Adjusted operating expenses declined by £20.1m reflecting cost saving initiatives and the sale of International Identity Solutions.
- Adjusted operating profit of £23.7m (FY 2018/19: £60.1m), resulting from a loss in Currency, driven by the decline in Currency volumes and margin, offset by increased profits in Authentication due to increased volumes and the benefit of increased profits from the UK Passport production contract.
- IFRS operating profit of £42.8m (FY 2018/19: profit £31.5m) was higher than adjusted operating profit due mainly to a gain on the sale of International Identity Solutions of £25.3m (excluding associated disposal costs), and a credit of £8.7m relating to the change in revaluation rates for certain UK defined benefit pension deferred scheme members, offset by £9.3m of restructuring charges.
- Adjusted basic EPS was 12.1p (FY 2018/19: 42.9p) and IFRS basic EPS from continuing operations was 33.1p (FY 2018/19: 18.8p).
- Net debt of £102.8m (FY 2018/19: £107.5m), down £4.7m year on year, reflecting the proceeds from sale of International Identity Solutions, offset by negative working capital movements, final dividend payment, pension funding contributions and capital expenditure.
- Net debt reduced by £67.9m since H1 2019/20, reflecting the sale of International Identity Solutions and an improved operating cash flow in H2.
- The Group's UK defined benefit pension scheme moved to an IAS 19 accounting net surplus of £64.8m as at 28 March 2020 (30 March 2019: £76.8m deficit).

Business update

- Three-year Turnaround Plan announced in February 2020, which is focused on growth in both Authentication and Currency, and a cost reduction programme.
- Already implemented actions expected to deliver £24.8m of annualised savings (out of the total £35.9m of annualised savings targeted under the Turnaround Plan).
- Today announcing a consultation process in relation to a proposal to cease banknote printing at our Gateshead plant, while retaining current printing capacity.
- Won two new customers in Currency for our security thread Ignite®, with strong demand for Currency.
- The Qatar Central Bank will be the first central bank to issue our next generation security feature NEXUS™.
- Strong growth in Authentication with good pipeline of upcoming tenders.
- Mitigating actions taken to protect employees and insulate the business from the impact of the COVID-19 pandemic, with limited disruption experienced to date.

Proposed fully underwritten capital raising

- Today we are separately announcing a proposed fully underwritten equity capital raising of approximately £100m gross proceeds through a firm placing and placing and open offer of, in aggregate, 90,909,091 new ordinary shares at an issue price of 110 pence per new ordinary share, subject to shareholder approval.
- The Group intends to use the net proceeds raised from the proposed equity capital raising to fund the necessary investment to implement the Turnaround Plan.

Clive Vacher, Chief Executive Officer of De La Rue, said:

"I am pleased that we have seen increased utilisation of our factory capacity for Currency in the second half, alongside strong growth in Authentication and polymer throughout the year.

"We are now well underway with our plans to turnaround the Company, with opportunities to grow our revenue and reduce our cost base. Our cost cutting initiatives will enable us to compete harder in the currency market, while the development of security features and polymer will drive growth for this division. Authentication and polymer continue to show strong growth and we see an increasing pipeline of new opportunities.

"I would like to thank my colleagues who have worked hard to get the Company where it is today and we all recognise there is much more work to do. The £100m equity capital raising we are announcing today will strengthen the Group's balance sheet and help us deliver the Turnaround Plan, enabling De La Rue to create value for our employees, customers, suppliers and shareholders."

Today we are also announcing that Sabri Challah has informed the Board of his intention to step down as a Director due to his other commitments. Sabri will remain on the Board until such time as a successor Independent Non-Executive Director has been appointed, but in any event until no later than the date of the Company's forthcoming Annual General Meeting.

Until then, he will continue as the Senior Independent Director, but accordingly will not be standing for re-election at the Company's forthcoming Annual General Meeting.

De La Rue has today also made available its Annual Report and Accounts for the year ended 28 March 2020 (the "Annual Report 2020") on the Company's website, www.delarue.com. In accordance with Listing Rule 9.6.1, the Company has today submitted a copy of the Annual Report 2020 to the Financial Conduct Authority via the National Storage Mechanism and the Annual Report 2020 will shortly be available for inspection at:
https://data.fca.org.uk/#/nsm/nationalstoragemechanism. In due course, a hard copy version of the Annual Report 2020 will be sent to those shareholders who have elected to receive paper communications, together with the Notice of Annual General Meeting 2020.

Certain of the information contained in this announcement is extracted from the Annual Report 2020 in accordance with the requirements of the DTR 4.1.3 and DTR 6.3.5.

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A conference call will take place at 9:00 am on 17 June 2020, which is also accessible via webcast on www.delarue.com.

For the live webcast, please register at www.delarue.com/investors/ where a replay will also be available subsequently.

The person responsible for the release of this announcement on behalf of De La Rue is Jane Hyde (General Counsel and Company Secretary).

PROPOSED FULLY UNDERWRITTEN EQUITY CAPITAL RAISING

Today we are announcing the terms of a proposed fully underwritten equity capital raising, which is intended to raise gross proceeds of approximately £100m. The capital raising will be structured by way a firm placing of 45,410,026 new ordinary shares and a placing and open offer of 45,499,065 new ordinary shares, at an issue price of 110 pence per new ordinary share.

The proposed equity capital raising is required to provide the Company and its management with operational and financial flexibility to implement the Turnaround Plan, in particular given the investment needed to achieve the full benefits of the Turnaround Plan, the upcoming refinancing requirement of its existing debt facilities, the loss of the UK Passport production contract during H1 2020/21 and the current unprecedented uncertainty in the financial and commercial markets. The equity capital raising is fully underwritten by Investec Bank plc, Numis Securities Limited and Barclays Bank PLC. Rothschild & Co is acting as sponsor and financial adviser.

The Group intends to use the net proceeds from the equity capital raising of approximately £92m to invest in the Turnaround Plan. The principal use of the proceeds will be to:

- provide the investment required to grow the Authentication division, especially in respect of the provision of tobacco tax stamps compliant with the World Health Organisation's Framework Convention on Tobacco Control (FCTC);
- cover the restructuring cash costs of the Group's accelerated cost reduction programme;
- invest in new equipment to double the Currency division's capacity for polymer production;
- finance footprint related capital expenditure in respect of the Group's overseas manufacturing sites; and
- invest in the expansion of the Group's security features businesses (in respect of both the Currency and Authentication divisions).

The balance is expected to be used for general working capital purposes and/or to strengthen the Company's balance sheet.

For further details on the proposed capital raising, please see the Prospectus which is expected to be published later today and will be available at www.delarue.com.

COVID-19

The Company has assessed, and continues to assess, the potential for disruption caused by the COVID-19 pandemic and has put in place plans and measures in order to enable the business to maintain normal operations, to the extent possible, against the backdrop of an evolving situation.

Within the UK and across many of the other countries in which the Group operates, many of the Group's products and services are considered by customers, governments and other relevant stakeholders to be essential to the underpinning of trade integrity, personal identity and/or the movement of goods. Despite the wider global impact of the COVID-19 pandemic:

- The Group's manufacturing sites have continued to operate with only moderate disruption;
- The Group's supply chain and distribution network have remained robust;
- The Group's order book remains strong; and
- The Group remains committed to implementing its Turnaround Plan.

The Group has nevertheless implemented actions to mitigate the impact of COVID-19, including steps to protect its employees in line with guidance from governments, and whilst there remains considerable uncertainty in relation to the COVID-19 pandemic (including in relation to its duration, extent and ultimate impact), the Board believes that the Group's operations will continue to experience only limited disruption due to the impact of the COVID-19 pandemic and that such disruption will continue to diminish in the coming months.

Limited business disruption

All four of our UK sites have continued to operate with minimal disruption, remaining fully operational, while implementing necessary safe working practices. Our Malta site has continued to operate without disruption, with record production output achieved in the final month of FY 2019/20. Our Kenya site has remained operational on a reduced shift pattern and the site's production has experienced only minimal disruption. Operations at our site in Sri Lanka, which were suspended for eight weeks, are now operational at slightly lower capacity.

Within the Group's Authentication division, volumes under existing brand and government revenue solutions are stable despite the COVID-19 pandemic. Manufacturing facilities have been able to fulfil increased demand from some of the Group's material customers, where short-term peaks have required a response to COVID-19 impacts in their supply chains. De La Rue's brand protection expertise has been selected by an international customer to authenticate and protect its COVID-19 testing kits that are being shipped around the world, and it has developed existing physical and digital solutions to provide a COVID-19 immunity certification scheme.

The Group's Currency division is witnessing strong global demand for currency, as central banks seek to increase stock levels during and after the COVID-19 pandemic. This has resulted in a number of significant opportunities for the Group's Currency division which are being actively pursued and the Board believes that this strong demand for currency will continue for the remainder of FY 2020/21.

Across the Group's Currency and Authentication divisions, there has been some evidence of the COVID-19 pandemic delaying customers' processes for approving new contracts and orders with the Group. However, set against the new opportunities that COVID-19 presents for the Group, the impact of these delays on the Group's order book has been minimal and the Group's order book continues to be strong.

Our supply chain across both our Currency and Authentication divisions has remained materially unaffected since the outbreak of the COVID-19 pandemic. Throughout the duration of the COVID-19 pandemic, the Currency division's supply chain has remained fully functional and the Authentication division's supply chain has suffered no material disruption, with it also being able to pass on the majority of increased air freight costs to relevant customers.

BUSINESS UPDATE

Group reorganisation

In these results, we report on the financial performance of the Currency, Authentication and Identity Solutions divisions (see pages 12 and 13), reflecting our operating structure after our realignment of the Group in November 2019 and the sale of International Identity Solutions in October 2019. We have seen a significant level of senior management change in FY 2019/20, in addition to Board changes (please see page 13).

In November 2019, we realigned the Group into two ongoing divisions focused on:

- **Authentication**: the supply of products and services to support businesses in protecting their revenue streams, product supply chain and brand; the supply of products and services to governments which authenticate goods as genuine and to assure tax revenues; and the provision of security components for the identity industry.

- **Currency**: encompassing our banknote print, security features for currency and polymer product lines, focused on the provision of finished banknotes, as well as security features/banknote substrate into central banks and state print works.

In order to provide increased insight into the underlying performance of our business, we have reported revenue, gross margin and operating profit on an IFRS and adjusted basis for each of our two divisions.

On 14 October 2019, we completed the sale of our International Identity Solutions business to HID Corporation Limited, an ASSA ABLOY Group company, for a cash consideration of £42m on a cash-free, debt-free basis.

We continue to work with Her Majesty's Passport Office on the phased transition to the new supplier for the UK Passport production contract during H1 2020/21. As a result of the above, we expect lower revenue for Identity Solutions during FY 2020/21 and none for FY 2021/22.

Turnaround Plan

On 25 February 2020, we announced details of a turnaround plan for the Company (the "Turnaround Plan"), which is based on more than three months' data-driven intensive work by an extended leadership team and covers the three-year period from FY 2020/21 to FY2022/23 inclusive.

The Turnaround Plan is targeting improved and sustainable profitability in the Currency division, driven by cost reductions, and investment in polymer and related features where there are attractive market growth opportunities. We are also targeting continued strong year-on-year growth of the Authentication business during the three-year period of the Turnaround Plan, driven by further, largely project related, investment.

The Turnaround Plan has the following key elements, which will enable De La Rue to grow with an efficient and appropriate cost structure:

- **Cost reduction**: The Company is enacting an accelerated cost reduction programme with a substantive proportion scheduled to complete by August 2020. Targeted savings on an annualised basis from H2 2020/21 will be approximately £35.9m, including actions already realised in FY 2019/2020 which are expected to secure £24.8m of annualised savings. This will significantly exceed and accelerate previous cost reduction commitments of £20m by FY 2021/22. The Company's cost structure will be re-based to enable it to compete more strongly across all its market segments, allowing it to tender for currency orders it would previously have declined, and to improve margins on existing work. In addition, in FY 2019/20 central costs represented approximately 8% of Group revenue (these costs being allocated to divisional adjusted operating profit by revenue in FY2019/20). As a result of the actions outlined above, we expect these central costs to reduce to approximately 6% of Group revenue in FY 2022/23. From FY 2020/21, we expect the allocation of central costs by division to reflect the ongoing changes in the organisation as we implement the Turnaround Plan. Divisional adjusted operating margins referred to below are stated before these central costs. The restructuring cash costs for the cost reduction actions within the Turnaround Plan will be approximately £16m in FY 2020/21.

- **Currency market leadership:** The Turnaround Plan is targeting improved and sustainable profitability in the Currency division, focusing on: improving profitability of banknotes, protecting and growing the Group's paper security feature position, converting the world to polymer and being the market leader, and investing in R&D in polymer security features and leapfrogging the competition. De La Rue has established a leading position in polymer: since 2013, 83 per cent of issuing authorities who have issued banknotes on polymer globally have selected De La Rue Safeguard®. The Bank of England £20 note released in February 2020 represented the 42nd banknote worldwide that De La Rue has secured on its Safeguard® polymer substrate. De La Rue will also be designing and printing the Bank of England's new £50 banknote for release in 2021.

At year end, approximately 3% of the world's banknotes by volume and 12% by denomination had moved to polymer. A cornerstone of the Company's strategy is investing in, and supporting customers with, the significant trend of transition from paper to polymer notes, including the development of the most secure features on polymer. With established products and recent innovations, De La Rue has also built a portfolio of industry-leading paper security features that are the choice of a growing range of customers and will continue to be a focus for the business. In the currency printing market, De La Rue is already in the process of increasing its competitiveness and has amongst the world's most extensive experience of printing both on paper and polymer. The Turnaround Plan targets a mid-teens adjusted operating profit margin for this division from FY 2020/2021, before allocation of central overhead.

- **Continued strong growth in Authentication**: De La Rue has delivered significant year-on-year growth in this division in FY 2019/20 and is targeting continued strong year-on-year growth in this division during the three-year period of the Turnaround Plan as more countries adopt tobacco tax stamp schemes to comply with the World Health Organisation (WHO) Framework Convention on Tobacco Control (FCTC). De La Rue is already in discussions with a number of governments regarding the roll-out of tobacco and drinks tax stamp schemes and is targeting agreements with several new countries each year.

  In parallel, De La Rue plans to increase its sales and marketing presence in developing markets like Latin America and Asia and improve its suite of products. Under the Turnaround Plan, De La Rue is targeting Authentication division revenues of £100m by FY 2021/22, with strong operating margins.

As part of our accelerated cost savings programme, on 1 May 2020 we initiated a consultation process to reduce roles at our headquarters by 35 to 40 people, mainly in finance and supporting functions.

Overall, the Turnaround Plan is expected to address the Company's historic financial volatility and underperformance, creating a business with structural revenue growth, a realigned operating cost base to underpin strong and sustainable profitability and cash flow and position the Company to take advantage of attractive growth opportunities within its end markets.

Gateshead consultation process

We have today announced that a consultation process will commence shortly to cease banknote printing at our Gateshead site and we will start to engage in a collective consultation process with impacted employees. Under the proposal, the Company will retain some core services and roles at the site.

Subject to the consultation process, we would expect the banknote printing operations to cease at Gateshead by the end of this calendar year. In addition, the UK Passport operations, also in Gateshead, will cease operations during H1 2020/21 as the contract transfers to a new supplier.

Importantly, this proposal will not result in a reduction of the Company's worldwide printing capacity. We remain committed to a strong, growing Currency business, and will continue to print banknotes in the UK as well as at our international sites. Following a period of transition and the relocation of equipment from Gateshead to other sites, the proposal ensures that De La Rue has the same, or more, capacity as today, but operates with four currency print factories, down from five. This transition period is expected to be complete by the end of H2 2020/21. The consultation period is expected to last a minimum of 45 days.

Authentication

Authentication is focused on providing physical and digital solutions to authenticate products through the supply chain and to provide tracking of excisable goods to support compliance with government regulations. Working across the commercial and government sectors, we address consumer and brand owner demand for protection against counterfeit goods.

The traditional tax stamp market covering tobacco and alcohol has evolved to include digital solutions and tobacco track-and-trace. The combined physical and digital solutions provided by the Group support governments to protect tax revenue and to comply with intergovernmental policies and international treaties such as the EU Tobacco Products Directive and the World Health Organisation Framework Convention on Tobacco Control. The Group's contracts with the UAE and Kingdom of Saudi Arabia are now live and delivering volumes in line with expectations and we are continuing the roll-out to cover other tobacco products. In May 2020, we were awarded a contract to extend our tobacco track and trace ID Issuer Solution with the UK HMRC.

Our brand protection business grew strongly in FY 2019/20, as a result of increased focus on securing new customers. We continue to invest in software capabilities, service provision and R&D focused on IP generation and are exploring blockchain technologies. Our Traceology software platform for brand protection customers was relaunched in the first quarter of FY 2020/21, to include new analytics and reporting functionality, as well as new features for consumer interaction with the brands protected by our solutions.

Post the close of the FY 2019/20 trading period:

- The Group signed a five-year agreement to supply polycarbonate data pages for the new Australian passport. This follows the development agreement signed with Note Printing Australia in 2016, under which De La Rue has developed several new security features which will be produced at our facility in Malta. De La Rue will scale up manufacturing and anticipates first deliveries in the fourth quarter of financial year 2020/21.

- De La Rue's brand protection expertise has been selected by an international customer to authenticate and protect its COVID-19 testing kits that are being shipped around the world, and it has developed existing physical and digital solutions to provide a COVID-19 immunity certification scheme.

- To date, in this financial year, De La Rue's Authentication division has been awarded contracts with total lifetime value exceeding £100m, which further underpins the Company's expectation of Authentication division revenue of £100m by FY 2021/22, with strong operating margins.

Currency

While the underlying Currency market continues to grow, in the first half of FY 2019/20 we saw pricing pressure as a result of reduced overspill demand and were impacted by our ability to competitively bid for contracts. However significant cost reduction programmes in the second half have improved our ability to compete and to respond to rapid market demand changes. We aim to maintain a leading market position in banknote print, banknote polymer substrate and security features, and to focus our innovation on developing our technology and products. We are targeting continued growth in our polymer substrate business and associated security features.

In security features, commemorative notes containing our latest security thread Ignite® were issued by the Bangladesh Bank in March 2020, and a second central bank will issue new banknotes containing this thread in late calendar 2020. Our Safeguard® polymer substrate continues with good growth and at financial year end, 25 issuing authorities were issuing 45 circulating banknotes on this substrate, including the new Bank of England and Scottish Bank £20 notes that entered circulation in February and March this year. The Qatar Central Bank will be the first central bank to issue our next generation security feature NEXUS™.

Post the close of the FY 2019/20 trading period:

- The Currency division is experiencing strong demand that has continued during the COVID-19 pandemic and has been awarded contracts representing 80% of our available full-year Currency printing capacity.

- De La Rue continues to make progress in enhancing its portfolio of offerings and the realignment of its cost base to enable it to become more competitive. As a result, we continue to expect the Currency division to reach a mid-teens adjusted operating margin in FY 2020/21, before allocation of central costs.

OUTLOOK

The Directors believe that the proposed equity capital raising is required to provide the Company and its management with operational and financial flexibility to implement the Turnaround Plan.

We have a target of returning the Company to a strong, financial position and an operating platform which will deliver sustainable growth at high operating margins and strong cash generation in the medium term. Following an initial period of cash outflow to fund the Turnaround Plan, by the end of the Turnaround Plan in FY2022/23, we aim for the Group to be generating positive free cash flow and capable of supporting sustainable cash dividends to shareholders.

FINANCIAL RESULTS SUMMARY

We have witnessed significant changes since the start of FY 2019/20 in the market for Currency, including pricing pressure as a result of reduced overspill demand in H1 2019/20, the effect of which reduced during H2 2019/20. This had a material impact on our volumes and profitability in FY 2019/20, which resulted in adjusted revenue of £426.7m (FY 2018/19: £516.6m), a decrease of 17.4%, driven by the decline in Currency, which more than offset the significant increase in Authentication volumes, (see below for details). We also saw broadly flat adjusted revenue for Identity Solutions as the impact of the sale of International Identity Solutions in October 2019 was mitigated by higher revenue on the UK Passport production contract during the period. Identity Solutions IFRS revenue was up 10.9% and included of £6.6m of "pass through" revenue on non-novated contracts post sale.

IFRS revenue reduced by 17.4% to £466.8m (FY 2018/19: £564.8m), and was in line with the decline in adjusted revenue, as lower pass-through revenue on paper of £33.5m (FY: 2019/20: £48.2m) was offset by £6.6m of pass-through revenue relating to non-novated International Identity Solutions contracts following the sale in October 2019.

Gross profit reduced to £105.9m (FY 2018/19: £162.4m), reflecting mainly the impact of lower currency volumes and price, the sale of International Identity Solutions and negative manufacturing variances, which more than offset the positive impact in Authentication and the UK Passport production contract.

Adjusted operating expenses excluding the impact of exceptional items and amortisation of acquired intangibles were £82.2m (FY 2018/19: £102.3m), reflecting our cost cutting initiatives and the sale of International Identity Solutions in October 2019.

Adjusted operating profit of £23.7m (FY 2018/19: £60.1m) reflected mainly the decline in Currency volumes and margin referred to above. Identify Solutions adjusted operating profit of £22.8 (FY 2018/19: £10.5m) was driven by the UK Passport production contract, which will be materially lower in the next financial year.

IFRS operating profit of £42.8m (FY 2018/19: profit £31.5m) was higher than adjusted operating profit due to the recognition in the year of a substantial net credit on exceptional items of £20.0m. Exceptional items include a £25.3m gain on the sale of International Identity Solutions (excluding costs associated with the sale), a credit of £8.7m relating to the resolution of a historical issue in respect to a change in revaluation rates for certain UK defined benefit pension deferred scheme members, offset by the recognition of £9.3m of restructuring charges related to the reorganisation of the divisional structure and other cost out initiatives.

Operating profit in FY 2018/19 benefited by £6.9m from the adoption of IFRS 15 and the impact of a net non-recurring credit of £4.0m (for further details see below).

Adjusted basic EPS was 12.1p (FY 2018/19: 42.9p) and IFRS basic EPS from continuing operations was 33.1p (FY 2018/19: 18.8p).

Cash generated from operating activities was an inflow of £1.5m (FY 2018/19: outflow £4.6m), as profits from operating activities were partly offset by an adverse working capital movement of £21.1m (for further detail see below) and pension funding contributions of £21.3m. Cash generated from operating activities is also stated after approximately £7.3m of payments relating to exceptional items and discontinued operations.

The total net cash inflow excluding £1.5m of net repayments on Group borrowings in the period was £4.7m (FY 2018/19: outflow of £57.4m) and includes proceeds from the sale of International Identity Solutions (net of cash disposed and disposal costs) of £42.0m and net tax refunds of £3.5m, offset by capital expenditure of £17.3m, dividend payments of £17.9m and net interest payments of £5.8m. The total net increase in cash and cash equivalents in the period was £3.2m (FY 2018/19: decrease of £3.9m).

As at 28 March 2020, EBIT/net interest payable was 5.2 times (covenant of ≥4.0 times), and net debt/EBITDA was 2.24 times (covenant of ≤3.0 times) as calculated in accordance with banking covenant definitions.

During the period the Group implemented IFRS 16 (leases). IFRS 16 has resulted in a benefit to operating profit of £0.5m and a benefit of £2.9m to EBITDA. Further detail on IFRS 16 is provided in note 1.

OPERATING PROFIT AND OPERATING COSTS

Adjusted operating profit in FY 2019/20 was £23.7m (FY 2018/19: £60.1m) and reflected:

- A loss of £9.4m in Currency (FY 2018/19: profit of £41.7m) resulting from lower volumes and margin due to the reduction in banknote and security feature volumes and price, an adverse product mix and negative manufacturing variances due to lower than planned production volumes;
- A profit in Authentication of £10.8m (FY 2018/19: £7.9m) driven by increased volumes, partially offset by upfront operating expenses; and
- A profit in Identity Solutions of £22.8m (FY 2018/19: £10.5m), which we do not expect to repeat next year following the sale of International Identity Solutions and the rundown of the UK Passport production contract.

On an IFRS basis, an operating profit of £42.8m was recorded (FY 2018/19: profit £31.5m) including, in addition to the factors referred to above, a substantial net credit on exceptional items of £20.0m (FY 2019/2019 exceptional charge of £27.9m). Exceptional items include a £25.3m gain on the sale of International Identity Solutions (excluding associated disposal costs), a credit of £8.7m relating to the resolution of a historical issue in respect of a change in revaluation rates for certain deferred pension scheme members, offset by the recognition of £9.3m of restructuring charges related to the reorganisation of the business into the new divisional structure and other cost out initiatives. Please see note 5 'Exceptional Items' below for more details.

Adjusted and IFRS operating profit in FY 2018/19 benefited from the adoption of IFRS 15 which impacted operating profit by £6.9m and primarily related to a material contract where the revenue was recognised over time as the inventory was produced rather than on final shipment in FY 2019/20 due the contract terms. Adjusted and IFRS operating profit in FY 2018/19 also benefitted from a net non-recurring credit of £4.0m due to the release of an accrual related to a dispute which arose out of the well-publicised events of 2010 concerning one of De La Rue's customers and the recognition of a net significant bad debt expense (excluding amounts relating to Venezuela).

During the period the Group implemented IFRS 16 (leases). IFRS 16 has resulted in a benefit to operating profit of £0.5m and a benefit of £2.9m to EBITDA. Further detail on IFRS 16 is provided in note 1 'Basis of preparation and accounting policies'.

The Group has revised its methodology for allocating central costs to its reporting segments in its FY 2019/20 results. This change was considered appropriate considering the substantial changes that have occurred in the year with the reorganisation of the business into the new Currency and Authentication divisional structure and the sale of International Identity Solutions. This has resulted in the Currency and Identify Solutions segments receiving a lower percentage of central costs and Authentication receiving a higher percentage of costs.

FINANCE CHARGE

The Group's net interest charge was £5.2m (FY 2018/19: £4.4m), excluding IAS 19 and IFRS 16 finance charges and interest income due from the loan notes and preference shares received as part of the disposal of Portals paper. The increase was attributable to a higher level of net debt in H1 2019/20 prior to the proceeds from the sale of International Identity Solutions being received.

The IAS 19 related finance cost, which represents the difference between the interest on pension liabilities and assets, was £1.6m (FY 2018/19: £2.1m). The lower charge reflects the fall in the discount rate and the reduction in net pension liability compared to FY 2018/19.

Following the adoption of IFRS 16 (leases) the Group has also recognised a finance cost relating to the unwinding of the discount on the lease liabilities of £0.6m.

Interest due on the loan notes and preference shares held in Mooreco Limited (received as part of the consideration for the Portals paper disposal) amounted to £0.7m (FY 2018/19: £0.6m). The loan notes and preference shares are included in the balance sheet as Other Financial Assets.

The total Group net finance charge was £6.7m (FY 2018/19: £5.9m).

EXCEPTIONAL ITEMS

Exceptional items during the period were a net credit of £20.0m (FY 2018/19: net charge of £27.9m). These are: a £25.3m gain on the sale of International Identity Solutions (excluding costs associated with the sale), and £8.7m credit due to the resolution of a historical issue in respect of a change in revaluation rates for certain deferred pension scheme members, offset by a £9.3m charge reflecting restructuring charges related to the reorganisation into the new divisional structure and other cost out initiatives and a £3.3m charge in relation to costs associated with the sale of International Identity Solutions. Exceptional items also included £1.0m relating to the closing out of the hedge position taken out in relation to Venezuela receivables for which a credit loss of £18.1m was provided and reported in exceptional items in FY 2018/19. The hedge position was closed out following further tightening of sanctions against Venezuela post the year end.

The policy for exceptional items described in the Annual Report and Accounts is used when calculating our financial covenants as agreed with our lenders.

TAXATION

The effective tax rate on continuing operations before exceptional items and the amortisation of acquired intangibles was 15.8% (FY 2018/19: 16.1%). Including the impact of exceptional items and the amortisation of acquired intangibles the net tax charge for the year was £0.0m (FY 2018/19: tax charge £4.8m). The effective tax rate for FY 2020/21 on continuing operations before exceptional items and amortisation of acquired intangibles is expected to be between 16 - 17%.

Net tax credits relating to exceptional items in the period were £2.5m (FY 2018/19: £4.2m). A tax credit of £0.2m (FY 2018/19: £0.3m charge) was recorded in respect of the amortisation of acquired intangibles.

EARNINGS PER SHARE

IFRS basic earnings per share from continuing operations was 33.1p (FY 2018/19: 18.8p) and adjusted basic earnings per share was 12.1p (FY 2018/19: 42.9p).

CASH FLOW AND BORROWING

Cash flows from operating activities was a net inflow of £1.5m (outflow of £4.6m in FY 2018/19). Profits from operating activities were partially offset by:

- an adverse net working capital movement of £21.1m (FY 2018/19: £59.9m adverse working capital movement) due to:
    - a build in inventory (negative impact £12.1m[1]), mainly within the Currency division;
    - a reduction in receivables (positive impact £10.2m[1]), mainly due to strong cash collections in the Currency division; and
    - a reduction in payables (negative impact £19.2m[1]) resulting from a net reduction in advanced payments and settlement of trade creditors, the adverse impact of which was partially offset by increase in derivative liabilities due to currency fluctuations;
- an increase in provisions (positive impact of £7.4m), mainly relating to the recognition of onerous contract provisions relating to two contracts; and
- pension fund contributions of £21.3m (FY 2018/19: £20.5m).

(1) Working capital movements exclude in FY 2019/20 amounts relating to the sale of International Identity Solutions in order to show continuing cashflows for the period.

Cash generated from operating activities included approximately £7.3m of payments relating to exceptional items and discontinued operations.

Cash inflow from investing activities was £25.6m (FY 2018/19: outflow £24.5m), driven by the proceeds from the sale of International Identity Solutions, which was partially offset by capital and development asset expenditure. Capital expenditure is stated net of cash receipts from grants received of £3.8m.

Cashflows from financing activities were a net outflow of £27.5m (FY 2018/19: inflow of £27.2m) due to the net repayment of the revolving credit facility of £1.5m, dividend payments of £17.9m, interest payments in relation to the Group’s borrowings of £5.8m and IFRS16 lease liability payments of £2.3m.

As a result, Group net debt decreased to £102.8m at 28 March 2020, from £107.5m at 30 March 2019. This reflects the benefit of £42m proceeds from the sale of International Identity Solutions which was offset by an adverse working capital movement, final dividend payment, pension funding contributions and capital expenditure.

The Board has reviewed a plan for FY 2020/21 that shows the Group will operate within its banking covenants, assuming the successful completion of the fully underwritten equity capital raising being announced today. The successful completion of the equity capital raise is dependent on shareholders voting in favour of the equity capital raising at the upcoming General Meeting and as a result we have disclosed a material uncertainty (relating to this shareholder vote) over going concern of the Company at the date of this announcement. See Going Concern Statement above and the Annual Report and Accounts for further details.

At the period end, the covenant tests were as follows: EBIT/net interest payable of 5.2 times (covenant of ≥4.0 times), net debt/EBITDA of 2.24 times (covenant of ≤3.0 times). The covenant tests use earlier accounting standards, or "frozen-GAAP", and exclude adjustments including IFRS 16, IFRS 15 and IFRS 9.

In order to facilitate the equity capital raising and provide existing Shareholders and new investors with sufficient certainty around the continued availability, and terms, of the Group's financing to successfully implement the Turnaround Plan and support the future growth of the business, the Group has agreed terms with its lenders in order to secure (among other things) (i) an extension to the maturity date of the Group's existing revolving facility agreement to 1 December 2023; (ii) a temporary relaxation of applicable financial covenants; and (iii) appropriately sized committed bonding facilities. Save for the Long Stop Provision (as defined below), all amendments to the Group's revolving facility agreement are conditional, among other things, upon the Company receiving the proceeds of the equity capital raise in the gross amount of at least £100 million by no later than 31 July 2020.

In exchange for agreeing to these key changes, the Group's lenders required that the Company agree to the inclusion of a provision in the revolving facility agreement amendment which, if the proposed equity capital raising does not proceed, requires the Company to agree an alternative financing plan with its lenders, failing which an immediate event of default under the revolving facility agreement is automatically triggered (the "Long Stop Provision"). This Long Stop Provision has now entered into effect. Under the Long Stop Provision, if the proceeds of the proposed equity capital raise in the gross amount of at least £100 million are not received by the Company on or before 31 July 2020, the Company must agree an alternative financing plan with its lenders (acting reasonably) as soon as reasonably practicable and, at the latest, within 45 days of 31 July 2020 (or such longer period as the Company and its lenders may agree). During this period, the ability of the Group to borrow further funds (either as cash loans or new bonding arrangements) under the revolving facility agreement would be restricted. If an alternative financing plan were not agreed by the deadline referred to above, this would constitute an immediate event of default under the Group's revolving facility agreement (as amended) and, as a result, the Group's lenders would have the right to immediately withdraw and cancel the Group's facility and demand repayment of any drawings on the facility under the revolving facility agreement..

PENSION DEFICIT AND FUNDING

The valuation of the Group's UK defined benefit pension scheme (the "UK Pension Scheme") on an accounting basis under IAS 19 at 28 March 2020 is a net surplus of £64.8m (30 March 2019: £76.8m deficit). The move into surplus since 30 March 2019 is due to pension funding contributions, an increase in the value of the UK Pension Scheme's assets, due to overall investment returns across the portfolio, a reduction in UK Pension Scheme liabilities, due to a reduction in inflation rate assumptions, a past service credit of £8.7m, relating to a change in revaluation rates for certain deferred scheme members (reported within exceptional items) and the benefit of a gain due to an update in actuarial assumptions.

The charge to operating profit in respect of the administration cost of the UK Pension Scheme in the period was £2.2m (FY 2018/19: £2.7m). In addition, under IAS 19 there was a finance charge of £1.6m arising from the difference between the interest cost on liabilities and the interest income on scheme assets (FY 2018/19: £2.1m).

On 31 May 2020, the Trustee and the Company agreed the terms for a schedule of contributions and a recovery plan, setting out a programme for clearing the UK Pension Scheme deficit (the "Recovery Plan"). The latest actuarial valuation of the UK Pension Scheme as at 31 December 2019, which was based on intentionally prudent assumptions, revealed a funding shortfall (technical provisions minus the value of the assets) of £142.6m. The Recovery Plan makes an allowance for post-valuation market conditions up to 30 April 2020 (at which point there is an estimated funding shortfall of £190m), including the impact of COVID-19 on financial markets to that date.

The £190m deficit is addressed by payments of £15m per annum (payable quarterly in arrears) under the Recovery Plan payable from 1 April 2020 until 31 March 2023 and then payments of £24.5m per annum (payable quarterly in arrears) from 1 April 2023 until 31 March 2029 (whereas under the recovery plan agreed with the trustee in 2016 ("2015 Recovery Plan"), the payments would have been £22.2 million between 1 April 2020 and 31 March 2021, £23.1 million between 1 April 2021 and 31 March 2022 and £23 million per annum thereafter until 31 March 2028). Additional contingent contributions in exceptional circumstances will become payable by way of an acceleration of the contributions due in later years where: (i) the leverage ratio (consolidated net debt: EBITDA) is equal to or greater than 2.5x in either FY 2021/2 or FY2022/23, up to a maximum of £4m in each financial year and £8m in total and/or (ii) the Company or any its subsidiaries take any action which will cause material detriment (defined in section 38 Pensions Act 2004) to the UK Pension Scheme, of £23.3m (£7.2m in FY 2020/21, £8.1m in FY 2021/22 and £8m in FY 2022/23) over the period up to 31 March 2023.

The funding of the Recovery Plan is to be sourced from cash generation of the future business activities, but the Trustee has contractually agreed not to request any portion of the equity capital raising proceeds. This agreement with the Trustee of the UK Pension Scheme is conditional on an amount in full settlement of the equity capital raising in the gross amount of at least £100m having been received by the Company by no later than 31 July 2020. If these criteria were not to be met, then the Group's current obligations in respect of the UK Pension Scheme under the 2015 Recovery Plan would (subject to the outcome of a valuation as at 5 April 2018 which would then need to be completed) continue unaffected.

DIVIDEND

In November 2019, the Board decided to suspend future dividend payments (see Director's report for further details).

SALE OF INTERNATIONAL IDENTITY SOLUTIONS

On 14 October 2019, we completed the sale of International Identity Solutions to HID Corporation Limited, an ASSA ABLOY Group company, for a cash consideration of £42m, on a cash-free/debt-free basis. See note 6 for further details.

OPERATING REVIEW

Currency

The **Currency** division comprises banknote print, polymer and security features.

	FY 2019/20 £m	FY 2018/19 £m	Change
IFRS Revenue (£m)	315.1	447.1	*-29.5%*
Adjusted Revenue (ex-paper) (£m)*	281.6	398.9	*-29.4%*
Gross profit (£m)	44.2	110.5	*-60.0%*
IFRS operating (loss)/profit (£m)	-9.9	21.0	*-147.1%*
IFRS operating margin	n/a	4.7%	
Adjusted operating (loss)/profit* (£m)	-9.4	41.7	*-122.5%*
Adjusted operating margin**	n/a	10.4%	

*Excludes "pass through" revenue of £33.5m related to non-novated paper contracts relating to the Portals De La Rue sale.
** Excludes exceptional item net charge of £0.5m (FY 2018/19: net charges of £20.7m). See note 13 for reconciliation of non-IFRS measures to comparable IFRS measures.

Overall, we saw a decline in banknote and security feature volumes and price, with good growth in polymer volumes. Adjusted revenue was £281.6m (FY 2018/19: £398.9m) and IFRS revenue was £315.1m, 29.4% lower than the prior year and includes the recognition of £33.5m of "pass-through" paper revenue. At 28 March 2020, the 12-month order book for Currency was £172m and the total order book for Currency was £226m.

We saw a decline in adjusted operating profit from £41.7m in FY 2018/19, to a £9.4m loss in FY 2019/20 due to the reduction in banknote and security feature volumes and price, an adverse product mix and negative manufacturing variances due to lower than planned production volumes.

FY 2018/19 IFRS operating profit was stated net of exceptional charges of £20.7m primarily related to the expected credit loss provision in respect of a customer in Venezuela.

Revenue and operating profit (on both an IFRS and adjusted basis) in FY 2018/19 benefited from the adoption of IFRS 15 by £11.9m and £6.6m respectively. The primary driver of this benefit was a material contract where the revenue was recognised over time as the inventory was produced rather than on final shipment in FY 2019/20 due the contract terms. Currency operating profits (on both an IFRS and adjusted basis) in FY 2018/19 were also impacted by a net non-recurring credit of £2.3m due to the release of an accrual related to a dispute which arose out of the well-publicised events of 2010 concerning one of De La Rue's customers and the recognition of a net significant bad debt expense (excluding amounts relating to Venezuela).

Authentication

The **Authentication** division comprises mainly GRS and brand protection products, and includes elements of the identity business that were not transferred as part of the sale of International Identity Solutions.

	FY 2019/20 £m	FY 2018/19** £m	Change
IFRS Revenue (£m)	68.5	42.7	*+60.4%*
Adjusted Revenue (£m)	68.5	42.7	*+60.4%*
Gross profit (£m)	28.8	19.5	*+47.7%*
IFRS operating profit (£m)	9.7	5.1	*+90.2%*
IFRS profit margin	14.2%	11.9%	
Adjusted operating profit* (£m)	10.8	7.9	*+36.7%*
Adjusted operating margin*	15.8%	18.5%	

*Excludes exceptional item charges of £0.2m (FY 2018/19: net charges of £2.1m) and amortisation of acquired intangibles of £0.9m (FY 2018/19: £0.2m).See note 13 for reconciliation of non-IFRS measures to comparable IFRS measures.
** Comparative Authentication and Identity Solutions results for FY 2018/19 have been restated in line with the adjustment noted in the current year to present the results of one of the Group's subsidiaries solely in the Authentication division consistent with where management of the subsidiary's business now falls. The impact of this has been the transfer of the following amounts from the Identity Solutions results to Authentication: Revenue of £3.4m, Gross Profit of £2.1m and operating profit and profit before tax of £1.6m that would have been presented in the Identity Solutions division previously.

IFRS and adjusted revenue was £68.5m (FY 2018/19: £42.7m), a significant year-on-year increase of 60.4% driven by growing volumes for our GRS contracts and ongoing sales to current customers.

IFRS operating profit of £9.7m (FY 2018/19: £5.1m) and adjusted operating profit of £10.8m (FY 2018/19: £7.9m) were driven by growth in GRS volumes. IFRS and adjusted operating profit in FY 2018/19 were also impacted by £1.2m of upfront operating expenses associated with the tax stamp projects, as well as a £1.9m impact of the move of our manufacturing from Gateshead to Malta in the first half of FY 2018/19.

Identity Solutions

Identity Solutions comprises our passport and other personal identity products. We sold International Identity Solutions in October 2019, which impacted FY 2019/20 revenue and profitability.

	FY 2019/20	FY 2018/19**	Change
IFRS Revenue (£m)	83.2	75.0	*+10.9%*
Adjusted Revenue* (£m)	76.6	75.0	*+2.1%*
Gross profit (£m)	33.4	32.4	*+3.1%*
IFRS operating profit (£m)	47.6	10.5	*+353.3%*
IFRS operating profit margin	57.2%	14.0%	
Adjusted operating profit** (£m)	22.8	10.5	+117.1%
Adjusted operating margin*,**	29.8%	14.0%	

* Excludes “pass through” revenue of £6.6m related to non-novated contracts relating to the IDS business.
** Excludes net exceptional item credit of £24.8m (FY 2018/19: £nil). For reconciliation of non-IFRS measures to comparable IFRS measures see note 13.
** Comparative Authentication and Identity Solutions results for FY 2018/19 have been restated in line with the adjustment noted in the current year to present the results of one of the Group’s subsidiaries solely in the Authentication division consistent with where management of the subsidiary’s business now falls. The impact of this has been the transfer of the following amounts from the Identity Solutions results to Authentication: Revenue of £3.4m, Gross Profit of £2.1m and operating profit and profit before tax of £1.6m that would have been presented in the Identity Solutions division previously

IFRS revenue was £83.2m (FY 2018/19: £75.0m) and adjusted revenue was £76.6m (FY 2018/19: £75.0m). Adjusted revenue declined due to the sale of International Identity Solutions in October 2019, partially offset by increased volumes within our UK Passport business. Adjusted operating profit of £22.8m, an increase of £12.3m on FY 2018/19, was due to additional UK passport volumes at an improved margin. IFRS operating profit of £47.6m, a substantial increase on FY 2018/19, was driven by the profit on the sale of International Identity Solutions in addition to the benefit of the additional UK Passport business.

We continue to work with Her Majesty’s Passport Office on the phased transition to the new supplier for the UK Passport production contract and expect revenue in H1 2020/21 only as the contract runs off.

BOARD AND EXECUTIVE CHANGES

On 30 May 2019, we announced that Martin Sutherland had agreed with the Board of the Company that he would step down as Chief Executive Officer and as a Director of the Company following the appointment of his successor.

On 24 June 2019, we announced that Andy Stevens, Senior Independent Director, had informed the Board of his intention to step down as a Director of the Company due to his other commitments. In addition, we announced that the Chairman, Philip Rogerson, indicated his intention to retire from the Board.

On 2 September 2019, we announced the appointment of Kevin Loosemore as a non-executive Director and Chairman designate. Philip Rogerson retired as Chairman and as a non-executive Director on 1 October 2019, and Kevin succeeded Philip as Chairman on his retirement.

On 7 October 2019, we announced:

- the appointment of Clive Vacher as Chief Executive Officer and an Executive Director with immediate effect, and that accordingly Martin Sutherland would stand down as Chief Executive Officer and as a Director of the Company; and that,
- Andy Stevens, Senior Independent Director, had agreed to step down. Sabri Challah became Senior Independent Director and Maria Da Cunha, Non-executive Director, succeeded Sabri as Chair of the Remuneration Committee.

On 24 January 2020, we announced that Helen Willis had agreed to step down from her role as Chief Financial Officer and a Director of the Company, in each case with immediate effect.

Rob Harding joined as interim Chief Financial Officer and a member of the Executive Leadership Team with effect from 9 March 2020. Rob is a qualified Chartered Accountant with a wealth of finance and turnaround experience, most recently with Co-op Insurance where he held the position of interim Chief Financial Officer.

BREXIT

On 31 January 2020 the United Kingdom left the European Union (EU) with a negotiated Withdrawal Agreement and a broad political declaration on the future UK-EU partnership arrangements. We have been undertaking preparations for Brexit since 2018 and have held frequent risk reviews and updates, bringing together key stakeholders within the business to coordinate and enact contingency measures to ensure preparedness and business continuity.

As part of wider mitigation measures, we have engaged with key suppliers relating to their Brexit contingency planning, conducted regular contractual reviews and analysed known tariff and free trade access changes. We actively review and adapt to new HMRC published technical notices on customs, excise and VAT as applicable. We have increased contingency stocks and adapted logistics and delivery timescales to avoid the potential risks of congestion and other related supply chain risks.

SFO

On 16 June 2020, we announced that we were informed by the Serious Fraud Office ("SFO"), that the SFO decided to discontinue its investigation into De La Rue and its associated persons. The SFO investigation was first announced on 23 July 2019. We are pleased that the SFO has closed its investigation and that the SFO is taking no further action in respect of this matter. See note 11 ‘Contingent liabilities’.

Clive Vacher
Chief Executive Officer

17 June 2020

Cautionary note regarding forward-looking statements

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

By their nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors because they relate to events and depend on circumstances that will occur in the future whether or not outside the control of the Company. Past performance cannot be relied upon as a guide to future performance and should not be taken as a representation or assurance that trends or activities underlying past performance will continue in the future. Accordingly, investors or potential investors should not place undue reliance on these forward-looking statements. The Group's actual results of operations, financial condition, liquidity, dividend policy and the development of the industry in which it operates may differ materially from the impression created by the forward-looking statements contained in these results and/or the information incorporated by reference into these results. In addition, even if the results of operations, financial condition, liquidity and dividend policy of the Group and the development of the industry in which it operates, are consistent with the forward-looking statements contained in these results and/or the information incorporated by reference into these results, those results or developments may not be indicative of results or developments in subsequent periods.

Other than in accordance with its legal or regulatory obligations, De La Rue does not undertake any obligation to update these forward-looking statements, which speak only as at the date of this document, and will not publicly release any revisions that may be made to these forward-looking statements, which may result from events or circumstances arising after the date of this document.

DIRECTORS REPORT

Principal risks and uncertainties

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

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

As described in the Annual Report and Accounts for the year ended 28 March 2020, the principal risks include: Impact of Q4 Emerging Risk - COVID-19, Quality management failure, Reliance on a small number of large orders, Failure of a key supplier, Bribery and corruption, Failure to Implement the Turnaround Plan and Run the Business, Loss of a key site or process, Banking, Failure to Convert Modernisation into Value, Loss of Material Contract, Breach of information security, Breach of product security, Breach of sanctions, Pension fund liability, and Failure in health safety and environment controls.

A copy of the Annual Report and Accounts for the year ended 28 March 2020, is available on the Company's website www.delarrue.com.

Going Concern

Background and relevant facts

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 1 to 17 of the Strategic report of the 2020 Annual Report and Accounts. In addition, pages 134 to 142 of the 2020 Annual Report and Accounts include the Group's objectives, policies and processes for financial risk management, details of its financial instruments and hedging activities and its exposure to credit risk, liquidity risk and commodity pricing risk. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in pages 20 to 21 of the Strategic report of the 2020 Annual Report and Accounts.

The Group currently has a revolving credit facility ('RCF') of £275m that expires on 1 December 2021, which allows the drawing down of cash and the committed use of bonds and guarantees up to the level of £100m, which reduces the available cash facility. These are subject to the overall RCF limit and six-monthly covenant tests. At 28 March 2020, the covenant tests were as follows: EBIT/net interest payable 5.2 times (covenant of ≥4.0 times), net debt/EBITDA 2.24 times (leverage covenant of ≤3.0times).

At the balance sheet date, net debt was £102.8m and none of the committed bonds and guarantees facility was utilised. However, in addition there were £61.5m of bonds and guarantees in place under bilateral uncommitted bonding facilities, where certain of the lending banks have the ability to request, at their sole discretion, that outstanding and futures bonds issued under those facilities are cash collateralised. If such cash collateralisation were to be requested under the uncommitted bonding facilities in any scenario where the Company continued to operate under the existing terms of the RCF, there would likely be a breach of the leverage covenant in the existing RCF agreement at the next testing date in September 2020.

In order to determine the appropriate basis of preparation for the financial statements for the year ended March 2020 the Directors must consider whether the Group can continue in operational existence for the foreseeable future, being at least 12 months from the approval date of these financial statements, taking into account the liquidity headroom afforded by the Group's banking and bonding facilities.

As detailed in the Chairman's statement on page 2 and the CEO review on page 10 of the 2020 Annual Report and Accounts, the Group has announced its intention to raise £100m by way of a firm placing and placing and open offer of shares ('Capital Raise'). The Capital Raise is fully underwritten by Barclays Bank PLC, Investec Bank plc and Numis Securities Limited (the 'Joint Bookrunners'). The receipt of the £100m is conditional on:

(i) the passing by the Company's shareholders of the resolutions to be proposed at the general meeting (scheduled for 6 July 2020);
(ii) the relevant placing and placing and open offer and underwriting agreement having become unconditional in all respects, save for the condition relating to the admission of the Company's new ordinary shares to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange ('Admission'), and not having been terminated in accordance with its terms before Admission occurs; and

(iii) Admission having become effective by not later than 8:00 a.m. on 7 July 2020 (or such later time and/or date as the Company and the Joint Bookrunners may agree, not being later than 31 July 2020).

If any of the conditions are not satisfied or, if applicable, waived, then the Capital Raise will not take place.

In order to facilitate the Capital Raise, the Group has entered into an agreement with its lenders amending the terms of its existing RCF agreement ('Revolving Facility Agreement Amendment'). The relevant amendments, among other things, extend the maturity date of the RCF to December 2023, reset the interest cover ratio (covenant of ≥ 2.4 times for FY21, ≥ 2.8 times for FY22 and ≥ 3 times beyond that date) and provide available committed bonding facilities that do not need to be cash collateralised . The Company has also separately reached an agreement with the trustee of its UK defined benefit pension scheme ('Trustee') to reduce the amount of the Group's annual contributions to such scheme from £23m to £15m per annum during 2020 to 2023 inclusive (subject to additional contingent contributions which would be accelerated from later years in exceptional circumstances). Full details of the new pension arrangement and these exceptional circumstances are set out in note 26 of the 2020 Annual Report and Accounts.

The agreement with the Trustee and, save for the Long Stop Provision (defined below), the amendments to the RCF envisaged by the Revolving Facility Agreement Amendment are conditional, among other things, upon the Company receiving the proceeds of an equity capital raise in the gross amount of at least £100 million no later than 31 July 2020 (the 'Equity Raise Condition'). Should the Capital Raise not take place and the Equity Raise Condition fail to be satisfied: (i) the reduction in the contributions due to the pension scheme would not take effect; and (ii) pursuant to the Revolving Facility Agreement Amendment, a provision would be triggered meaning that the Company would be required to agree an alternative financing plan with the relevant lenders (acting reasonably) within 45 days of 31 July 2020 ('Plan Deadline') (such provision being the 'Long Stop Provision').

<u>Unfunded Assessment</u>

If the Capital Raise were not to be completed by 31 July 2020 such that the Equity Raise Condition were not fulfilled, the Group would continue to operate under the terms of its existing RCF (with no change to its covenants) and the Long Stop Provision would become effective. In this scenario, the ability of the Company to operate as a going concern would not be entirely within the control of the Directors. The Company would seek to agree an alternative financing plan with its lenders before the Plan Deadline. This would be subject to negotiation and there can be no certainty that an alternative financing plan would be agreed with the relevant lenders by the Plan Deadline and there can be no certainty as to the terms of any agreement and the impact on the Company's strategy and ownership structure. In this scenario, if the Company is not able to agree an alternative financing plan by the Plan Deadline, this would constitute an immediate event of default under the RCF (pursuant to the Revolving Facility Agreement Amendment) and as a result, the relevant lenders would have the right to immediately withdraw and cancel the Group's facility and demand repayment of any drawings on the facility (£117.0m at the balance sheet date). In this scenario and assuming an alternative financing plan could not be agreed, the Group is not expected to have sufficient cash resources to repay the amounts drawn and/or to continue trading and the Group could be forced into insolvent liquidation.

The Directors believe that the key condition to the Capital Raise relates to the shareholder vote, given the customary nature of the other conditions to the Capital Raise and the value of the firm placing commitments and conditional placing commitments (underpinning the open offer element) which have been procured from investors as at the approval date of these financial statements.

While the Directors have a reasonable expectation that shareholder approval for the Capital Raise will be obtained, given such approval has not yet been obtained, they have identified the securing of such approval as a material uncertainty which could cast significant doubt on the Group and Company's ability to continue as a going concern.

<u>Funded Assessment:</u>

Having undertaken a rigorous assessment of the Group's financial forecasts, taking into account the amended agreements with its lenders and the Trustee, considering the anticipated proceeds from the Capital Raise (subject to the conditions above), the anticipated impact (and additional downside risks) of COVID-19 and other plausible downside scenarios, the Board has concluded that it is appropriate to adopt the going concern basis for the preparation of the accounts.

As the original forecasts were prepared before the pandemic in respect of COVID-19 was announced, the Directors considered the potential impact of COVID-19 on the Group's forecasts and modelled the expected impact on revenue and profit and related impact on working capital and capital expenditure, of reduced banknote production in some key sites in H1 2021 and delays in certain Authentication contract wins during FY21.

In addition to adjusting the original 'base' forecast for the expected impact of COVID-19, the Directors have then considered and modelled (i) plausible downside scenarios that reflect the possible impact of key risks as detailed in the risk report on page 23 of the Strategic report of the 2020 Annual Report and Accounts, as well as (ii) potential additional downside risks as a result of COVID-19, which are discussed further below.

The plausible downside scenarios modelled include: the investments in Polymer and security features not delivering the forecast returns, banknote volumes being weaker in FY22 as a result of reduced demand, weaker growth in Authentication due to fewer new contracts won, limited growth on existing contracts and reductions to the cost base not being achieved.

Additional downside COVID-19 risks modelled include further site closures and absenteeism resulting in loss of volumes and consequent revenue in Currency and further reductions in Authentication revenues due to manufacturing challenges.

In the event these downsides were to occur, the Directors have considered and modelled the mitigating actions they would take. These include a reduction in temporary staff commensurate with reduced activity levels in a downside scenario and a short term reduction in travel and marketing expenses.

The result of the above modelling of the base case, adjusted for the expected impact of COVID-19, plausible downside scenarios, further downside COVID-19 risks and mitigating actions results in a 'reasonable worst case scenario' that has been used as the basis of the going concern conclusion. This model shows a 32% reduction in adjusted operating profit in FY21 and a 49% reduction in adjusted operating profit in FY22 (both measured against the base case forecast in each of these years).

This 'reasonable worst case' forecast, which covers a period of more than 12 months, show that the Group can operate within its available banking facilities (under the amended RCF agreement), assuming the Capital Raise completes. The Directors believe that the possibility of the actual results being sufficiently worse to erode the liquidity and covenant headroom shown in this 'reasonable worst case' forecast is remote.

As at the date of the approval of these financial statements, COVID-19 has had only a limited impact on the operations of the Group. However, the modelling performed above takes into account the risk of additional disruption post the period to 17 June 2020. The Company believes that it is appropriate to provide additional disclosure on the key COVID-19 assumptions modelled in relation to the prospective impact of, and business disruption during, the COVID-19 pandemic. The assumptions listed below are the aggregate impact modelled in the Group's 'reasonable worst case' scenario (so are reflected in the conclusions reached above) and are each relevant to the period post 17 June 2020:

- In respect of the manufacturing sites which service the Group's Currency division:
    - Production output at each of the UK-based sites is reduced to 75 percent of Company budget forecast levels for a period of two months;
    - Production output at the Group's Malta site remains at the Company's budget forecast level; and
    - The Group's Sri Lanka-based and Kenya-based sites each record production output equal to zero percent of Company budget forecast levels for a period of two months, 25 percent of Company budget forecast levels for a further period of one month, 50 percent of Company budget forecast levels for a further period of one month and 75 percent of Company budget forecast levels for a further period of one month.
- Within the Group's Authentication division:
    - Entry into new contracts in the Government Revenue Solutions ("GRS") market is delayed by three months compared to the relevant original budgeted date, with corresponding impacts to Group revenue anticipated to accrue from those contracts of up to 2 percent of Company budget forecasts for Group revenue in FY 20/21 and the capital expenditure anticipated to be spent in service of those contracts of up to 4 per cent. of Company budget forecasts for Group capital expenditure in FY 20/21;
    - The Group's Kenya-based site records production output equal to zero per cent. of Company budget forecast levels for a period of one month and 75 percent of Company budget forecast levels for a further period of one month.
    - Production output from the Group's UK-based site at Westhoughton is reduced to 75 percent of Company budget forecast levels for a period of one month; and
    - GRS production output from the Group's Malta-based site is reduced to 75 percent of Company budget forecast levels for a period of one month.

<u>Overall conclusion</u>

There is a material uncertainty relating to the approval of the Company's shareholders in respect of the Capital Raise, which at the time of issuing these financial statements has not yet been obtained. Failure to obtain such shareholder approval would mean that the ability of the Company to operate as a going concern would not be entirely within the Directors' control (as explained further above).

Despite this, the Directors have a reasonable expectation that the Company's shareholders will approve the Capital Raise and that funds will be received by 31 July 2020 such that, accordingly, they do not expect the Long Stop Provision (as described above) to become effective. On this basis and taking into account the reasonable worst case forecasts described above on a funded basis, the Directors therefore conclude that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and accounts but note that a material uncertainty exists that casts significant doubt upon the Company and Group's ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the Company or Group was unable to continue as a going concern.

A copy of the Annual Report and Accounts for the year ended 28 March 2020 is available at www.delarue.com.

Statement of Directors' responsibilities

The responsibility statement below has been prepared in connection with the Group's Annual Report and Accounts for the year ended 28 March 2020 (the "Annual Report and Accounts").

Each of the persons who is a Director at the date of approval of the Annual Report and Accounts confirms that to the best of his or her knowledge:

- The Group financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;

- The Strategic report on pages 1 to 40 and the Directors' report on pages 87 to 90 of the Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

- The Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's financial position, performance, business model and strategy.

The Board of Directors of De La Rue plc at 28 March 2020 and their respective responsibilities can be found on page 44 and 45 of the Annual Report and Accounts.

For and on behalf of the Board

Kevin Loosemore
Chairman
17 June 2020

Consolidated income statement

for the period ended 28 March 2020

	Notes	**2020 £m**	2019 £m (restated*)
Revenue from customer contracts	3	**466.8**	564.8
Cost of sales		**(360.9)**	(402.4)
Gross Profit		**105.9**	162.4
Adjusted operating expenses		**(82.2)**	(102.3)
Adjusted operating profit		**23.7**	60.1
Adjusted Items:			
– Amortisation of acquired intangibles		**(0.9)**	(0.7)
– Net exceptional items	5	**20.0**	(27.9)
Operating profit		**42.8**	31.5
Interest income		**1.0**	0.6
Interest expense		**(6.1)**	(4.5)
Net retirement benefit obligation finance expense		**(1.6)**	(2.1)
Net finance expense		**(6.7)**	(6.0)
Profit before taxation from continuing operations		**36.1**	25.5
Taxation	7	**–**	(4.8)
Profit from continuing operations		**36.1**	20.7
Loss from discontinued operations	4	**(0.3)**	(2.4)
Profit for the year		**35.8**	18.3
Attributable to:			
– Owners of the parent		**34.1**	17.0
– Non-controlling interests		**1.7**	1.3
Profit for the year		**35.8**	18.3
Earnings per ordinary share			
Basic	8		
Basic EPS continuing operations		**33.1p**	18.8p
Basic EPS discontinued operations		**(0.3)p**	(2.3)p
Total Basic EPS		**32.8p**	16.5p
Diluted	8		
Diluted EPS continuing operations		**33.0p**	18.8p
Diluted EPS discontinued operations		**(0.3)p**	(2.3)p
Total Diluted EPS		**32.7p**	16.5p

Note:

* The prior year column has been restated to show cost of sales separate from total operating expenses as reported in previous periods, thus allowing presentation of gross profit. The inclusion of this level of information is considered useful and will provide greater insight into the performance of the business. For FY 2018/19 total operating expenses – ordinary of £505.4m was originally reported. This was made up of costs of inventories recognised as an expense of £403.6m, positive manufacturing variances of £1.2m (credit) and adjusted operating expenses of £102.3m. Consistent with the new presentation format above, the prior year amounts of cost of inventories recognised as an expense and the positive manufacturing variances have been presented combined on the cost of sales line (net value £402.4m and adjusted operating expenses of £102.3m have been presented separately.

Consolidated statement of comprehensive income

for the period ended 28 March 2020

	Notes	**2020 £m**	2019 £m
Profit for the year		**35.8**	18.3
Other comprehensive income			
Items that are not reclassified subsequently to profit or loss:			
Remeasurement gain/(loss) on retirement benefit obligations		**114.1**	(4.8)
Tax related to remeasurement of net defined benefit liability	7	**(20.5)**	1.5
Other movements		**–**	0.7
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**3.3**	(0.9)
Foreign currency translation difference reclassified to income statement on disposal of subsidiary		**1.3**	
Change in fair value of cash flow hedges		**1.4**	(2.6)
Other movements		**–**	–
Change in fair value of cash flow hedges transferred to profit or loss		**1.4**	0.4
Income tax relating to components of other comprehensive income	7	**–**	0.7
Other comprehensive income/(loss) for the year, net of tax		**101.0**	(5.0)
Total comprehensive income for the year		**136.8**	13.3
Comprehensive income for the year attributable to:			
Equity shareholders of the Company		**135.1**	12.0
Non-controlling interests		**1.7**	1.3
		136.8	13.3

Consolidated balance sheet

at 28 March 2020

	Notes	**2020 £m**	2019 £m
ASSETS			
Non-current assets			
Property, plant and equipment		**114.6**	115.0
Intangible assets		**31.0**	33.3
Right-of-use assets		**12.9**	–
Retirement benefit obligations		**64.8**	–
Other financial assets		**8.0**	7.3
Investments in associates and joint ventures		**–**	–
Deferred tax assets		**5.5**	18.4
Derivative financial assets		**2.1**	0.2
		238.9	174.2
Current assets			
Inventories		**53.9**	42.3
Trade and other receivables		**67.1**	114.4
Contract assets	3	**18.3**	24.9
Current tax assets		**0.3**	3.3
Derivative financial assets		**14.5**	4.0
Cash and cash equivalents		**14.6**	12.2
		168.7	201.1
Total assets		**407.6**	375.3
LIABILITIES			
Current liabilities			
Borrowings		**(116.6)**	(118.7)
Trade and other payables		**(133.3)**	(175.0)
Contract liabilities	3	**(0.3)**	(6.0)
Current tax liabilities		**(12.5)**	(11.7)
Derivative financial liabilities		**(14.0)**	(6.7)
Lease liabilities		**(2.8)**	–
Provisions for liabilities and charges		**(10.6)**	(3.5)
		(290.1)	(321.6)
Non-current liabilities			
Retirement benefit obligations		**(1.8)**	(78.6)
Deferred tax liabilities		**(8.8)**	(3.4)
Derivative financial liabilities		**(2.1)**	(0.2)
Provisions for liabilities and charges		**–**	(0.7)
Lease liabilities		**(11.1)**	–
Other non-current liabilities		**(0.5)**	–
		(24.3)	(82.9)
Total liabilities		**(314.4)**	(404.5)
Net assets/(liabilities)		**93.2**	(29.2)

EQUITY			
Share capital		**47.8**	47.7
Share premium account		**42.2**	42.1
Capital redemption reserve		**5.9**	5.9
Hedge reserve		**0.1**	(2.5)
Cumulative translation adjustment		**9.6**	5.0
Other reserve		**(83.8)**	(83.8)
Retained earnings		**56.2**	(53.5)
Total equity attributable to shareholders of the Company		**78.0**	(39.1)
Non-controlling interests		**15.2**	9.9
Total equity		**93.2**	(29.2)

Approved by the Board on 17 June 2020.

Kevin Loosemore Chairman

Clive Vacher Chief Executive Officer

Registered number: 3834125

Consolidated statement of changes in equity

for the period ended 28 March 2020

					Attributable to equity shareholders			Non-controlling Interests	Total equity
	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Cumulative translation adjustment £m	Other reserve £m	Retained earnings £m	£m	£m
Balance at 1 April 2018	47.1	38.4	5.9	(0.5)	7.2	(83.8)	(44.4)	8.9	(21.2)
Profit for the year	–	–	–	–	–	–	17.0	1.3	18.3
Other comprehensive income for the year, net of tax	–	–	–	(2.0)	(0.4)	–	(2.6)	–	(5.0)
Other movements	–	–	–	–	(1.8)	–	1.6	0.2	–
Total comprehensive income for the year	–	–	–	(2.0)	(2.2)	–	16.0	1.5	13.3
Transactions with owners of the Company recognised directly in equity:									
Share capital issued	0.6	3.7	–	–	–	–	–	–	4.3
Employee share scheme:									
– value of services provided	–	–	–	–	–	–	0.9	–	0.9
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(0.3)	–	(0.3)
Dividends paid	–	–	–	–	–	–	(25.7)	(0.5)	(26.2)
Balance at 30 March 2019 as previously reported	47.7	42.1	5.9	(2.5)	5.0	(83.8)	(53.5)	9.9	(29.2)
Accounting policy restatement – IFRS 16	–	–	–	–	–	–	(1.1)	–	(1.1)
Balance at 31 March 2019 (restated)	47.7	42.1	5.9	(2.5)	5.0	(83.8)	(54.6)	9.9	(30.3)
Profit for the year	–	–	–	–	–	–	34.1	1.7	35.8
Other comprehensive income for the year, net of tax	–	–	–	2.6	4.6	–	93.8	–	101.0
Other movements	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	2.6	4.6	–	127.9	1.7	136.8
Transactions with owners of the Company recognised directly in equity:									
Transactions with non-controlling interests (see note 33 of Annual Report and Accounts 2020)	–	–	–	–	–	–	0.8	4.2	5.0
Share capital issued	0.1	0.1	–	–	–	–	–	–	0.2
Employee share scheme:	–	–	–	–	–	–	(0.7)	–	(0.7)
– value of services provided									
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(0.4)	–	(0.4)
Other	–	–	–	–	–	–	0.5	–	0.5
Dividends paid							(17.3)	(0.6)	(17.9)
Balance at 28 March 2020	**47.8**	**42.2**	**5.9**	**0.1**	**9.6**	**(83.8)**	**56.2**	**15.2**	**93.2**

Share premium account – This reserve arises from the issuance of shares for consideration in excess of their nominal value.

Capital redemption reserve – This reserve represents the nominal value of shares redeemed by the Company.

Hedge reserve – This reserve records the portion of any gain or loss on hedging instruments that are determined to be effective cash flow hedges. When the hedged transaction occurs, the gain or loss on the hedging instrument is transferred out of equity to the income statement. If a forecast transaction is no longer expected to occur, the gain or loss on the related hedging instrument previously recognised in equity is transferred to the income statement. When a hedged forecast transaction subsequently results in the recognition of a non-financial asset, the amount is removed from the cash flow hedge reserve and included directly in the initial cost or other carrying amount of the asset as a basis adjustment.

Other reserve – On 1 February 2000, the Company issued and credited as fully paid 191,646,873 ordinary shares of 25p each and paid cash of £103.7m to acquire the issued share capital of De La Rue plc (now De La Rue Holdings Limited), following the approval of a High Court Scheme of Arrangement. In exchange for every 20 ordinary shares in De La Rue plc, shareholders received 17 ordinary shares plus 920p in cash. The other reserve of £83.8m arose as a result of this transaction and is a permanent adjustment to the consolidated financial statements.

Cumulative translation adjustment (CTA) – This reserve records cumulative exchange differences arising from the translation of the financial statements of foreign entities since transition to IFRS. Upon disposal of foreign operations, the related accumulated exchange differences are recycled to the income statement. This reserve also records the effect of hedging net investments in foreign operations. During the prior period an amount of £1.5m was reclassified to the cumulative translation adjustment reserve from retained earnings which was been included on the other movements line.

Consolidated cash flow statement

for the period ended 28 March 2020

	Notes	**2020** **£m**	2019 £m
Cash flows from operating activities			
Profit before tax*		**35.9**	22.8
Adjustments for:			
Finance income and expense		**6.7**	6.0
Depreciation of property plant and equipment and right-of-use assets		**16.9**	16.7
Amortisation of intangible assets		**3.9**	3.2
Increase in inventory		**(12.1)**	(7.3)
Decrease/(increase) in trade and other receivables and contract assets		**10.2**	(67.3)
(Decrease)/increase in trade and other payables and contract liabilities		**(19.2)**	14.7
Increase/(decrease) in provisions		**7.4**	(2.0)
Special pension fund contributions		**(21.3)**	(20.5)
Share based payment expense		**(0.6)**	0.7
(Deduct)/add back of non-cash pension liability adjustment		**(8.7)**	1.7
(Gain)/Loss on disposal of subsidiary (net of associated costs)		**(22.7)**	3.0
Add back of non-cash credit loss provision for Venezuela		**–**	18.1
Add back of non-cash credit loss provision		**1.0**	4.4
Add back impairment of Property, plant and equipment and intangible assets		**2.3**	–
Other non-cash movements		**1.9**	1.2
Cash generated from operating activities		**1.5**	(4.6)
Net tax refund/(paid)		**3.5**	(2.0)
Net cash flows from operating activities		**5.1**	(6.6)
Cash flows from investing activities			
Proceeds from the sale of subsidiary (net of cash disposed and associated disposal costs)		**42.0**	0.2
Purchases of property, plant and equipment		**(11.4)**	(18.9)
Purchase of software intangibles and development assets capitalised		**(5.8)**	(6.5)
Proceeds from sale of property, plant and equipment		**–**	0.7
Interest received		**0.2**	–
Receipt of RDEC		**0.6**	–
Net cash flows from investing activities		**25.6**	(24.5)
Net cash flows before financing activities		**30.7**	(31.1)
Cash flows from financing activities			
Proceeds from issue of share capital		**0.2**	4.3
Net draw down of borrowings		**(1.5)**	53.5
Repayment of principle portion of IFRS 16 lease liabilities		**(2.3)**	–
Interest paid		**(6.0)**	(4.4)
Dividends paid to shareholders		**(17.3)**	(25.7)
Dividends paid to non-controlling interests		**(0.6)**	(0.5)
Net cash flows from financing activities		**(27.5)**	27.2
Net increase/(decrease) in cash and cash equivalents in the year		**3.2**	(3.9)
Cash and cash equivalents at the beginning of the year		**11.3**	15.2
Exchange rate effects		**–**	–

Cash and cash equivalents at the end of the year		**14.5**	11.3
Cash and cash equivalents consist of:			
Cash at bank and in hand		**14.6**	12.2
Short term deposits		**–**	–
Bank overdrafts		**(0.1)**	(0.9)
		14.5	11.3

Note:

* Profit before tax includes continuing and discontinued operations.

1 Basis of preparation and accounting policies

Statement of compliance

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.

The financial information set out above does not constitute the Group's statutory accounts for the periods ended 28 March 2020 or 31 March 2019. Statutory accounts for the periods ended 31 March 2019 have been delivered to the registrar of companies and those for the period ended 28 March 2020 will be delivered in due course. The auditor has reported on the accounts for the periods ended 28 March 2020 and 31 March 2019. Their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter without qualifying their report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The above notwithstanding, the auditor's report on the accounts for the period ended 28 March 2020 contains a material uncertainty in respect of going concern in relation to the securing of Shareholder approval for the Capital Raising.

Changes in accounting policy

In the current period, the following new and emended IFRSs became effective for the Group:

- IFRS 16 'Leases'
- IFRIC 23 'uncertain tax positions'

IFRIC 23 has been adopted and is effective for the group from 31 March 2019 but has not had a material impact.

The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

IFRS 16 'Leases'

IFRS 16 Leases ('IFRS 16') became effective for reporting periods beginning on or after 1 January 2019 and replaced IAS 17 Leases and related interpretations. It results in a substantial number of leases being recorded on the balance sheet, as the distinction between operating and finance leases is removed. There are exemptions for short-term leases and leases of low-value items which permit such leases to be excluded from the balance sheet and the lease payments to be recognised as an expense on a straight-line basis over the term of the lease.

IFRS 16 introduces a single, on-balance sheet, lease accounting model for lessees. The Group will recognise a right-of-use ('ROU') asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Group has applied the modified retrospective transition approach. On a lease by lease basis the Group has either measured the right to use asset at the amount of the liability adjusted for any prepaid or accrued lease payments or has followed the asset recalculated approach.

The determination of treatment has been made based on the availability of historical lease data. Under the asset recalculated approach, the right to use asset recorded on transition was measured as if IFRS 16 had been applied at the start of the lease, but using the incremental borrowing rate as at the transition date. Under both methods the lease liability will be calculated based on future lease payments. The cumulative effect of adopting IFRS 16 has been recognised as an adjustment to retained earnings as at 31 March 2019, with no restatement of comparative information.

The Group has taken the following practical expedients on transition:

- to exclude initial direct cost from the measurement of the right to use asset;
- to not recognise a right to use asset and lease liability where the lease expires within 12 months;

- to apply the portfolio approach where a group of leases has similar characteristics including applying the same incremental borrowing rate;
- to not record a right to use asset or related lease liability for low-value items; and
- to grandfather the definition of a lease on transition.

Impact on adoption

The cumulative effect of adopting IFRS 16 has been recognised as an adjustment to retained earnings as at 31 March 2019, with no restatement of comparative information:

Impact on the Balance Sheet as previously reported at 31 March 2019:

	As at 31 March 2019 £m	Impact of IFRS16 £m	As at 31 March 2019 restated for IFRS16 £m
Right to use asset – property	–	12.6	12.6
Right to use asset – plant and machinery	–	0.7	0.7
Prepayments and accrued income	3.4	(0.2)	3.2
Lease liability	–	(14.3)	(14.3)
Deferred tax assets	18.4	0.1	18.5
Total impact on net assets		**(1.1)**	
Impact on retained earnings:		**(1.1)**	
Total impact on retained earnings		**(1.1)**	

The following summarises the impacts of adopting IFRS 16 on the Group's income statement in 2019/20. The adoption of IFRS 16 has had an impact on several of the Group's key metrics due to operating lease payments under IAS 17 being replaced with depreciation and interest charges:

The impact on the income statement for the period to 28 March 2020

	Pre the impact of IFRS16 £m	Impact of IFRS16 £m	As reported post adoption of IFRS16 £m
Adjusted operating expenses*[1]	(82.7)	0.5	(82.2)
Adjusted operating profit	23.2	0.5	23.7
Operating profit	42.3	0.5	42.8
Adjusted EBITDA[1]	40.7	2.9	43.6
Net finance charges	(6.1)	(0.6)	(6.7)
Profit before tax	36.1	–	36.1

Note:

* Comprises reversal of rental expense previously recognised under IAS 17 of £2.9m and the recognition of depreciation on the right to use asset of £2.4m.

1 See note 13 for reconciliation to the nearest equivalent IFRS measure.

Reconciliation between operating lease commitments and lease liability:

	£m
Total minimum lease payments reported at 30 March 2019 under IAS 17	34.8
Impact of discounting	(22.4)
Change in assessment of lease term under IFRS 16	1.9
Lease Liability recognised on transition to IFRS 16 at 31 March 2019	14.3

The adoption of IFRS 16 has resulted in an improvement of £2.9m to operating cashflows as lease payments are now shown within finance activities split between interest payments and repayment of principal. The overall impact on the net cash outflow to the Group in FY 2019/20 is nil.

The weighted average incremental borrowing rate used for discounting the lease liabilities under IFRS 16 is 4.0%.

During 2019/20 an amount of less than £0.1m has been recorded to the income statement in relation to leases where the low value or short term practical expedients have been applied.

See Annual Report and Accounts 2020 for further details on the Group’s lease accounting policy under IFRS 16.

2 Segmental analysis

The continuing operations of the Group have three main operating units: Currency, Authentication and Identity Solutions. 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 adjusted operating profit.

The Group's segments are:

- Currency – provides printed banknotes, polymer substrates and banknote security components
- Authentication – the supply of a range of physical and digital solutions such as: tax stamps and supporting software solutions, authentication labels and associated brand protection digital solutions, cheques and bank cards for Africa, and ID security components including polycarbonate.
- Identity Solutions – involved in the provision of passport, ePassport, national ID and eID, driving licence and voter registration schemes

Inter-segmental transactions are eliminated upon consolidation.

On 14 October 2019, the Group completed the sale of the International Identity Solutions business to HID Corporation Limited. The results of the International Identity business are included within the identity solutions segment until the date of disposal. Please see note 6 for further details.

The segment note is focused on three divisions which reflects what has been reported to the Chief Operating Decision Maker, this is in line with the commentary in the front half on the financial performance. The commentary in the front half relating to the future strategy only refers to the Currency and Authentication divisions.

2020	Currency £m	Authentication £m	Identity Solutions £m	Unallocated £m	Total of Continuing operations £m
Total revenue from contracts with customers	315.1	68.5	83.2	–	466.8
Less: inter-segment revenue	–	–	–	–	–
Revenue from contracts with customers	**315.1**	**68.5**	**83.2**	**–**	**466.8**
Cost of sales	(270.9)	(39.7)	(49.8)	(0.5)	(360.9)
Gross Profit	**44.2**	**28.8**	**33.4**	**(0.5)**	**105.9**
Adjusted operating expenses	(53.6)	(18.0)	(10.6)	–	(82.2)
Adjusted operating profit	**(9.4)**	**10.8**	**22.8**	**(0.5)**	**23.7**
Adjusted items:					
– Amortisation of acquired intangible	–	(0.9)	–	–	(0.9)
– Net exceptionals	(0.5)	(0.2)	24.8	(4.1)	20.0
Operating profit	**(9.9)**	**9.7**	**47.6**	**(4.6)**	**42.8**
Interest income	0.7	–	–	0.3	1.0
Interest expense	(0.8)	(0.1)	–	(5.2)	(6.1)
Net retirement benefit obligation finance expense	–	–	–	(1.6)	(1.6)
Net finance expense	**(0.1)**	**(0.1)**	**–**	**(6.5)**	**(6.7)**
Profit before taxation	**(10.0)**	**9.6**	**47.6**	**(11.1)**	**36.1**
Segment assets	199.6	28.9	46.8	132.3	407.6
Segment liabilities	(81.3)	(28.6)	(11.8)	(192.7)	(314.4)
Capital expenditure on property, plant and equipment	(6.9)	(2.7)	(1.2)	(0.6)	(11.4)
Capital expenditure on intangible assets	(0.2)	(0.5)	(0.8)	(4.2)	(5.7)
Impairment of Property, plant and equipment on intangible assets	(1.0)	(0.1)	–	(1.2)	(2.3)
Depreciation of PPE and right-of-use-assets	(12.2)	(1.9)	(1.2)	(1.7)	(17.0)
Amortisation of intangible assets	(0.7)	(1.5)	–	(1.7)	(3.9)

Unallocated assets principally comprise UK defined benefit obligation net surplus of £64.8m deferred tax assets of £5.5m (FY 2019: £17.4m), cash and cash equivalents of £14.6m (FY 2019: £12.2m) which are used as part of the Group's financing offset arrangements and derivative financial instrument assets of £16.6m (FY 2019: £4.2m) as well as current tax assets, associates and centrally managed property, plant and equipment.

Unallocated liabilities principally comprise overseas retirement benefit obligations of £1.8m (FY 2019: £78.6m), borrowings of £116.6m (FY 2019: £118.7m), current tax liabilities of £12.5m (FY 2019: £11.7m) and derivative financial instrument liabilities of £16.1m (FY 2019: £6.9m) as well as deferred tax liabilities and centrally held accruals and provisions.

2019	Currency £m (restated)	Authentication* £m (restated)	Identity Solutions* £m (restated)	Unallocated £m (restated)	Total of Continuing Operations £m (restated)
Total revenue from contracts with customers	447.5	42.7	75.0	–	565.2
Less: inter-segment revenue	(0.4)	–	–	–	(0.4)
Revenue from contracts with customers	447.1	42.7	75.0	–	564.8
Cost of sales	(336.6)	(23.2)	(42.6)	–	(402.4)
Gross profit	110.5	19.5	32.4	–	162.4
Adjusted operating expenses	(68.8)	(11.6)	(21.9)	–	(102.3)
Adjusted operating profit	41.7	7.9	10.5	–	60.1
Adjusted items:					
– Amortisation of acquired intangible assets	–	(0.7)	–	–	(0.7)
– Net exceptional items	(20.7)	(2.1)	–	(5.1)	(27.9)
Operating profit	21.0	5.1	10.5	(5.1)	31.5
Interest income	0.6	–	–	–	0.6
Interest expense	(0.7)	–	–	(3.8)	(4.5)
Net retirement benefit obligation finance expense	–	–	–	(2.1)	(2.1)
Net finance expense	(0.1)	–	–	(5.9)	(6.0)
Profit before taxation	20.9	5.1	10.5	(11.0)	25.5
Segment assets	195.0	34.0	59.1	87.2	375.3
Segment liabilities	(84.3)	(7.2)	(47.1)	(265.9)	(404.5)
Capital expenditure on property, plant and equipment	11.2	4.2	–	3.5	18.9
Capital expenditure on intangible assets	1.4	2.0	2.9	0.2	6.5
Impairment of Property, plant and equipment on intangible assets	–	–	–	–	–
Depreciation of property, plant and equipment	10.4	0.9	3.8	1.6	16.7
Amortisation of intangible assets	2.2	0.5	0.5	–	3.2

Note:

* The above prior year comparatives have been restated to show cost of sales separate from total operating expenses as reported in previous periods, thus allowing presentation of gross profit by segment. The inclusion of this level of information is considered useful and will provide greater insight into the performance of the business. In addition, the Authentication and Identity Solutions results for FY 2018/19 have been restated in line with the adjustment noted in the current year to present the results of one of the Group's subsidiaries solely in the Authentication division consistent with where management of the subsidiary's business now falls. The impact of this has been the transfer of the following amounts from the Identity Solutions results above to Authentication: Revenue of £3.4m, Gross Profit of £2.1m and Adjusted operating profit of £1.6m that would have been presented in the Identity Solutions division previously.

Geographic analysis of non-current assets

	2020 £m	2019 £m
UK	**176.7**	96.4
Malta	**19.9**	21.7
USA	**19.3**	17.0
Sri Lanka	**13.2**	15.2
Other countries	**9.8**	5.3
	238.9	155.6

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

Major customers

The Group had two major customers from which it derived total revenues in excess of 10% of Group revenue. One customer was in the Currency segment with revenue £46.6m which equates to 10.0% of Group revenue and one in the IDS segment with revenue of £53.2m which equates to 11.4% of Group revenue. (FY 2019: £101.0m and 17.9% – this customer was in the Currency segment).

3 Revenue from contracts with customers

Information regarding the Group's major customers, and a segmental analysis of revenue is provided in note 2.

Timing of revenue recognition across the Group's revenue from contracts with customers is as follows:

2020	**Currency £m**	**Authentication £m**	**Identity Solutions £m**	**Total of Continuing Operations £m**
Timing of revenue recognition:				
Point in time	**273.6**	**68.5**	**65.7**	**407.8**
Over time	**41.5**	**–**	**17.5**	**59.0**
Total revenue from contracts with customers	**315.1**	**68.5**	**83.2**	**466.8**

2019	Currency £m	Authentication £m	Identity Solutions £m	Total of Continuing Operations £m
Timing of revenue recognition:				
Point in time	435.2	39.3	78.1	552.6
Over time	11.9	–	0.3	12.2
Total revenue from contracts with customers	447.1	39.3	78.4	564.8

Geographic analysis of revenue by destination

	2020 £m	2019 £m
Middle East and Africa	**188.4**	154.1
Asia	**86.5**	83.7
UK	**109.8**	149.2
The Americas	**41.5**	153.6
Rest of Europe	**24.8**	20.1
Rest of world	**15.8**	4.1
	466.8	564.8

Contract balances

The contract balances arising from contracts with customers are as follows:

	2020 £m	2019 £m	2018 £m
Trade receivables	**72.8**	119.2	68.8
Provision for impairment	**(19.9)**	(25.3)	(5.5)
Net trade receivables	**52.9**	93.9	63.3
Contract assets	**18.3**	24.9	3.2
Contract liabilities	**(0.3)**	(6.0)	(14.1)

Trade receivables have fallen compared to 2019 reflecting cash collections made in the year and the impact of lower revenue. Contract assets have fallen compared to 2019 primarily due to the fact that 2019 included a material balance related to a customer contract where revenue was recorded on an "over-time" basis and the customer was not invoiced until post year end in 2020. Contract liabilities have fallen as result of the International Identity Business sale as contract liabilities in the prior year primarily related to that segment.

Set out below is the amount of revenue recognised from:

	2020 £m	2019 £m
Amounts included in contract liabilities at the beginning of the year	**6.0**	–
Performance obligations satisfied in previous years	**–**	–

Performance obligations

Information about the Group's performance obligations is summarised in the Accounting policies section of the Annual Report and Accounts 2020 in page 114.

The following table shows the transaction price allocated to remaining performance obligations for contracts with original expected duration of more than one year. The group has decided to take the practical expedient provided in IFRS15.121 not to disclose the amount of the remaining performance obligations for contracts with original expected duration of less than one year.

	Total* £m
Within 1 year	**23.0**
Between 2 – 5 years	**24.0**
5 years and beyond	**–**
	47.0

Note:

* All within the currency division.

4 Discontinued operations

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

The loss on discontinued operations in the period of £0.3m relates to the winding down of remaining activity related to CPS (net of associated tax credits) in addition to the impact in the period of a revision in estimate for the total net costs of completing a loss making CPS contract that was not novated post disposal. This contract is expected to conclude in FY 2021/22. The prior period also included the impact of additional charges of £1.4m relating to the write-off of receivables due from CPS as they were determined as unlikely to be received. The tax charge relating to discontinued operations was immaterial.

During the prior period there was a £0.6m release of a historical provision for post-retirement benefits (net of associated tax credits), following an updated valuation. The release of this provision was recorded in reserves rather than discontinued operations in the income statement as the release was considered to be consistent with that of an actuarial gain.

5 Exceptional items

Accounting policies

Exceptional items are disclosed separately in the financial statements to provide readers with an increased insight into the underlying performance of the Group.

	2020 £m	2019 £m
Site relocation and restructuring	**(9.3)**	(4.8)
Gain/(loss) on disposal of subsidiary (net of costs associated with disposal)	**22.7**	(2.6)
Pension underpin costs	**(1.1)**	(0.5)
Guaranteed minimum pension adjustment	**–**	(1.7)
Gain on resolution of a historical issue relating to UK defined benefit pension scheme	**8.7**	–
Venezuela expected credit loss provision	**(1.0)**	(18.1)
Acquisition related	**–**	(0.2)
Exceptional items in operating profit	**20.0**	(27.9)
Tax (charge)/credit on exceptional items	**2.5**	4.2

Site relocation and restructuring costs

Site relocation and restructuring costs in FY 2019/20 included: Charges of £8.9m relating to the reorganisation during the period of the Group into our new divisional structure and other cost out programmes, primarily being redundancy costs and in addition to consultant and advisor fees. Costs in relation to this programme are expected to be incurred until the end of FY 2021/22.

£0.2m (H1 2018/19: £1.2m) relating to the finalisation of the manufacturing footprint review announced in December 2015, the costs are associated to employees working on project completion.

£0.2m (H1 2018/19: £0.5m) in relation to the finalisation of the upgrade to our finance systems and processes comprising personnel costs for individuals solely employed to work on the project and consultancy fees.

Gain/(Loss) on disposal of subsidiary and associated costs

Following the sale of the Group's International Identify Solutions business on 14 October 2019, the Group has recorded a gain of £25.3m before the deduction of costs associated with the disposal. The gain has been calculated included an estimate for the working capital adjustment which remains subject to agreement with HID in accordance with the sales agreement. See note 6 for further details. Costs associated with the disposal of the subsidiary were £3.3m. In addition during the year a £0.7m gain was made in H1 2019/20 on the final release of the recompense provision provided for in relation to the sale of the Portals De La Rue business. Delivery against the remaining contracts for which a recompense provision was recognised has now been satisfactorily completed and as such no further risk of the recompense provision being triggered is considered to exist.

The loss on disposal in FY 2018/19 related to the sale of the Portals De La Rue business, following finalisation of the disposal accounting on confirmation of the final working capital adjustment and update of the estimated liability under the recompense clause.

Pension underpin costs

Legal fees of £1.1m were incurred in the rectification of certain discrepancies identified in the Scheme's rules. The Directors do not consider this to have an impact on the UK defined benefit pension liability at the current time but they continue to assess this.

Gain on resolution of a historical issue relating to the UK defined benefit pension scheme

A gain of £8.7m has been recorded following the resolution of a historical issue in respect to a change in revaluation rates for certain deferred pension scheme members. This resulted in an equivalent reduction to the liabilities in the pension scheme. See note 26 in the Annual Report and Accounts 2020 for further details.

Venezuela Credit loss provision

£1.0m were recognised relating to the close out of the hedge position taken out in relation to Venezuela receivables for which a credit loss of £18.1m was provided and reported in exceptional items in FY 2018/19. The hedge position was closed out in H1 2019/20 as subsequent to year end sanctions have further tightened against Venezuela.

Guaranteed minimum payment adjustment

On 26 October 2018, a landmark pension case involving the Lloyds Banking Group's defined benefit pension schemes was handed down by the High Court. The judgement brings some clarity to defined benefit pension schemes in general and requires schemes to equalise pension benefits between men and women relating to Guaranteed Minimum Pensions (or 'GMP'). This has resulted in an increase of £1.7m to our obligation in the prior period which was accounted for in the income statement as a past service cost but presented within exceptional items. The estimate was performed based on method C2 (under the terminology of the High Court Judgement), which compares each member's accumulated benefits, with interest, to the same benefits if the member were the 'opposite sex' and ensuring the higher of the two accumulated amounts has been paid in each year.

The policy for exceptional items described in these Financial Statements is used when calculating our financial covenants as agreed with our lenders.

Taxation relating to exceptional items

Tax charges relating to continuing exceptional items arising in the period were £2.5m (FY 2019: tax credit of £4.2m).

Included in the exceptional tax charge is a deferred tax credit of £1.1m (2018:19 £nil). This relates to the recognition of a deferred tax asset in relation to UK tax interest losses that under IAS12 must be recognised even though there is no expected future utilisation of these losses. This is because the large movement in the pension from a deficit to a surplus in the year has led to an overall net deferred tax liability position in the UK and any potential deferred tax assets must be recognised against this deferred tax liability. As the majority of the deferred tax in relation to the pension movement is recognised directly in the Statement of Comprehensive Income, to recognise the creation of this asset as an operating item would distort the Operating Effective Tax Rate and therefore considered to be unhelpful for users of the accounts. This movement and any future unwind of this asset is therefore considered to be an Exceptional item for financial reporting purposes.

6 Disposal of International Identity Solutions business

On 12 June 2019, the Group announced it had agreed the sale of its International Identity Solutions business to HID Corporation, an ASSA ABLOY Group company, for cash consideration of £42m plus an amount for working capital. Under the terms of the agreement, HID Global will acquire De La Rue's International Identity Solutions contracts, associated software, passport assembly facilities in Malta, and certain printing contracts of security documents such as visas and birth/death/marriage certificates. A separate supply agreement for De La Rue to supply printed paper and polycarbonate to HID Global until March 2022 was also signed. The UK passport contract is outside the scope of the agreement.

This transaction will allow the Group to refocus on identity-related security features and components where the market opportunities are more accessible. Strong synergies in technology and customer relations between identity security features and the rest of the Group will enable it to generate better returns on investment. The sale proceeds will strengthen the Group's balance sheet, providing it with greater flexibility to invest in other strategic growth areas.

The Group's International Identity Solutions business does not meet the IFRS 5 definition of a discontinued operation and as such its results have been included within continuing operations. The Group tested the disposal Group for impairment prior to the completion of the transaction and concluded that no impairment of the disposal group was required.

On 23 August 2019, prior to the external sale to HID, the Group transferred the trade and assets associated with its International Identity Solutions business from its wholly owned subsidiary De La Rue International to a newly created and also wholly owned subsidiary ID Global Solutions Limited. On the final sale to HID on 14 October 2019, the Group sold the ID Global Solutions Limited subsidiary in addition to a number of other subsidiaries which were engaged in the International Identify Solutions business. These subsidiaries were De La Rue Services Limited; De la Rue Caribbean Limited, De La Rue Angola Limitada and De La Rue Kenya Limited

On 14 October 2019, the Group completed the final sale to HID and in addition to the £42m referred to above the Group received an additional amount in relation to working capital which was estimated at £5.0m but which remains subject to agreement with HID management in accordance with the sales agreement. The working capital adjustment included amounts related to cash that was included in the net assets disposed of at the point of final sale.

No UK defined benefit pension liability transferred as part of the disposal.

The carrying amounts of assets and liabilities as at the date of sale (14 October 2019) were:

	£m
Property, plant and equipment	**1.9**
Right to use assets	**0.4**
Intangibles	**4.7**
Inventories	**1.3**
Trade and other receivables	**26.6**
Cash and cash equivalents	**2.5**
Total assets	**37.4**
Trade and other payables	**(17.4)**
Lease liabilities	**(0.4)**
Provisions	**(0.3)**
Total liabilities	**(18.1)**
Net assets	**19.3**

The gain on disposal on the sale of the subsidiary was:

	£m
Amounts paid by purchaser:	
Cash	47.2
Estimated working capital adjustment	(1.3)
Total disposal consideration	45.9
Net assets and liabilities disposed	(19.3)
CTA reclassified on disposal	(1.3)
Gain on disposal (before associated costs)	25.3
Costs associated with disposal of subsidiary	(3.3)
Gain on disposal (after associated costs)	22.0

Proceeds from sale of subsidiary in the consolidated cashflow statement are stated net of cash received of £47.2m, cash disposed of £2.5m payments for costs associated with the disposal of £2.7m.

7 Taxation

Accounting policies

The tax expense included in the income statement comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, including adjustments in respect of prior periods, using tax rates enacted or substantively enacted by the balance sheet date. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured using tax rates that have been enacted or substantively enacted by the balance sheet date and that are expected to apply when the asset is realised or the liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill not deductible for tax purposes, or result from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and deferred tax liabilities are only offset to the extent that there is a legally enforceable right to offset current tax assets and current tax liabilities, they relate to taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis or to realise an asset and settle a liability simultaneously.

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, uncertainty over the tax treatment can arise. De La Rue assesses whether it is probable or not the tax authority will accept the tax treatment; if probable that the treatment will be accepted then the potential tax effect of the uncertainty is a tax-related contingency. If it is not probable of being accepted, the most likely amount or the expected value is recognised. There is one tax assessment where a provision has been made for the estimated most likely amount on the basis of current communications with the tax authority that is less than the assessments received. In the possible event that there was an adverse outcome to negotiations this could result in a material outflow.

	2020 £m	2019 £m
Consolidated income statement		
Current tax		
UK corporation tax:		
– Current tax	**4.7**	3.8
– Adjustment in respect of prior years	**0.6**	(0.3)
	5.3	3.5
Overseas tax charges:		
– Current year	**1.8**	2.2
– Adjustment in respect of prior years	**(0.3)**	(0.3)
	1.5	1.9
Total current income tax charge	**6.8**	5.4
Deferred tax:		
– Origination and reversal of temporary differences, UK	**(6.4)**	(1.6)
– Origination and reversal of temporary differences, overseas	**(0.4)**	0.6
Total deferred tax charge/(credit)	**(6.8)**	(1.0)
Income tax expense reported in the consolidated income statement in respect of continuing operations	**–**	4.8
Income tax expense/(credit) in respect of discontinued operations (note 4)	**–**	(0.4)
Total income tax charge in the consolidated income statement	**–**	4.4
Tax on continuing operations attributable to:		
– Ordinary activities	**2.7**	8.7
– Amortisation of acquired intangible assets	**(0.2)**	0.3
– Exceptional items	**(2.5)**	(4.2)
Consolidated statement of comprehensive income:		
– On remeasurement of net defined benefit liability	**20.5**	(1.5)
– On cash flow hedges	**0.2**	(0.2)
– On foreign exchange on quasi-equity balances	**(0.2)**	(0.5)
Income tax (credit)/charge reported within other comprehensive income	**20.5**	(2.2)
Consolidated statement of changes in equity:		
– On share options	**0.4**	0.3
Income tax charge reported within equity	**0.4**	0.3

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 19% as follows:

	2020					2019			
	Before exceptional items £m	**Exceptional items £m**	**Movement on acquired intangibles £m**	**Total £m**		Before exceptional items £m	Exceptional items £m	Movement on acquired intangibles £m	Total £m
Profit before tax	**17.0**	**20.0**	**(0.9)**	**36.1**		54.2	(27.9)	(0.7)	25.6
Tax calculated at UK tax rate of 19% (FY 2018: 19%)	**3.2**	**3.8**	**(0.2)**	**6.8**		10.3	(5.3)	(0.1)	4.9
Effects of overseas taxation	**(1.0)**	**–**	**–**	**(1.0)**		(1.1)	–	–	(1.1)
(Credits)/charges not allowable for tax purposes	**0.9**	**(6.2)**	**–**	**(5.3)**		(0.6)	1.6	–	1.0
(Utilisation)/increase in unrecognised tax losses	**–**	**–**	**–**	**–**		–	–	–	–
Adjustments in respect of prior years	**(0.6)**	**(0.1)**	**–**	**(0.7)**		–	(1.1)	0.4	(0.7)
Change in UK and overseas tax rate	**0.2**	**–**	**–**	**0.2**		0.1	0.6	–	0.7
Tax charge/(credit)	**2.7**	**(2.5)**	**(0.2)**	**–**		8.7	(4.2)	0.3	4.8
Underlying effective tax rate (Tax charge/Profit before tax)	**15.8%**					16.1%			

The Group is subject to income taxes in numerous jurisdictions and significant judgement is required in determining the worldwide provision for those taxes. The level of current and deferred tax recognised is dependent on subjective judgements as to the outcome of decisions to be made by the tax authorities in the various tax jurisdictions around the world in which the Group operates. It is necessary to consider which deferred tax assets should be recognised based on an assessment of the extent to which they are regarded as recoverable, which involves assessment of the future trading prospects of individual statutory entities.

The actual outcome may vary from that anticipated. Where the final tax outcomes differ from the amounts initially recorded, there will be impacts upon income tax and deferred tax provisions and on the income statement in the period in which such determination is made.

The Group has current tax provisions recorded within Current tax liabilities, in respect of uncertain tax positions. In accordance with IFRIC 23, tax provisions are recognised for uncertain tax positions where it is considered probable that the position in the filed tax return will not be sustained and there will be a future outflow of funds to a taxing authority. Tax provisions are measured either based on the most likely amount (the single most likely amount in a range of possible outcomes) or the expected value (the sum of the probability-weighted amounts in a range of possible outcomes) depending on management's judgement on how the uncertainty may be resolved.

The Group is disputing a number of tax assessments received from the tax authority of a country in which the Group operates.

The disputed tax assessments are at various stages in the local appeal process, but the Group believes it has a supportable and defendable position (based upon local accounting and legal advice), and is appealing previous judgments and negotiating with the tax authority in relation to the disputed tax assessments.

The Company's expected outcome of the disputed tax assessments is held within the relevant provisions in the 2020 Financial Statements.

8 Earnings per share

Accounting policies

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

	2020 Continuing operations pence per share	**2020 Discontinued operations pence per share**	**2020 Total pence per share**	2019 Continuing operations pence per share	2019 Discontinued operations pence per share	2019 Total pence per share

IFRS earnings per share						
Basic earnings per share	**33.1**	**(0.3)**	**32.8**	18.8	(2.3)	16.5
Diluted earnings per share	**33.0**	**(0.3)**	**32.7**	18.8	(2.3)	16.5
Adjusted earnings per share						
Basic earnings per share	**12.1**	**n/a**	**n/a**	42.9	n/a	n/a

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

Earnings

	2020 Continuing operations £m	2019 Continuing operations £m
Earnings for basic and diluted earnings per share	**34.4**	19.4
Amortisation of acquired intangible assets	**0.9**	0.7
Exceptional items	**(20.0)**	27.9
Less: tax on amortisation of acquired intangibles	**(0.2)**	0.3
Less: tax on exceptional items	**(2.5)**	(4.2)
Earnings for adjusted earnings per share	**12.6**	44.1

Weighted average number of ordinary shares

	2020 Number m	2019 Numbe m
For basic earnings per share	**104.0**	102.9
Dilutive effect of share options	**0.2**	0.3
For diluted earnings per share	**104.2**	103.2

9 Equity dividends

Final dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the annual general meeting. Interim dividends are recognised in the period that they are paid.

	2020 £m	2019 £m
Final dividend for the period ended 31 March 2018 of 16.7p paid on 3 August 2018	**–**	17.1
Interim dividend for the period ended 29 September 2018 of 8.3p paid on 3 January 2019	**–**	8.6
Final dividend for the year ended 30 March 2019 of 16.7p paid on 03 August 2019	**17.3**	–
	17.3	25.7

No dividends are proposed on ordinary shares in 2020.

10 Analysis of net debt

The analysis below provides a reconciliation between the opening and closing positions in the balance sheet for liabilities arising from financing activities together with movements in cash and cash equivalents. Net debt is presented excluding unamortised pre-paid borrowing fees of £0.8m (FY 2019: £1.0m).

	At 30 March 2019 £m	Cash flow £m	**At 28 March 2020 £m**
Borrowing due within one year	(118.8)	1.5	**(117.3)**
Cash and cash equivalents	11.3	3.2	**14.5**
Net debt[1]	(107.5)	4.7	**(102.8)**

Note:

1 Net debt above is presented excluding unamortised pre-paid borrowing fees of £0.8m. Net debt also excludes £13.9m of lease liabilities recognised following the adoption of IFRS 16.

	At 1 April 2018 £m	Cash flow £m	At 30 March 2019 £m
Borrowings due within one year	(65.1)	(53.7)	(118.8)
Cash and cash equivalents	15.2	(3.9)	11.3
Net debt	(49.9)	(57.6)	(107.5)

11 Contingent liabilities

SFO investigation

On 23 July 2019, the Group announced that the SFO had opened an investigation into the Group and its associated persons in relation to suspected corruption in the conduct of its business in South Sudan. As announced by the Company on 16 June 2020, the SFO subsequently informed the Company of its decision to discontinue such investigation.
No provision was included in the Balance Sheet at 28 March 2020 for any potential economic outflow under the SFO investigation as the recognition criteria under IAS 37 were not met at this time.

Bathford Paper Mill

During 2017 an employee at the Paper Mill in Bathford suffered a serious injury. The investigation and prosecution by the enforcing authorities Health and Safety Executive has concluded in the period and the Group incurred a fine which was not material. Accrual for the fine was included in the balance sheet at 28 March 2020 and has been paid after year end.

Arbitration proceedings

De La Rue International Limited has commenced arbitration proceedings in London against Pastoriza SRL, a company which provided agency and sales consultancy services to the Group in the Dominican Republic from 2016 to 2019. The proceedings were commenced in connection with the termination of an agency agreement and the sales consultancy agreement entered into between De La Rue International Limited and Pastoriza SRL. Pastoriza SRL has contested jurisdiction of the arbitration and has otherwise not engaged in the arbitration. An arbitration award may still be granted to De La Rue International Limited in Pastoriza SRL's absence.

In response to De La Rue International Limited terminating the agency agreement and the sales consultancy agreement, Pastoriza SRL commenced a commercial lawsuit in the Dominican Republic for a claimed amount of approximately US$8million (plus monthly interest). De La Rue International Limited has filed documentary evidence to the courts in the Dominican Republic. The points disputed by De La Rue International Limited in respect of Pastoriza SRL's claim include whether the courts of the Dominican Republic should have jurisdiction in relation to the claim. The hearing on the claim scheduled for 30 March 2020 was postponed (without a new date being set) due to the ongoing COVID-19 pandemic.

As at 17 June 2020, the Group had not received any further information on the outcome of the arbitration proceedings in London and no new date had been set for the proceedings in the Dominican Republic. The Group does not consider it probable that an economic outflow will occur under this claim and accordingly under IAS 37 no provision has been made in the 2020 Financial Statements in respect of the proceedings in the Dominican Republic.

The Group also provides guarantees and performance bonds which are issued in the ordinary course of business. In the event that a guarantee or performance bond is called, provision may be required subject to the particular circumstances including an assessment of its recoverability.

12 Subsequent events

The Group has commenced an equity raise process to raise gross proceeds of at least £100m, which is subject to a shareholder vote to be held on or around 6 July 2020. At the same time, the Group has entered into the following agreements with its lenders and with the Pension Trustees.

Revolving Facility Agreement Amendment

The Group has entered into an amendment and restated agreement dated 17 June 2020 in respect of the Revolving Facility Agreement (the "Revolving Facility Agreement Amendment"). The Revolving Facility Agreement Amendment has a number of conditions which must be satisfied prior to the amendments to the Revolving Facility Agreement becoming effective, including proceeds of an equity raise in the gross amount of at least £100,000,000 being received by the Company by no later than 31 July 2020 (the "Equity Raise Condition"). Once effective, the Revolving Facility Agreement Amendment will make a number of amendments to the Revolving Facility Agreement including:
(1) an extension of the maturity date to 1 December 2023;
(2) an amendment to the financial covenants pursuant to which the Company must ensure that the ratio of EBIT to Net Interest Payable in FY 2020/21, FY 2021/22 and FY 2022/23 will not be less than 2.4 to 1, 2.8 to 1, and 3.0 to 1 respectively;
(3) amendments to increase the margin by 150 basis points; and (4) being subject to certain restrictions on making payments to Shareholders for a period of 18 months of the effective date of the amendments to the Revolving Facility Agreement.
In addition, it is the intention of the Group and the Lenders that, once the amendments to the Revolving Facility Agreement are effective, the Group shall cease to utilise the Uncommitted Bonding Facility Agreements provided by the Lenders and shall instead utilise the committed letter of credit line in the Revolving Facility Agreement (as amended by the Revolving Facility Agreement Amendment). The Group has the ability to elect to re-allocate up to £50m (in increments of £25m) of the cash loan tranche to the committed letter of credit tranche under the Revolving Facility Agreement (with the option to subsequently re-allocate such amounts back to the cash loan tranche).

In the event that the Equity Raise Condition is not satisfied, the Company has 45 days to agree an alternative financing plan with the Lenders (or a longer period agreed between the Company and the Lenders) (the "Alternative Plan Period") and in the absence of such agreement, an immediate event of default will arise under the Revolving Facility Agreement. During the Alternative Plan Period, utilisations under the Revolving Facility Agreement will be restricted subject to certain conditions.

Deficit Reduction Plan Amendment Agreement with Pension Trustees

The Group has entered into an amendment agreement dated 31 May 2020 in respect of the Deficit Reduction Plan (the "Deficit Reduction Plan Amendment Agreement"), with a reduction in the payments to be made under the Deficit Reduction Plan, subject to a number of conditions which must be satisfied prior to the amendments to the Deficit Reduction Plan Amendment Agreement becoming effective. For further details see note 26 of the Annual Report and Accounts 2020.

SFO investigation

On 16 June 2020, the Group has announced that it was informed by the SFO, that the SFO decided to discontinue its investigation into De La Rue and its associated persons. The SFO investigation was first announced on 23 July 2019. For further details see note 11.

13 Non-IFRS measures

De La Rue plc publishes certain additional information in a non-statutory format in order to provide readers with an increased insight into the underlying performance of the business. These non-statutory measures are prepared on a basis excluding the impact of exceptional items and amortisation of acquired intangibles. Amortisation of acquired intangible assets and exceptional items are excluded as they are not considered to be representative of underlying business performance. The measures the Group uses along with appropriate reconciliations to the equivalent IFRS measures where applicable are shown in the following tables.

The Group's policy on classification of exceptional items is also set out below:

The Directors consider items of income and expenditure which are material by size and/or by nature and not representative of normal business activities should be disclosed separately in the financial statements so as to help provide an indication of the Group's underlying business performance. The Directors label these items collectively as 'exceptional items'. Determining which transactions are to be considered exceptional in nature is often a subjective matter. However, circumstances that the Directors believe would give rise to exceptional items for separate disclosure would include: gains or losses on the disposal of businesses, curtailments on defined benefit pension arrangements or changes to the pension scheme liability which are considered to be of a permanent nature such as the change in indexation or the GMPs, and non-recurring fees relating to the management of historical scheme issues, restructuring of businesses, asset impairments and costs associated with the acquisition and integration of business combinations.

All exceptional items are included in the appropriate income statement category to which they relate.

Adjusted revenue

Adjusted revenue excludes "pass through" revenue relating to non-novated contracts following the paper and international identify solutions business sales. The following amounts of “pass through” revenue have been excluded: Paper £33.5m (FY 2018/19: £48.2m) and Identify Solutions: £6.6m (FY 2018/19: £nil).

	2019	**2020**
Revenue on an IFRS basis	564.8	**466.8**
– exclude pass-through revenue	(48.2)	**(40.1)**
Adjusted revenue	516.6	**426.7**

Adjusted operating profit

Adjusted operating profit represents earnings from continuing operations adjusted to exclude exceptional items and amortisation of acquired intangible assets.

	2018 £m	2018[1] Excluding paper £m	2019 £m	**2020 £m**
Operating profit from continuing operations on an IFRS basis	123.0	131.5	31.5	**42.8**
– Amortisation of acquired intangible assets	0.7	0.7	0.7	**0.9**
– Exceptional items	(60.9)	(75.3)	27.9	**(20.0)**
Adjusted operating profit from continuing operations	62.8	56.9	60.1	**23.7**

Note:

1 2018 excluding paper removes £14.4m of exceptional cost in relation to the Portals paper disposal and removes the operating profit made from the paper business in 2018 of £5.9m.

Adjusted basic earnings per share

Adjusted earnings per share are the earnings attributable to equity shareholders, excluding exceptional items and amortisation of acquired intangible assets and discontinued operations divided by the weighted average basic number of ordinary shares in issue. It has been calculated by dividing the De La Rue plc’s adjusted operating profit from continuing operations for the period by the weighted average basic number of ordinary shares in issue excluding shares held in the employee share trust.

	2018 £m	2018 excluding paper £m	2019 £m	**2020 £m**
Profit attributable to equity shareholders of the Company from continuing operations on an IFRS basis	95.4	101.8	19.4	**34.4**
– Exceptional items	(60.9)	(75.3)	27.9	**(20.0)**
– Amortisation of acquired intangibles	0.7	0.7	0.7	**0.9**
– Tax on amortisation of acquired intangibles	(1.2)	(1.2)	0.3	**(0.2)**
– Tax on exceptional items	9.7	12.9	(4.2)	**(2.5)**
Adjusted profit attributable to equity shareholders of the Company from continuing operations	43.7	38.9	44.1	**12.6**
Weighted average number of ordinary shares for basic earnings	101.9	101.9	102.9	**104.0**

	2018 pence per share	2018 pence per share excluding paper	2019 pence per share	**2020 pence per share**
Basic earnings per ordinary share continuing operations on an IFRS basis	93.7	n/a	18.8	**33.1**
Basic adjusted earnings per ordinary share for continuing operations	42.9	38.2	42.9	**12.1**

Adjusted EBITDA and adjusted EBITDA margin[1]

Adjusted EBITDA represents earnings from continuing operations before the deduction of interest, tax, depreciation, amortisation and exceptional items. The adjusted EBITDA margin percentage takes the applicable EBITDA figure and divides this by the continuing revenue in the period of £426.7m which excludes the Portal pass through revenue of £40.1m in 2020 (FY 2019: £48.2m). The EBITDA margin on an IFRS basis is a percentage against the reported revenue of £466.8m (FY 2019: £564.8m).

As previously noted, the Group has adopted the modified retrospective approach available within the new IFRS 16 accounting standard and therefore have not restated the comparative disclosures for the impact of IFRS 16, which came into effect from 1 January 2019. The statutory results have been split out to show the IFRS 16 impact to aid comparison period on period.

	2018 £m	2018 excluding paper £m	2019 £m	**Pre the impact of IFRS 16 2020 £m**	**Impact of IFRS 16 £m**	**2020 £m**
Profit before interest and taxation from continuing operations on an IFRS basis	123.0	131.5	31.5	**42.3**	**0.5**	**42.8**
– Depreciation[2]	21.9	18.9	16.7	**14.5**	**2.4**	**16.9**
– Amortisation	3.3	3.3	3.2	**3.9**	**–**	**3.9**
EBITDA on an IFRS basis	148.2	153.7	51.4	**60.7**	**2.9**	**63.6**
– Exceptional items	(60.9)	(75.3)	27.9	**(20.0)**	**–**	**(20.0)**
Adjusted EBITDA	87.3	78.4	79.3	**40.7**	**2.9**	**43.6**
EBITDA margin on an IFRS basis	30.0%	n/a	9.1%	**13.0%**	**n/a**	**13.6%**
Adjusted EBITDA margin	17.7%	17.0%	15.4%	**9.5%**	**n/a**	**10.2%**

Notes:

1 Adjusted EBITDA margin is a percentage against adjusted revenues.

2 FY 2020 includes IFRS16 Right-of-use asset depreciation of £2.4m.

14 Related party transactions

During the year the Group traded on an arm’s length basis with the associated company Fidink S.A. (33.3% owned). The Group’s trading activities with this company included £30.9m (FY 2019: £17.6m) for the purchase of security ink and other consumables. At the balance sheet date there were creditor balances of £2.5m (FY 2019: £4.1m) with Fidink S.A. Intra-group transactions between the Parent and the fully consolidated subsidiaries or between fully consolidated subsidiaries are eliminated on consolidation.

Key management compensation

	2020 £m	2019 £m
Salaries and other short-term employee benefits	**2.9**	2.7
Retirement benefits:		
–– Defined contribution	**0.4**	0.4
Share based payments	**–**	–
Dividends received	**–**	–
Termination benefits	**1.1**	–
	4.4	3.1

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

RISK AND RISK MANAGEMENT

Risk management is the responsibility of the Board, supported by the Risk Committee which comprises members of our Executive Leadership Team (ELT). The Risk Committee is accountable for identifying, mitigating and managing risk. Our formal risk identification process evaluates and manages our significant risks in accordance with the requirements of the UK Corporate Governance Code. Our Group risk register identifies the risks, their potential impact and likelihood of occurrence, the key controls and management processes we have established to mitigate these risks, and the investment and timescales agreed to reduce the risk to an acceptable level within the Board's risk appetite.

The Risk Committee meets twice a year to review risk management and monitor the status of key risks as well as the actions we have taken to address these at both Group and functional level. Any material changes to risk are highlighted at the monthly ELT meetings, while the Audit Committee also reviews the Group's risk report. The ELT undertakes a risk workshop each year to challenge whether it has identified the principal risks that could impact the business in the context of the environment in which we operate. Management is responsible for implementing and maintaining controls, which have been designed to manage rather than eliminate risk. These controls can only provide reasonable but not absolute assurance against material misstatement or loss.

Overview

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. The use of financial derivatives is governed by the Group's risk management policies approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group's treasury department is responsible for the management of these financial risks faced by the Group.
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 where 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.

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 Group uses a range of derivative instruments, including forward contracts and swaps to hedge its risk to changes in foreign exchange rates and interest rates with the objective of controlling market risk exposures within acceptable parameters, while optimising the return. Derivative financial instruments are only used for hedging purposes.

(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 in full, and between 60% and 100% 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 grates of interest. Where the Group has forecast average levels of net debt above £50.0m on a continuing basis, the policy is to use floating to fixed interest rate swaps to fix the interest rate on a minimum of 50% of the Group's forecast average levels of 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 by various factors, largely pertaining to the profile of the customer as acknowledged in our IFRS 9 Receivables segmentation, in particular the customer's status as a Government or Banking institution as compared to that of a private or publicly owned entity. Due to the large make up of Government or central banks at around 80% of the Group's revenues, measuring credit risk is largely driven by factors including the country's sovereign rating, historic knowledge, local market insights, and political factors in country and industry credit risk is not an influencing factor. The Group's long standing historic trade with Government and central bank institutions guides strongly towards the lower credit or doubtful debt risk that these customers represent. Where private or publicly owned Business Trade applies, the Business adopts a conventional and in depth trading entity credit review. Where appropriate, letters of credit are used to reduce the credit risk for the Business and where possible advanced payments are also requested.
All credit assignment risk is mitigated through a threshold based sign-off matrix, where larger value credit exposures require multiple and more senior Business sign-off. The Group has processes in place to ensure appropriate credit limits are set for customers and for ensuring appropriate approval is given for the release of products to customers where any perceived risk has been highlighted.

Principal risks and uncertainties
The following pages set out the principal risks and uncertainties that could crystallise over the next three years. The Board has undertaken a robust risk assessment to identify these risks. There may be other risks that we currently believe to be less material. These could become material, either individually or simultaneously, and significantly affect our business and financial results. We have modelled potential scenarios of these risks crystallising to support the disclosures in the Viability Statement and assess the Group's risk capacity. Due to the nature of risk, the mitigating factors stated cannot be viewed as assurance that the actions taken or planned will be wholly effective.

***Risk -* Quality management and delivery failure**

Exposure
Each of our contracts has a unique specification non product quality and delivery. Given the nature of the Group's business and the fact that each product the Group makes and each service the Group provides is bespoke at some level, the majority of these contracts demand a high degree of technical specification.
Impact
A shortfall in quality management could have a material adverse impact on the Group's relationship with key customers, harm the Group's reputation, and may lead to a material increase in costs for the Group as a result of it having to pay damages in respect of the late delivery, rectification and/or the complete remake of relevant products and/or the termination of key contracts. This could have a material adverse effect on the Group's business, operations and financial condition and/or prospects.
Mitigation
We operate an enhanced end to end quality management system with defined standards and acceptable limits for all products across all production sites. The process is run by dedicated quality professionals. All manufacturing sites are certified to ISO9001 quality management standards.

***Risk -* Reliance on a small number of large orders**

Exposure
The revenue and profit of the Group's business in any particular financial period is often driven by a relatively small number of large orders. The precise timing of the completion of production of, and therefore the timing of the recognition of the revenue and margin earned from, such orders is difficult to predict with certainty. In addition, the timing of the execution of contracts for forecast future orders is also difficult to predict. Although the Group seeks to limit the impact of such issues on its financial performance, the Group believes that its financial performance in particular financial periods will continue to be affected in the future by these issues.
Mitigation
The Group seeks to limit the impact of such issues on its financial performance and has recently adopted a redesigned budgeting process which, by stipulating that: (i) all budget revenue must relate to an identified pipeline of opportunities from designated customers; and (ii) costs must be forecast in granular detail on the basis of specified cost saving plans, is expected to mitigate the risk of variances between budgeted and actual financial performance occurring.

***Risk -* Failure of a key supplier**

Exposure
We have close trading relationships with a number of key suppliers, including unique producers of specialised components that we incorporate into our finished products. With the sale of Portals De La Rue Limited, our paper supplier now moves to become a third party supplier.
Impact
Failure of a key supplier, the inability to source critical materials or poor supplier performance in terms of quality or delivery could disrupt our supply and ability to deliver on time and in full.
This could result in the payment of damages and/ or forfeiting performance bonds or loss of contracts and result in material reputational damage.
Mitigation
Key suppliers are monitored and managed through supplier analytics and contract management programmes. This ensures that all key supplier contracts have been reviewed on their financial strength and their ability to deliver to our quality standards and security, as well as their business continuity arrangements as a part of the onboarding process. Key suppliers are audited on a rotational basis and have a recovery plan in case of failure.
As a contingency, alternative suppliers are pre-qualified wherever possible and where necessary we retain higher levels of stocks.

***Risk* - Bribery and corruption**

Exposure
It is possible that our employees or overseas representatives, either individually or in collusion with others, could act in contravention of our stringent requirements in relation to bribery and corruption, anti-competitive behaviours and management of third party partners (TPPs). On 23 July 2019, the Company announced that the SFO had opened an investigation into the Group and its associated persons in relation to suspected corruption in the conduct of business in South Sudan. As announced by the Company on 16 June 2020, the SFO subsequently informed the Company of its decision to discontinue such investigation.
Impact
Major reputational and financial damage. A successful prosecution under anti-bribery legislation could see the Company barred from participating in major tenders.
Mitigation
We are accredited to the Banknote Ethics Initiative, which provides governments and central banks with assurance regarding our ethical standards and business practices.
Our commitment to ethical standards is articulated in the Code of Business Principles. This is supported by underlying policies which are reviewed regularly and enforced robustly. There is zero tolerance to non-compliance, and it is dealt with through disciplinary procedures.
We have a focus on raising awareness through local Ethics Champions as well as training on anti-bribery and corruption, and competition law. Our policies and processes are independently audited.
Our rigorous process for the appointment, management and remuneration of TPPs operates independently of the sales function. The behaviours of TPPs are strictly monitored and the TPP process is overseen by the General Counsel and Company Secretary, who reports directly to the Board on these matters. This is further enhanced by external due diligence checks.
Our whistleblowing policy and associated procedures are integral aspects of the compliance framework, which is complemented by a whistleblowing hotline.

***Risk* - Failure to implement the Turnaround Plan and run the business**

Exposure
Our business has seen a considerable level of organisational change and it is a possibility that business leaders may be unable to sustainably manage the level of change required to simultaneously Transform and Fix the business (enact the Turnaround Plan) while ensuring that day to day business goals are achieved.
Impact
As a result, key processes may break down and projects may fail to meet milestones, resulting in operational disruption, financial loss and serious consequences for the business.
Mitigation
The business has developed a strong leadership commitment and an aligned Executive Leadership Team. We will execute the Turnaround Plan to:
1. Provide clear objectives classified into Run, Fix and Transform.
2. Cascade clear and concise objectives via business units and support functions, to provide line of sight to strategy and link business as usual with longer term goals.
3. Provide a robust prioritisation process with regular reviews of programmes and projects.
Our aim is to provide clear process improvement programmes across a number of areas of the business.

***Risk* - Loss of a key site or process**

Exposure
All our manufacturing sites are exposed to business interruption risks.
Impact
The total loss of any one of these sites could have a major financial impact, particularly where the site represents a single source of supply.
Mitigation
Our head office and the banknote production operations in Debden and Gateshead UK are accredited to the ISO22301 Business Continuity standard. This is supported by site-based business continuity coordinators who ensure that all other sites are aligned to ISO22301 and work effectively to the spirit of the standard.
We maintain a degree of interoperability across our banknote production and security printing sites. We aim to minimise risk by adopting the highest standards of risk engineering in our production processes.
These controls are monitored via internal auditing and through monthly business continuity forums, quarterly business continuity management steering committee meetings and annual ELT/Audit Committee meetings.
***Risk* – Banking**

Exposure
If the Capital Raising does not proceed and the net proceeds of the Capital Raising are not received by the Company, executing the Turnaround Plan is expected, under the Group's existing and un-amended revolving credit facility agreement, to result in the Group breaching the Consolidated Net Debt to EBITDA ratio covenant, as the Consolidated Net Debt to EBITDA ratio is expected to exceed the three times multiple threshold for the testing period ending on 30 September 2020 and subsequent testing periods.
Impact
The directors do not believe the Turnaround Plan could continue to be executed without the agreement of the lenders to waive the financial covenants under the Group's existing revolving credit facility.
Mitigation
In order to facilitate the Capital Raising and provide existing Shareholders and new investors with sufficient certainty around the continued availability, and terms, of the Group's financing to successfully implement the Turnaround Plan and support the future growth of the business, the Group has entered into negotiations and agreed terms with the lenders in order to secure (among other things) an extension to the maturity date of the Group's existing revolving credit facility to 1 December 2023.
In exchange for agreeing to these key changes, the lenders required that the Company agree to the inclusion of a provision in the revolving credit facility agreement amendment which, if the proceeds of an equity capital raise in the gross amount of at least £100 million have not been received by the Company on or before 31 July 2020, requires the Company to agree an alternative financing plan with the lenders as soon as reasonably practicable and in any event within 45 days of 31 July 2020. If an alternative financing plan has not been agreed by this time, this shall constitute an immediate event of default under the existing revolving credit facility.

***Risk* - Failure to convert modernisation into value**

Exposure
We operate in competitive markets. Our products and services are characterised by continually evolving industry standards and changing technology, driven by the demands of our customers. Longer term threats could include the growth of e-commerce, the emergence of cashless societies and lower barriers to manufacturing.
Impact
Failure to maintain and exploit technical innovation and intellectual property may result in lower demand, loss of market share and lower margins.
Mitigation
We maintain sustained levels of investment in R&D to ensure a steady flow of ideas into our innovation pipeline. Our product roadmaps are designed to meet our customers' needs and to ensure a clear and tested product roadmaps and lifecycle methodology.
We continue to invest in modern and cost-effective techniques and emerging technologies to enable us to advance our R&D and manufacturing capabilities and have increased our focus on digital technologies.
We operate an active digital scouting for technology and digital companies, and collaboration with universities to ensure that we remain aware of new technologies.

***Risk* - Loss of material contract**

Exposure
While we operate globally and have a diversified geographic, product and customer profile, we rely heavily on a small number of medium and longer term material contracts.

Impact
The loss of material contract could restrict growth opportunities and have a material impact on our financial performance and reputation.
Mitigation
Our business involves tendering for long term contracts on a constant basis. We have dedicated bid specialists and where necessary contract in additional resources for the largest strategic bids. We have continued engagement with national and international governments to enable expansion of new markets.
We employ complex sales methodologies to identify and qualify opportunities. These measures, along with our strong focus on customer service and improving our quality, mean that we are well-positioned to win or renew strategic or significant contracts and retain them.
We are focused on retaining key contracts, as and when they fall due for renewal, and on continued acquisition of new opportunities as they arise. However, as the UK Passport contract award announced in March 2018 shows, there can be no certainty that we will win all major contract tenders.

***Risk -* Breach of information security**
Exposure
A breakdown in the control environment including collusion, non-compliance or an external attack could lead to a cyber security breach resulting in the loss of critical data.
Impact
Any compromise in the software functionality or confidentiality of information could impact our reputation with current and potential customers.
Mitigation
Our corporate information systems are certified to the ISO27001 Information Security standard. This is supported by an independent information security team which is focused on ensuring that all hardware and software deployed is compliant with built in security.
We maintain a strict control environment to enforce disciplined software development and information security practices and behaviours. A number of key technical controls are in place to manage this risk, including agile software development techniques, behaviour analytics, quality reviews, regular testing, network segregation, access restrictions, system monitoring, security reviews and vulnerability assessments of infrastructure and applications.
We also conduct supplier reviews on a risk basis and ensure all of our employees undertake mandatory information security e-learning.
Our processes and policies are monitored and audited internally and externally.

***Risk -* Breach of product security**
Exposure
Loss of product or high security components from a manufacturing site could occur as a result of negligence or theft. Loss of product while in transit, particularly during transhipment, through the failure of freight companies or through the loss of an aircraft or vessel as a result of an accident or natural disaster, is also possible.
Impact
Any loss of product or high security components has the potential to cause reputational and financial damage. In certain circumstances, customer contracts may mean that we are liable for those losses.
Mitigation
We have dedicated security personnel, robust standardised physical security and materials control policies and procedures at our production sites, which reduce the risk of inadvertent loss or theft during manufacturing. This is overseen and monitored by Group Security, HSE and Risk to ensure compliance. Vetting of personnel, training and auditing is conducted in line with the Group Baseline Security Manual. All manufacturing sites are now vertically aligned to ISO14298 and INTERGRAF certification. All the finished product manufacturing sites certified to Central Bank level, as testament of our commitment to product security.
We apply risk assessed stringent operational procedures – and use vetted and approved carriers and personnel – to handle movements of security materials between our sites and onward delivery to customers. All movements are monitored, risk managed and conducted in line with TAPA standards. We also maintain a comprehensive global insurance programme.
We also ensure that product security verification and reconciliation are embedded and monitored throughout all sites to ensure that product is stored, shipped, reconciled and destroyed securely and safely.

***Risk -* Breach of sanctions**
Exposure
Entering a contract or other commitment with a customer, supplier or partner which is subject to a sanction or trade embargo could lead De La Rue to be in breach of sanctions.

Impact
Breach could result in imprisonment and substantial fines for individuals, the leadership team, the Board and the Company. In addition, it may lead to a withdrawal of our banking facilities, as well as disbarment from future tenders.

Mitigation
We utilise strong policies and processes to ensure national and international sanction compliance. This will be overseen by the Sanctions Board and external auditing of the programme, such as BnEI.
Commercial opportunities are considered against the sanction risk as standard within the RFA process and we utilise customer relationship management systems to identify medium and high sanction risk opportunities. If identified these are investigated by legal, treasury and commercial teams to ensure compliance.

***Risk* - Pension fund liability**

Exposure
The latest actuarial valuation of the Group's UK defined benefit scheme ("**UK Pension Scheme**") as at 31 December 2019, which was based on intentionally prudent assumptions, revealed a funding shortfall (technical provisions minus the value of the assets) of £142.6m. On 31 May 2020, the trustee and the Company agreed the terms for a schedule of contributions and a recovery plan, setting out a programme for clearing the UK Pension Scheme deficit (the "**Recovery Plan**"). The Recovery Plan makes an allowance for post-valuation market conditions up to 30 April 2020 (at which point there is an estimated funding shortfall of £190 million), including the impact of COVID-19 on financial markets to that date. The funding level of the UK Pension Scheme from time to time is dependent on the market value of the assets of the UK Pension Scheme and on the value placed on its liabilities. A variety of factors, including factors outside the Group's control, may adversely affect the value of the UK Pension Scheme's assets or liabilities, including interest rates, inflation rates, investment performance (including any further impact on performance due to the COVID-19 pandemic), exchange rates, life expectancy assumptions, actuarial data adjustments and regulatory changes.

Impact
The Group may in the future be required to increase its level of contribution to the UK Pension Scheme if the assets or liabilities of the UK Pension Scheme are adversely effected.
If certain statutory requirements are met, the UK Pensions Regulator has the power to issue contribution notices or financial support directions to the Group and/or any associated company. Any requirement to contribute additional funds into the UK Pension Scheme could threaten the Group's future capital expenditure and its ability to continue or increase dividend payments and could in turn have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

Mitigation
The £190m funding deficit is addressed by payments of £15m per annum (payable quarterly in arrears) under the Recovery Plan payable from 1 April 2020 until 31 March 2023 and then payments of £24.5m per annum (payable quarterly in arrears) from 1 April 2023 until 31 March 2029. Additional contingent contributions in exceptional circumstances will become payable by way of an acceleration of the contributions due in later years where: (i) the leverage ratio (consolidated net debt: EBITDA) is equal to or greater than 2.5x in either FY 21/22 or FY 22/23, up to a maximum of £4m in each financial year and £8m in total and/or (ii) the Company or any its subsidiaries take any action which will cause material detriment (defined in section 38 Pensions Act 2004) to the UK Pension Scheme, of £23.3m (£7.2m in FY 20/21, £8.1m in FY 21/22 and £8m in FY 22/23) over the period up to 31 March 2023. The funding of the Recovery Plan is to be sourced from cash generation of the future business activities, but the trustee has contractually agreed not to request any portion of the Capital Raising proceeds.
The agreement with the trustee of the UK Pension Scheme as described above is conditional on an amount in full settlement of the Capital Raising in the gross amount of at least £100m having been received by the Company by no later than 31 July 2020. Provided that these criteria are achieved, the Group's contributions to the UK Pension Scheme will not change until the next triennial valuation of the UK Pension Scheme as at 31 December 2022 (to be completed by 31 March 2024).

***Risk* - Failure in health, safety and environment controls**

Exposure
All our activities are subject to extensive internal health, safety and environmental (HSE) procedures, processes and controls. Nevertheless, there is a risk that any failure of an HSE management process could result in a serious incident.

Impact
Failure of an HSE management process could lead to a serious injury or an environmental breach.

Mitigation
At all major facilities, we have HSE resources and a robust management system which is internally audited and certified to the ISO 45001 and ISO 14001 standards.
All our activities are subject to extensive internal HSE procedures, processes and controls. The Group HSE Committee regularly reviews HSE performance.
This is also monitored at Group level and reported to the Board monthly.
Each manufacturing facility has clear HSE action plans which are prioritised, monitored and subject to review by local senior management to ensure that health and safety standards are maintained.

***Risk* - Q4 emerging risk – COVID-19**

Exposure
The COVID-19 pandemic could have a material adverse effect on the Group's supply chain, distribution network, manufacturing operations and/or weakening customer demand.

Impact
If the COVID-19 pandemic continues and results in a prolonged period of onerous restrictions, there is potential impact to the global supply and distribution infrastructure of the business.
If current measures fail to adequately mitigate the impact of the COVID-19 pandemic in the countries in which the Group has a manufacturing presence, there is also a risk that one or more of the Group's manufacturing sites may be forced to partially or fully cease operations for a prolonged period as a result of the introduction of more stringent restrictions by the relevant authorities and/or the absence of a significant number of employees for COVID-19 related reasons.

Mitigation
As part of De La Rue's response to COVID-19, the business has invoked a long-standing Pandemic Incident Management Plan throughout the Group, and all sites are working towards the following four key objectives:
1. Ensuring the safety of our employees and their families.
2. Playing our part in restricting the spread of the virus.
3. Continuing to run the business, serving our customers worldwide with the timely provision of high quality products and services.
4. Ensuring that De La Rue emerges resilient to the impact of the pandemic.

Our manufacturing sites are spread across several sites in the UK, Malta, Kenya, North America and Sri Lanka which allows us the ability to reprioritise and potentially relocate production in the event of a business continuity incident.