DE LA RUE PLC
ANNUAL REPORT 2012

Throughout this Annual Report, 'Group' is used as a collective term to describe De La Rue plc and its subsidiary companies. 'Company' is a reference to De La Rue plc.

For further information visit De La Rue's website at www.delarue.com

De La Rue is the world's largest integrated commercial banknote printer and is a trusted partner of governments, central banks, issuing authorities and commercial organisations around the world.

In the past five years alone, the Group has been involved in the design or production of over 150 national currencies and a wide range of security documents including passports, driving licences, authentication labels and tax stamps. In addition, the Group manufactures sophisticated, high speed cash sorting and inspection equipment.

De La Rue also offers a range of specialist services and software solutions including government identity schemes, product authentication systems and cash management processing solutions.

De La Rue employs approximately 4,000 people worldwide and is listed on the London Stock Exchange.

Overview

Business review

Corporate governance report

Financial statements

KPIs

Cover image: magnified intaglio print image from a States of Jersey commemorative note. See inside back cover for further information.

DE LA RUE 2012 HIGHLIGHTS

REVENUE

£528.3m

2011: £463.9m

OPERATING PROFIT
(before exceptional items)

£63.1m

2011: £40.4m

HEADLINE EARNINGS PER SHARE
(before exceptional items)

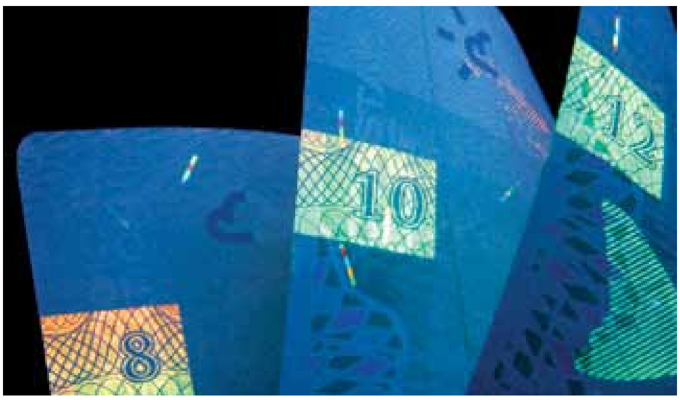
43.5p

2011: 24.0p

OPERATING CASH FLOW

£78.4m

2011: £14.7m (before £35m one off special pension contribution)



HOW WE ARE STRUCTURED

CURRENCY

Provides market leading printed banknotes, banknote paper and a comprehensive portfolio of banknote security features. Working in partnership with its customers to provide effective currency solutions, the business also advises on critical issues of currency strategy such as design, demand forecasting, denominational structure and protection against counterfeiting.

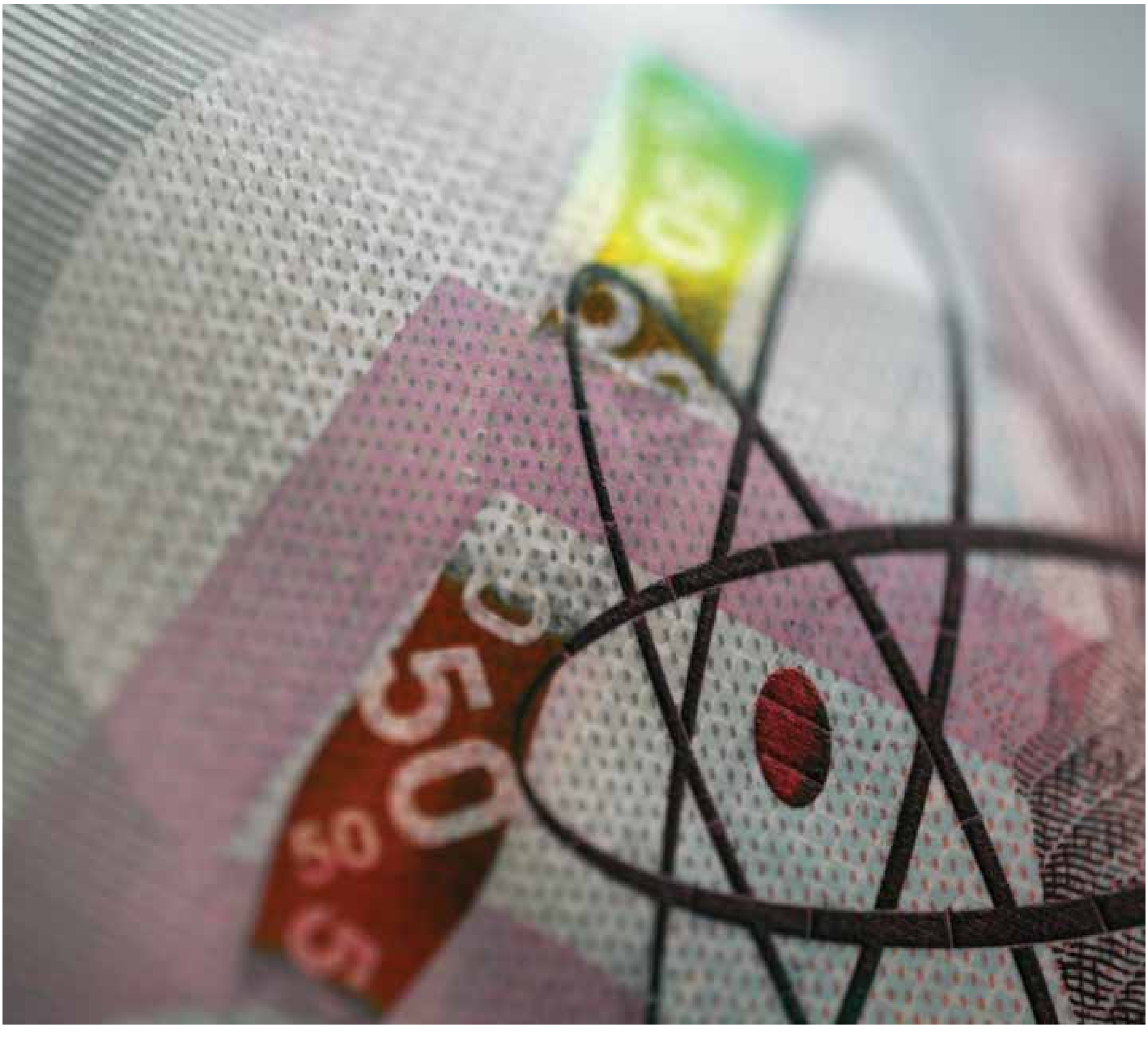
REVENUE*

63%

OPERATING PROFIT*

72%

*Proportion of Group



SOLUTIONS

Provides specialist physical and digital products and services, including cash processing, revenue and brand protection, identity solutions, and financial and secure documents.

REVENUE*

37%

OPERATING PROFIT*

28%

*Proportion of Group

Cash Processing Solutions

Provides bulk cash handling organisations with a range of sophisticated high speed cash sorting and authentication systems as well as software solutions, consultancy, service and support to enhance the productivity, performance and security of cash processing operations. The business also manufactures inspection equipment for banknote printing facilities, enabling new notes to be quality assured prior to issue.

Security Products

Delivers solutions critical to the authentication of products and documents to protect revenues for governments, commercial organisations and financial institutions around the world. It supplies authentication labels, brand licensing products and government and financial documents, along with the associated software and systems.

Identity Systems

Develops and delivers sophisticated identity management solutions. As a specialist systems integrator, it works with governments around the world to secure personal identities, focussing on the provision of passport, ePassport, national ID and eID, driving licence and voter registration schemes.

HOW WE OPERATE

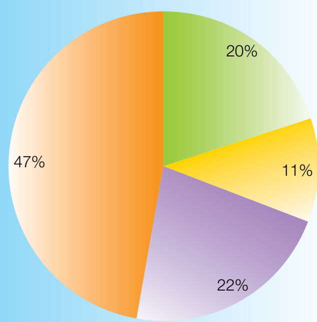
Our Currency and Solutions business units supply products and solutions to central banks, issuing authorities and commercial organisations around the world. Our value proposition is underpinned by the sophisticated design, production and delivery of high quality products and services in an industry with high barriers to entry.

We seek to build long term relationships with our customers and form trusted partnerships where our experience and the quality of our products and services are valued.

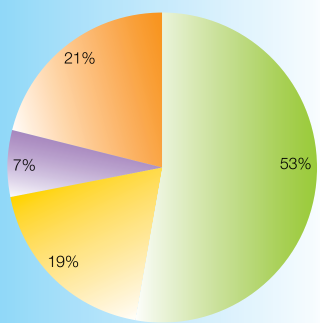
Our high margin cash generative business model allows us to invest in the business, enabling us to introduce new technology and increased capacity. This ensures we are well placed to meet customer needs, maintain an industry leading position and continue to grow, while providing attractive returns for investors.

WHERE WE OPERATE

Geographic revenue
Percentage
UK and Ireland
Rest of Europe
Americas
Rest of world



Employees by location
Percentage
UK and Ireland
Rest of Europe
Americas
Rest of world



CHAIRMAN'S STATEMENT

Nicholas Brookes
Non-executive Chairman

With a good order book and pipeline of opportunities, and notwithstanding the more challenging market for banknote paper, the Board's expectation for the current financial year remains unchanged.

Group results

De La Rue has achieved strong growth in revenue and operating profit during 2011/12 as well as making good progress in implementing the first phases of the Improvement Plan. The Plan is on track and we remain confident that the Group will achieve its target of a 2013/14 operating profit in excess of £100m.

Group revenue increased by 14 per cent to £528.3m (2010/11: £463.9m) with strong performances in both the Currency and Solutions business units. Operating profit (before exceptional items) was up 56 per cent to £63.1m (2010/11: £40.4m), as a result of revenue increases, an improved Currency product mix and the initial benefits of the Improvement Plan. Group operating profit margin (before exceptional items) was 11.9 per cent (2010/11: 8.7 per cent).

Profit before tax and exceptional items increased by 73 per cent to £57.7m (2010/11: £33.3m) reflecting the trading improvement noted above and lower finance costs of £5.4m (2010/11: £7.1m). Headline earnings per share, before exceptional items, increased by 81 per cent to 43.5p (2010/11: 24.0p).

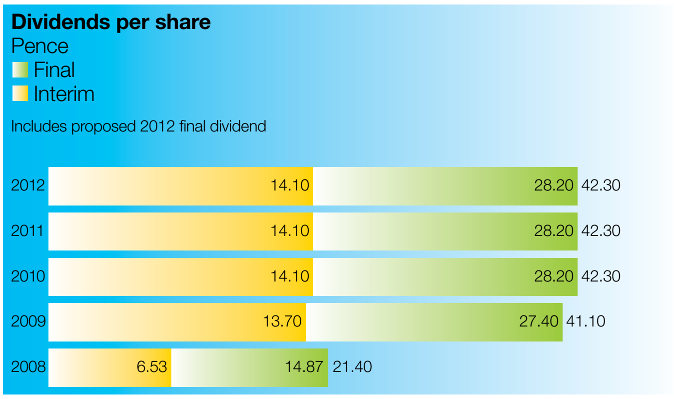
Exceptional charges in the year totalled £24.8m (2010/11: £15.6m) predominantly in relation to the implementation of the Improvement Plan. This includes the costs of site transfers as well as business reorganisation and restructuring. In 2010/11, a non operating exceptional profit of £55.1m was recognised relating to the sale of the Group's investment in Camelot, the UK national lottery operator. Basic earnings per share was 31.8p (2010/11: 67.6p including the non operating exceptional profit).

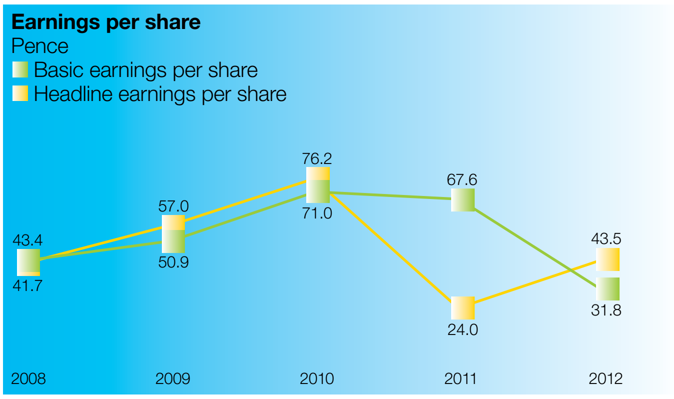
Cash inflow from operations was £78.4m reflecting the improved trading performance. At the year end, the Group net debt was £24.8m (2010/11: £31.2m). Interest cover, before exceptional items, remained strong at 15 times (2010/11: 11 times).

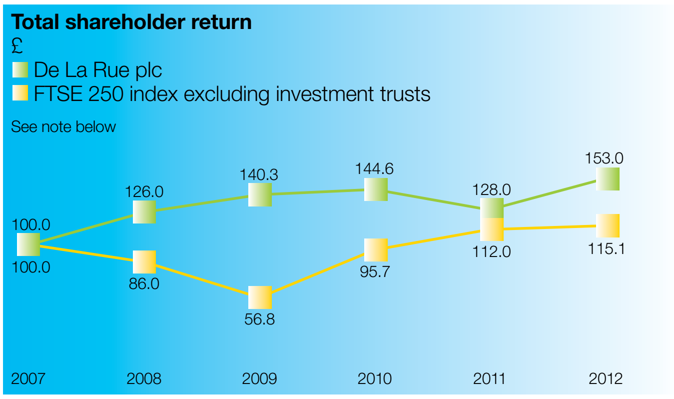
Dividend

The Board is recommending a final dividend of 28.2p per share (2010/11: 28.2p per share), reflecting its continuing confidence in both the strength of the business and in delivering the Improvement Plan. Together with the interim dividend paid in January 2012, this will give a total dividend for the year of 42.3p per share (2010/11: 42.3p per share).

Subject to approval by shareholders, the final dividend will be paid on 2 August 2012 to shareholders on the register on 6 July 2012.







The graph shows the value, on 31 March 2012, of £100 invested in De La Rue plc on 31 March 2007 compared with the value of £100 invested in the FTSE 250 index excluding investment trusts, assuming in each case the reinvestment of dividends. The other points plotted are the values at intervening financial year ends. (Source: Thomson Reuters)

Strategy

De La Rue is focused on delivering the Improvement Plan that we announced in May 2011. The Plan has a target to return the business to a 2013/14 operating profit in excess of £100m through a combination of revenue growth and a reduction in operating costs. This will ensure that De La Rue is a more focused, effective and efficient business, allowing it to capitalise better on its fundamental strengths and to generate value for all stakeholders in the future.

2010 paper production issues

Discussions remain ongoing with the principal customer concerned and the authorities, and therefore there remains uncertainty as to the ultimate outcome of these issues, including their financial impact (described more fully in note 25).

Board changes

After 15 years as a Director of De La Rue, the past eight years as Chairman, I shall retire from the Board following the Annual General Meeting on 26 July 2012. I am delighted that Philip Rogerson, who joined the Board as a Non-executive Director on 1 March 2012, will succeed me as Chairman. Philip is a highly experienced chairman and non-executive director with considerable international expertise and well proven leadership skills.

I am pleased to be handing over to Philip a business with a strong senior management team and a dedicated and loyal workforce which is making good progress following the challenges of 2010/11.

I should like to thank my fellow Board members and all employees and colleagues for their support, dedication and contribution and wish them all the very best for the future.

Outlook

With a good order book and pipeline of opportunities, and notwithstanding the more challenging market for banknote paper, the Board's expectation for the current financial year remains unchanged.

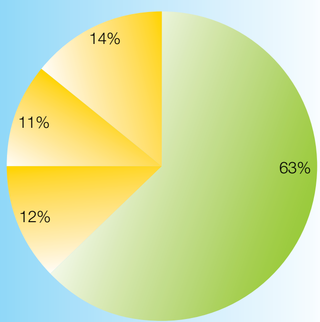
The Improvement Plan is on track to achieve a target 2013/14 operating profit in excess of £100m through both restoring revenue growth and delivering significant cost reductions.

CHIEF EXECUTIVE'S REVIEW

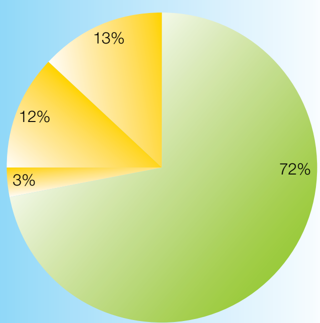
Tim Cobbold
Chief Executive

I am confident, given the fundamental strengths of the business, the commitment of the employees and the momentum we have established, that the business is well placed for the future.

Business revenue
Percentage
Currency 63%
Solutions 37%
Cash Processing Solutions 12%
Security Products 11%
Identity Systems 14%



Operating profit before exceptional items
Percentage
Currency 72%
Solutions 28%
Cash Processing Solutions 3%
Security Products 12%
Identity Systems 13%



Introduction
Over the past year we have focussed on De La Rue's fundamental strengths and started to address the opportunities for improvement encapsulated in the Improvement Plan announced in May 2011. I am therefore pleased to report a much improved financial performance generated by a combination of revenue growth and good progress in enhancing business efficiency and reducing cost. At the same time we have grown the order book and built a good opportunity pipeline for the year ahead.

Group revenue increased by 14 per cent to £528.3m (2010/11: £463.9m) with strong performances in both the Currency and Solutions business units. Operating profit before exceptional items was up 56 per cent to £63.1m (2010/11: £40.4m), as a result of the revenue growth, an improved product mix in Currency and the first wave of benefits of the Improvement Plan. The Group operating profit margin (before exceptional items) increased by 3.2 percentage points to 11.9 per cent (2010/11: 8.7 per cent) reflecting the inherent operational gearing in the business, the benefits of the Improvement Plan and better product mix.

At the year end, the 12 month order book for Currency was up 18 per cent at £183m (2010/11: £155m) while Solutions was up 5 per cent at £65m (2010/11: £62m). These figures exclude order volumes which have yet to be confirmed on committed contracts.

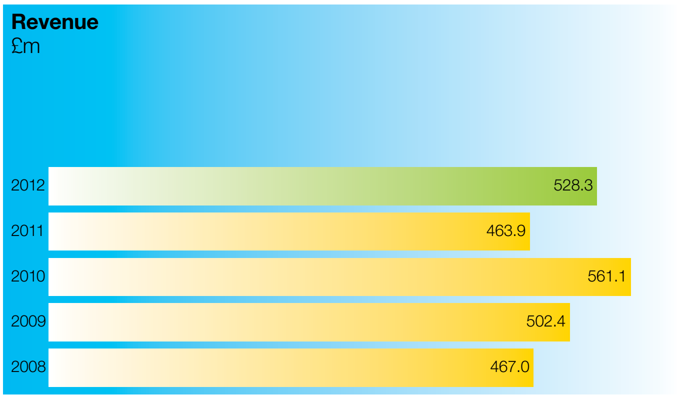
Delivering the Improvement Plan
The fundamental strengths of De La Rue – brand and reputation, long standing customer relationships, technology and design, robust market growth and a high margin and cash generative business model – provide the platform for the Plan. During the past year, in addition to executing the Plan we have focused on reinforcing and leveraging these strengths.

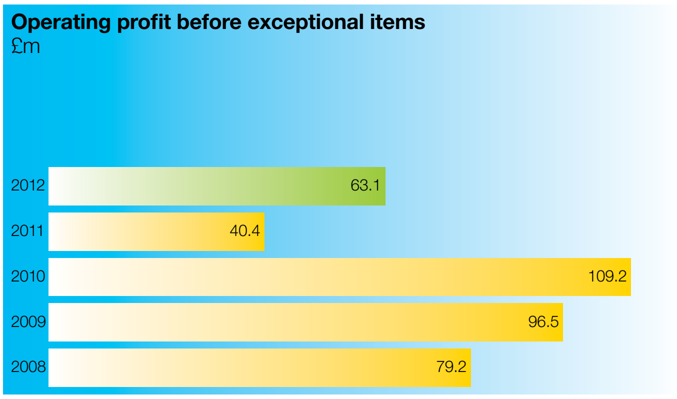
Good progress has been made in the first year of the Plan which contributed approximately £8m to the reported operating profit mainly as a result of actions in process improvement and procurement. Importantly, good momentum has also been established in the initiatives to generate revenue growth and accelerate innovation.

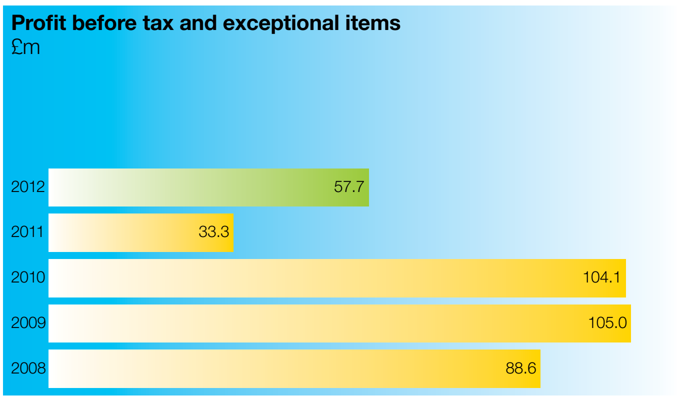
In order to implement the Plan effectively we have made significant changes to the structure and organisation of the Group establishing a functional organisation which supports the four pillars of the Plan:

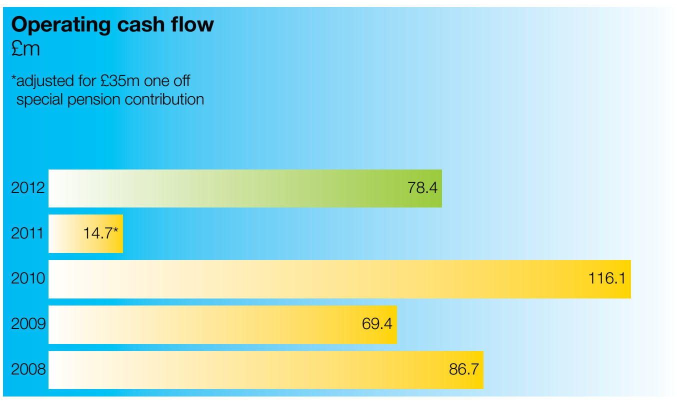
Customer focus
The new Currency and Solutions business unit teams now share common marketing and pipeline management processes and have together created more than 40 country plans. Each country plan identifies the strategic long term goal in that country as well as the near term tactical opportunities. This approach has already generated encouraging new business opportunities.

Innovation
A new Group wide business development function now drives our innovation agenda. Relationships have been established with leading academic institutions and industry to improve the pipeline of ideas and access to research and early stage technologies. We are investing in a new, industry leading, technical centre at our facility in Overton which will provide the research and development facilities to further accelerate innovation.









Professionalism

The significant level of change in the past year has been managed by the business transformation team which is now focussing on the continued improvement of the processes and systems deployed in the business. This will ultimately lead to a revision to the IT infrastructure in the Group.

Operational excellence

A new Group Supply Chain function has been established to focus on operational excellence. This includes central manufacturing, design, quality and procurement functions in order to drive process improvement and to reduce cost.

Industry best practice quality processes and systems, utilising proven approaches and techniques from outside the industry, have been introduced and are already improving quality performance.

The teams in the manufacturing facilities have been focussed on excellence in workplace management and on waste reduction. Good progress has been made with significant reductions in production set up times and waste levels, in some cases by as much as 50 per cent.

The central procurement team has, through consolidating the supply base and placing a greater focus on all constituents of cost, negotiated annualised savings of c£10m, of which c£5m has already been delivered in 2011/12.

A review of the Group's manufacturing facilities was completed in August 2011. The conclusion was to relocate the Dunstable operation to our Gateshead facility and to transfer the Basingstoke based Holographics activity to our facility in Westhoughton. The consolidation of these facilities has commenced and will generate annual savings of c£6m when complete.

People

Our employees have again demonstrated their loyalty and commitment to the business and understanding of the case for change. I would like to express my thanks and appreciation to everyone for their contribution and positive attitude during a time of significant change.

I would also like to thank, on behalf of the Board, Nicholas Brookes for his enormous contribution to De La Rue during the past 15 years. As Chairman, he has overseen considerable change within the Company and on behalf of all his friends and colleagues within De La Rue, I wish him well in his retirement.

Conclusion

De La Rue has made rapid progress in the past year and although there remains much still to do, I am confident, given the fundamental strengths of the business, the commitment of the employees and the momentum we have established, that the business is well placed for the future.

IMPROVEMENT PLAN

Our Improvement Plan has been formulated to deliver revenue growth and cost reductions by leveraging De La Rue's fundamental strengths more effectively than has been done in the past and to provide focus to our activities.

REVENUE GROWTH

CUSTOMER FOCUS

Vision
To be a valued partner to our customers by understanding and delivering their increasingly complex needs and requirements.

Initiatives
- Common approach to managing customer relationships across Currency and Solutions
- Shared marketing and pipeline management processes adopted
- Development of bespoke country plans identifying customer needs

Outcomes
- Reinforce existing and establish new long term customer partnerships
- Meet and exceed customer expectations
- Maximise market development opportunities

INNOVATION

Vision
Market leading innovators developing and adopting technology to provide differentiation and competitive advantage.

Initiatives
- Group wide research and development function established to drive innovation
- Investing in industry leading technology centre
- Relationships with academic institutions established to access early stage technologies

Outcomes
- Product differentiation delivering competitive advantage
- Forefront of developments in technology to meet customer needs

The fundamental strengths of the business – brand and reputation, long standing customer relationships, technology and design, robust market growth and a cash generative business model – provide the platform for the Improvement Plan.

TARGET 2013/14 OPERATING PROFIT

>£100m

COST REDUCTION

PROFESSIONALISM

Vision
Continued improvement of the processes and systems deployed in the business.

Initiatives
- Commenced programme to standardise best practice across the business
- Goals and objectives communicated to all employees
- Process definition review completed prior to upgrading IT systems

Outcomes
- Integrated systems to ensure greater efficiency
- Best practice processes deployed across the Group

OPERATIONAL EXCELLENCE

Vision
Creation of industry leading manufacturing, quality, design and procurement functions to maximise efficiency, reduce costs and provide a competitive advantage.

Initiatives
- Upgrading our manufacturing methodology and facilities
- Centralised procurement and quality assurance teams
- Consolidation of manufacturing footprint

Outcomes
- Greater operational and cost efficiencies
- Improved quality and lower waste

OPERATIONAL REVIEW

CURRENCY

Provides market leading printed banknotes, banknote paper and a comprehensive portfolio of banknote security features. Working in partnership with its customers to provide effective currency solutions, the business also advises on critical issues of currency strategy such as design, demand forecasting, denominational structure and protection against counterfeiting.

Performance in 2011/12
Banknote print volumes at 6.4bn notes (2010/11: 5.9bn) were 8 per cent higher reflecting the good opening order book and the strong order intake during the year. Paper output volumes of 11,000 tonnes (2010/11: 9,900 tonnes) were up 11 per cent primarily reflecting the internal print volumes, as well as additional external sales.

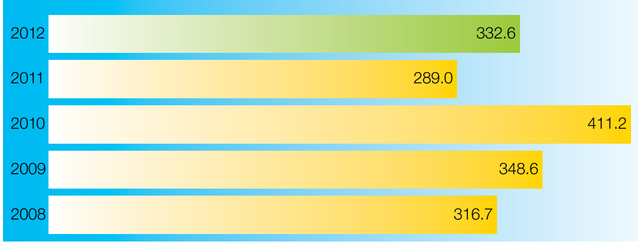
Revenue increased by 15 per cent to £332.6m (2010/11: £289.0m) reflecting the increase in volumes noted above while operating profit at £45.3m (2010/11: £28.5m) was up 59 per cent. Operating margins improved to 13.6 per cent (2010/11: 9.9 per cent).

The increase in operating profit reflects the higher volumes, an improved product mix compared with the prior year and the benefits of the Improvement Plan. However, some of the gains were offset by increased raw material and component costs, most notably on cotton which had an adverse impact of £9m compared with 2010/11. Cotton prices peaked around February 2011 and have declined since then but currently remain above recent historic levels.

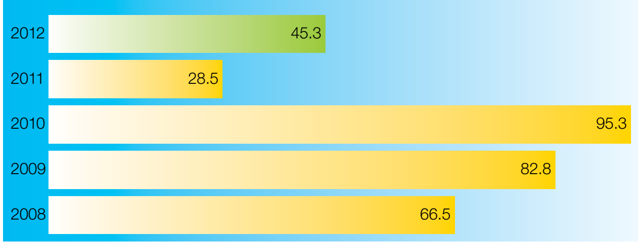
At the year end, the Currency 12 month order book, excluding currently suspended orders, was up 18 per cent at £183m (2010/11: £155m). However, as anticipated, the external market for banknote paper is becoming more challenging, with some downward pricing pressure, as additional capacity has been brought on stream by some of our competitors.

Almost half of all new banknote designs issued into circulation in the past two years were created by De La Rue.

Revenue
£m



Operating profit before exceptional items
£m



South Sudan – supporting the birth of a nation
When the countdown to independence began, the South Sudanese knew they would need to design, create, print and issue a brand new fully functioning currency within just six months to safeguard the economic stability of the new country. A project of this nature would normally take a minimum of 18 months so the transitional government needed to be sure it could partner with a reliable supplier capable of providing expertise in all aspects of planning, designing and producing an entirely new currency. Once a new denominational structure and volumes had been agreed, De La Rue created nine high quality banknotes from concept and owing to its capability as an integrated supplier was able to ensure the notes were delivered on time.

OPERATIONAL REVIEW
CONTINUED

De La Rue customer banknotes have won every major industry design award in the past five years.

Market

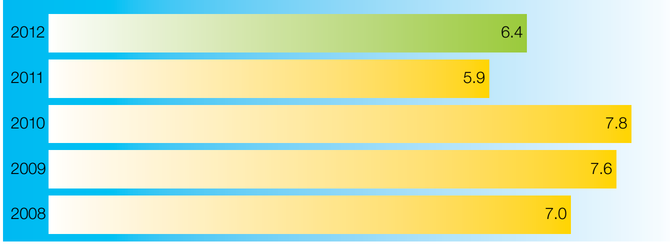
Continued underlying growth in the market for banknotes remains evident despite the increase in the number of electronic transactions. We continue to expect the long term growth trend for the world market for banknotes to be c4 per cent annually, although the pattern varies considerably between countries. The market available to commercial providers of banknotes and their components is expected to grow at a broadly similar trend rate.

The currency market does, however, exhibit short term variations in order patterns according to the individual decisions taken by central banks. This has the potential to create material volume variation year on year for commercial providers such as De La Rue.

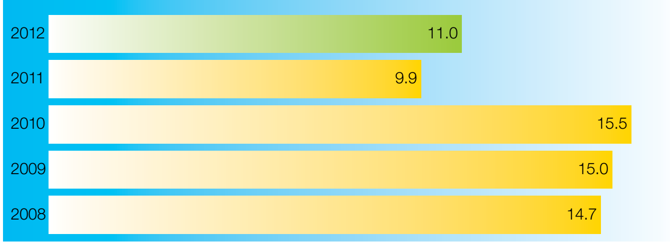
Central bank policy determines the issuance of notes into circulation taking into consideration factors such as design, durability and security:

- A country's currency is a statement of its national identity and the quality of design is of prime importance. Design is a key strength of De La Rue and provides an opportunity for us to differentiate ourselves from other suppliers. Our design excellence has been recognised, with De La Rue customer banknotes winning every major industry design award in the past five years
- The durability of banknotes directly affects the life of a note in circulation and hence the cost to a central bank. De La Rue has developed a range of features to improve durability. For example, Stonegrade™ combines three market proven durability technologies in one banknote: Cornerstone® and Edgestone™, both reinforced paper features, and a preprint anti soiling coating which protects the surface of the banknote. An alternative option to improve durability is the use of a polymer substrate. De La Rue is building on its polymer offering, Flexycoin®, and the first customer order has been secured and is currently in production
- Security and the threat of counterfeiting continues to be a factor driving demand. De La Rue offers a full range of overt and covert security features as integral parts of the substrate, surface applications and printed features. We are developing a range of new capabilities such as innovative banknote thread designs including InSight™, the first banknote security feature to bring together super wide thread design, papermaking and sophisticated print technology

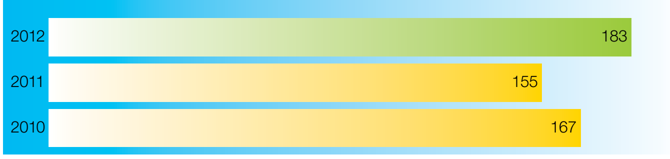
Banknote print volume
Billion notes



Banknote paper output volume
'000 tonnes



Currency year end 12 month order book
£m



300 years of papermaking
In 1712, paper was made, pressed and dried entirely by hand. Three hundred years later, a typical machine is capable of producing paper for more than 20 million banknotes per day. In the intervening period, De La Rue has been at the forefront of papermaking innovation, pioneering such fundamental advances as embedded and windowed security threads. De La Rue today provides banknote substrates to more customers than any other manufacturer, and in response to recent market demands offers a range of durability solutions including durable paper, coated substrates and polymer. We work with central banks and issuing authorities to help them choose the most appropriate substrates, taking into account considerations such as security, durability and cost effectiveness.

SOLUTIONS

Provides specialist physical and digital products and services, including cash processing, revenue and brand protection, identity solutions, and financial and secure documents.

Cash Processing Solutions (CPS)

Performance in 2011/12
Following the recent restructuring programme the performance in CPS continues to improve. Increased volumes of the large DLR 7000 banknote sorter, which processes, sorts and validates up to 2,000 notes a minute, combined with the maintenance of good service revenue have underpinned the 14 per cent increase in revenue. Operating margins have benefited from the restructuring of the business and the improved economies of scale flowing from the higher volumes.

Market
Recognising the need to manage both the cost of cash and the quality of cash in circulation, customers continue to seek control, efficiencies and cost reductions, thereby generating demand for automated cash processing equipment. The trend for central banks to outsource the recycling of banknotes to the commercial sector continues to be evident, increasing the demand for advanced solutions.

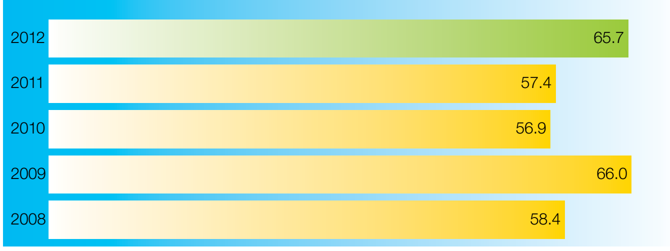
This requirement to improve operating visibility and reduce costs also drives demand for cash management software solutions which deliver detailed data and control at all stages of the cash cycle process. This demand creates opportunities for the CPS business within retail and commercial operations as well as De La Rue's core customer base.

The DLR 9000 (see case study opposite) has enhanced De La Rue's product range, meeting currency print facility requirements to improve efficiencies by enabling the quality of banknotes to be rapidly verified as part of the manufacturing process before they are issued.

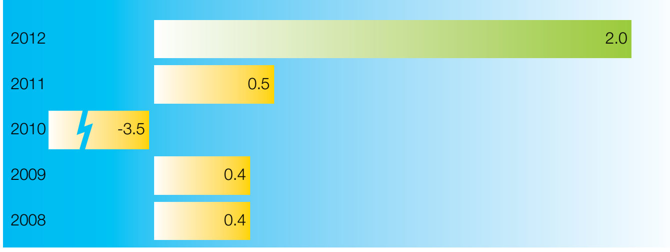
CPS's global service network supports a large installed base, providing regular service and maintenance to customers and generating stable long term revenue for the business.

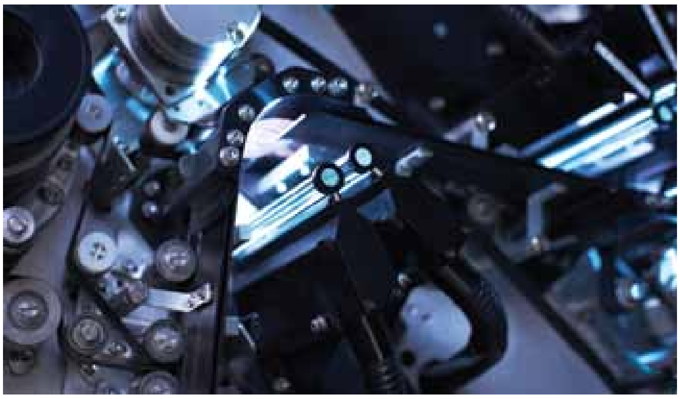
Our DLR 7000 high speed sorter processes, sorts and validates up to 2,000 notes per minute.

Revenue
£m



Operating profit before exceptional items
£m





Securing banknote quality through single note inspection
Building on its industry leading knowledge and experience, De La Rue has developed the DLR 9000 single note inspection system to meet the needs of banknote print works for end of line inspection and processing of printed banknotes.
To guarantee the quality of currency, the highly perceptive system inspects every banknote to the highest level of detail, detecting and removing notes that don't meet the defined standard.
All banknote data is securely stored, providing full track and trace ability, enabling users to query and analyse the data quickly and easily. The DLR 9000 is simple and intuitive for customers to operate, increasing efficiency and productivity, while its modular design creates a fully configurable and customisable solution that will integrate seamlessly into any production environment.

Security Products

Performance in 2011/12
As expected, Security Products has had a challenging year with flat revenue and reduced operating profit resulting from a combination of continued lower Holographic internal and external component sales, and lower demand for brand licensing products. A number of the revenue and cost saving initiatives under the Improvement Plan, including site relocations, will enhance the performance of this operation.

Market
Performance in the government revenue protection and brand authentication sectors reflects the threat of illicit trade and counterfeiting. Security Products has a strong portfolio of secure documents and software solutions to meet customer needs in counteracting these threats.

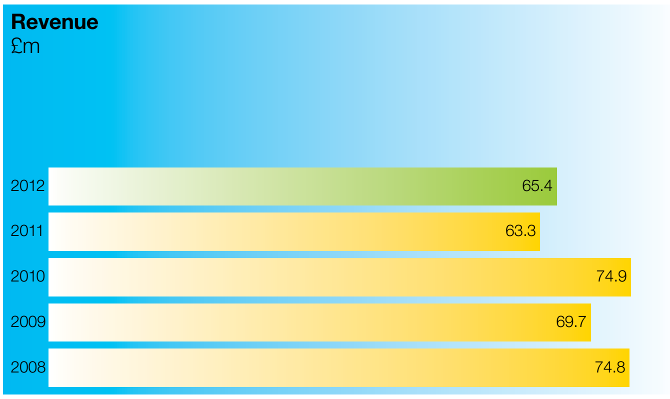
Governments are working hard to maximise indirect tax revenues on high value consumer goods such as alcohol and tobacco by reducing illicit trade. This year 135 countries agreed on a protocol to eliminate illicit trade in tobacco products as part of the World Health Organisation's Framework Convention on Tobacco Control. This requires those countries to implement systems to allow products to be easily authenticated which will result in higher tax collections.

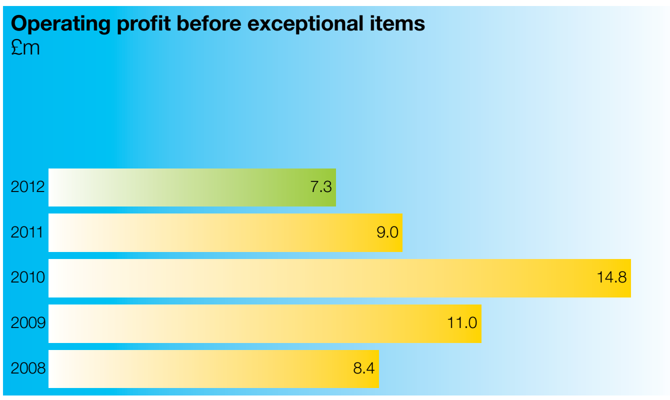
For global brands the threat of revenue losses from counterfeit and parallel trade activities is equally acute. International trade provides an opportunity, but also a threat, to well known brands. Sophisticated product protection technologies linked to digital authentication and tracking solutions are used to ensure that brands are protected and consumers can be confident of using genuine products.

Security Products provides anti counterfeit technology for users of cheques, credit cards, vouchers and postage stamps to minimise the losses from financial fraud.

Security Products supplies other security printers around the world with high security cylinder mould paper suitable for passports and valuable documents. In addition to external sales, the business also supplies De La Rue's Currency and Identity Systems operations with components as part of a robust internal supply chain.

In 2011/12 we printed over one billion postage stamps.





UEFA EURO 2012™ brand licensing
Following the successful UEFA Champions League brand licensing programme, De La Rue was again chosen to provide a similar solution for UEFA's EURO 2012 tournament. High security holographic labels, each uniquely serial numbered, are applied to all UEFA EURO 2012 merchandise. With online ordering and tracking, the solution helps UEFA protect and enhance its brand.

Royal Mail Jubilee stamps
With an association dating back to 1855, De La Rue was the obvious choice when the Royal Mail needed a reliable and high quality partner to print new stamps to celebrate the Diamond Jubilee of Her Majesty Queen Elizabeth II. The series, issued on 31 May 2012, consists of a number of designs taking a look back over the Queen's 60 year reign.

OPERATIONAL REVIEW
CONTINUED

Identity Systems (IDS)

Performance in 2011/12
The IDS team has completed the transition on the UK Passport contract from the implementation phase in the prior year to full production and service in the current year. Revenue and profit levels predominantly reflect this successful ramp up to full scale production volumes for the year as a whole. The business has delivered over seven million passports to date under this contract and also supported a successful repatriation of the Foreign & Commonwealth Office passport issuance service.

The international part of IDS performed in line with expectations, continuing to implement a wide range of projects across the globe.

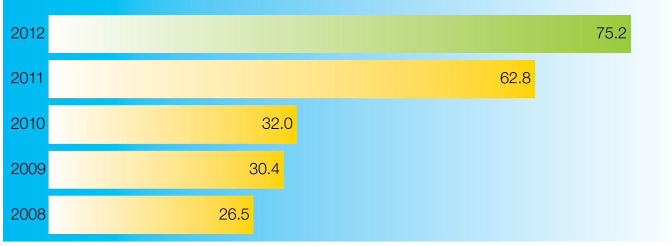
Market
The transition to electronic identity solutions continues to be the most significant trend in the market place with De La Rue well positioned for this development having now delivered a number of projects for customers.

The government identity market is increasingly focussed on complete and integrated solutions rather than just document issuance and as a result, a greater range of technologies is being demanded by customers. Specialist systems integration, therefore, is a key attribute in this area, and De La Rue remains one of the leading providers.

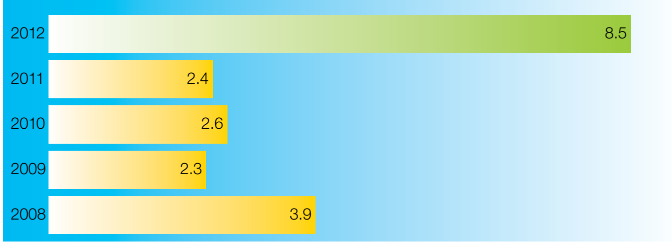
IDS is a contract based business focussing on government customers. The nature of this business is such that revenues can be variable and subject to cancellation or delay. Maintaining as broad a portfolio of business as possible and a strong pipeline of opportunities helps mitigate this risk.

We issue c75,000 secure identity documents around the world every day.

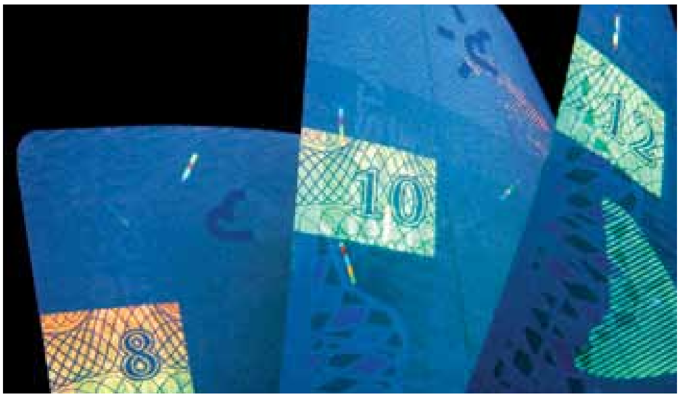
Revenue
£m



Operating profit before exceptional items
£m



UK Passport – successful full year of delivery
Following a successful go live of the UK Passport project at the end of 2010, De La Rue has had a strong first full year of production with over seven million highly secure books issued to the public to date. In addition to the personalisation of the new book for UK residents, this programme now includes the issuance of documents on behalf of the Foreign & Commonwealth Office. The repatriation of this service allows overseas based UK citizens to renew their passports via local British Embassies and High Commissions around the world, while also ensuring the maximum security benefits associated with a central issuance solution. Place this alongside the delivery of the existing Emergency Travel Document and it is clear that De La Rue delivers a full range of passport and travel document solutions to the UK Government.



FINANCIAL REVIEW

Colin Child
Group Finance Director

The Group is in a strong financial position and, with the momentum generated in 2011/12, is on track to deliver the Improvement Plan and continue the investment programme.

Key financial summary

	2012	2011	Change
Revenue	**£528.3m**	£463.9m	13.9%
Operating profit before exceptional items[1]	**£63.1m**	£40.4m	56.2%
Profit before tax and exceptional items[1]	**£57.7m**	£33.3m	73.3%
Profit before tax	**£32.9m**	£72.8m	(54.8%)
Basic earnings per share	**31.8p**	67.6p	(52.9%)
Headline earnings per share[1]	**43.5p**	24.0p	81.3%
Operating cash flow[2]	**£78.4m**	£14.7m	
Cash conversion[3]	**97%**	15%	
Net debt	**£24.8m**	£31.2m	
Dividends per share[4]	**42.3p**	42.3p	

[1] Before an exceptional operating charge of £24.8m in 2011/12 and net exceptional income of £39.5m in 2010/11 (representing exceptional operating charges of £15.6m and exceptional non operating profit of £55.1m)

[2] Before one off special pension contribution of £35.0m in 2010/11 (2011/12: £nil)

[3] This is a measure of the extent of conversion of operating profit to cash. It is calculated as follows: operating cash flow excluding exceptional items, special pension contributions and movement in advance payments (2011/12: - £13m, 2010/11: + £11m), less capital expenditure, divided by operating profit

[4] Includes proposed final dividend

Introduction

In 2011/12 the Group has reported good growth in revenues and operating profit which has generated a healthy cash inflow from operations. The Group is in a strong financial position and, with the momentum generated in 2011/12, is on track to deliver the Improvement Plan and continue the investment programme.

Financial results

Group revenue increased by £64.4m to £528.3m (2010/11: £463.9m) reflecting strong revenue growth in both the Currency and Solutions business units. Currency, representing £44m of the increase, benefited from increased banknote print and paper volumes in the year which grew by approximately 8 and 11 per cent respectively. This reflects the good opening order book and strong order intake during the year. Within Solutions, CPS revenue increased by £8m following increased sales of large sorters. IDS revenue increased by £12m following the transition to full scale production on the UK Passport contract while Security Products revenue remained at a similar level to the prior year. The adverse impact of foreign exchange on revenue for the year was £1m.

Operating profit before exceptional items rose by 56 per cent to £63.1m (2010/11: £40.4m), reflecting the volume increases noted above, an improved Currency product mix sold and the initial benefits of the Improvement Plan. This was partly offset by increased raw material component costs, most notably on cotton which had an adverse impact of £9m compared with 2010/11, as well as difficult trading conditions in the Security Products operating unit. The adverse impact of foreign exchange on operating profit for the year was £1m. Operating profit margins (before exceptional items) were 11.9 per cent (2010/11: 8.7 per cent).

Profit before tax and exceptional items increased by 73 per cent to £57.7m (2010/11: £33.3m) reflecting the trading improvement noted above. This was further enhanced by lower pension interest charges of £1.3m (2010/11: £3.3m) while external interest remained broadly consistent with the prior year at £4.1m (2010/11: £3.8m). Headline earnings per share increased by 81 per cent to 43.5p (2010/11: 24.0p).

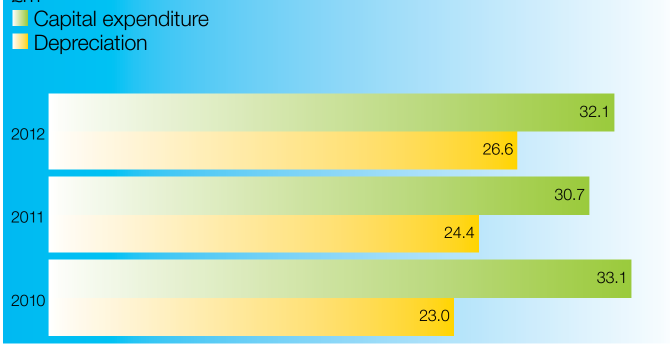
Exceptional items

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

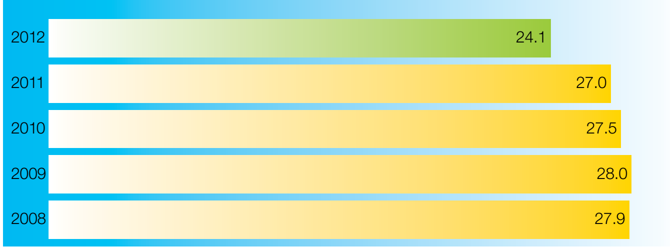
Exceptional costs relating to the Improvement Plan were originally estimated at c£25m. With the experience and knowledge gained from implementing the first phases of the Plan we now expect the total exceptional costs of the Plan to be up to £10m higher over the next two years.

The £15.6m exceptional operating charges reported in 2010/11 comprised £29.0m of costs relating to the paper production quality issues and £2.6m of corporate costs incurred in relation to a takeover approach for the Group. These were offset by a £16.0m exceptional curtailment gain on the closure of the defined benefit pension scheme. In addition, in 2010/11 the Group also reported a non operating exceptional profit of £55.1m on the sale of the Group's investment in Camelot.

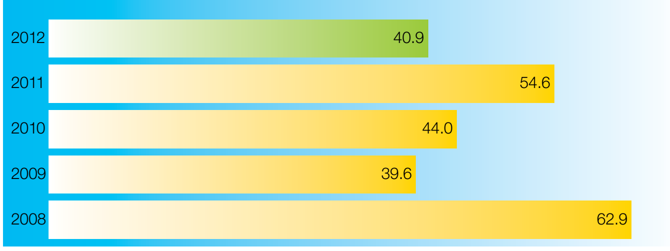
Capital expenditure relative to depreciation
£m



Underlying effective tax rate before exceptional items
Percentage

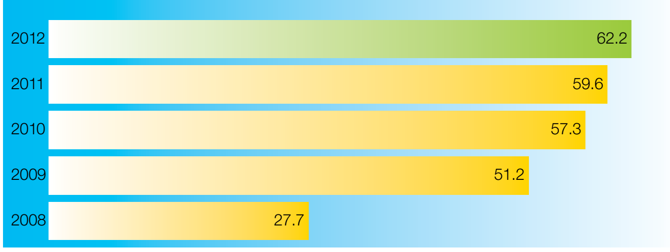


Group working capital – advance payments
£m



Group working capital – trade working capital
£m

Trade working capital comprises inventory plus trade receivables less trade payables and advance payments



FINANCIAL REVIEW
CONTINUED

Dividend
The Board is recommending a final dividend of 28.2p per share which together with the interim dividend paid in January 2012, will give a total dividend for the year of 42.3p per share (2010/11: 42.3p per share).

The Board's normal dividend policy is to maintain a cover of approximately 1.75 times on underlying earnings. The proposed total dividend for the year is below this level but reflects the Board's confidence in delivering the Improvement Plan.

Taxation
The net tax charge for the year was £0.7m (2010/11: £5.4m). The effective tax rate pre exceptional items, was 24.1 per cent (2010/11: 27.0 per cent), predominantly reflecting the drop in the UK statutory tax rates.

A credit of £6.2m (2010/11: £1.1m) arises on the exceptional charges noted above. In addition there was also an exceptional tax credit of £7.0m in respect of the determination of the tax treatment of prior year exceptional items (2010/11: £2.5m prior year credit).

Cash flow and borrowings
Cash inflow from operations was £78.4m reflecting the strong trading as well as an improved working capital position (2010/11: outflow of £20.3m after a one off special pension contribution of £35.0m). Cash conversion was strong at 97 per cent (2010/11: 15 per cent). The value of inventory was broadly unchanged, but the Group benefited from positive movements on trade debtors and other payables. Advance payments were £40.9m (2010/11: £54.6m) with the prior year balance benefiting from some large receipts immediately prior to the 2010/11 year end.

Capital expenditure of £32.1m (2010/11: £30.7m) was higher than depreciation, but lower than previously forecast mainly reflecting the phasing of cash spend on planned Improvement Plan projects.

The Group ended the year with net debt of £24.8m (2010/11: £31.2m), lower than previously forecast, largely reflecting the positive trading noted above combined with a tax refund received in the year and the cash phasing on committed capital expenditure projects.

The Group utilises a £175.0m revolving credit facility which expires in September 2013. Key financial covenants on this facility require that the interest cover be greater than four times and the net debt to EBITDA ratio be less than three times.

Analysis of the Group's assets/(liabilities) and related cash/(debt) by currency

	2012 Group assets/ (liabilities) £m	2012 Group cash/ (debt) £m	2012 Net assets/ (liabilities)† £m	2011 Net assets/ (liabilities) £m
Sterling	**(102.8)**	**(9.6)**	**(112.4)**	(55.8)
US dollar	**22.5**	**(18.9)**	**3.6**	4.6
Euro	**52.1**	**0.7**	**52.8**	55.1
All other	**3.5**	**3.0**	**6.5**	9.4
	(24.7)	**(24.8)**	**(49.5)**	13.3

†Excluding non controlling interest.

Capital structure
At 31 March 2012 the Group had net liabilities of £45.6m (2010/11: net assets £16.8m), predominantly reflecting the increase in retirement benefit obligations and dividends paid.

The Company had shareholders' funds of £204.8m (2010/11: £173.3m) and had 99.5m fully paid ordinary shares in issue (2010/11: 99.2m) at the year end.

Interest charge
The Group's net interest charge was £4.1m, marginally up on the prior year (2010/11: £3.8m). The IAS 19 related finance cost, which represents the difference between the interest on pension liabilities and the expected return on assets, has reduced to £1.3m (2010/11: £3.3m) as a result of an additional £35.0m special contribution made in 2010/11.

Principal exchange rates used in translating the Group's results

	2011/12 Average	2012 Year end	2010/11 Average	2011 Year end
US dollar	**1.60**	**1.60**	1.55	1.61
Euro	**1.16**	**1.20**	1.17	1.14

Pension deficit and funding
The Group's latest formal (triennial) funding valuation of the UK defined benefit pension scheme took place on 5 April 2009 and identified the scheme had a deficit of £204m (5 April 2006: £56m deficit). A new valuation as at 5 April 2012 has commenced. During 2011/12, special funding payments of £23.1m were made to the Group's pension fund.

IAS 19 – Employee Benefits
The assumptions used to calculate the IAS 19 valuation in the consolidated accounts are set by the Group in compliance with the guidance given in IAS 19 and advice from its actuary. The discount rate used for calculating IAS 19 liabilities is the yield prevailing on AA rated corporate bonds.

The valuation of the UK pension scheme under IAS 19 principles indicates a scheme deficit pre tax at 31 March 2012 of £143.3m (2010/11: £100.5m) an increase of £42.8m despite the ongoing special contributions of £23.1m paid during the period. This change primarily reflects the increase in the projected value of scheme liabilities following the reduction in the discount rate from 5.6 per cent to 4.8 per cent. The charge to operating profits in respect of the UK pension scheme for 2011/12 was £7.8m (2010/11: £7.6m). In addition, under IAS 19 there was a finance charge of £1.3m arising from the difference between the expected return on assets and the interest on liabilities (2010/11: £3.3m).

The IAS 19 calculation is sensitive to small changes in the base assumptions used in the valuation. An indication of the sensitivity is as follows:

	Change in assumption	Change in liability
Discount rate	+0.1%	-£15m
	-0.1%	+£15m
Inflation rate	+0.1%	+£11m
	-0.1%	-£11m

RISK AND RISK MANAGEMENT

De La Rue's reputation is based on security, integrity and trust. The risks outlined in this section represent the principal major uncertainties and trends which may have an impact on De La Rue's ability to implement effectively its future strategy.

This report summarises the types of risks which are either specific to De La Rue or which could have a material adverse effect on the Group, together with the controls which have been put in place to manage those risks.

Each business unit and every Group function has developed and maintains a risk register, capturing significant risks to which the relevant business unit is exposed or which have been identified as a risk to the Group by the relevant function.

These risks are reviewed on a regular basis by the Risk Committee, which identifies those risks which could have a material adverse impact in the context of the Group as a whole, and which are then reported to the Board.

The UK Corporate Governance Code requires the Board to maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets and at least annually to conduct a review of the effectiveness of the Group's system of internal controls. During the year, the Board carried out its annual review which covered all material controls, including financial, operational, legal and technology controls and risk management systems. Additionally, the Board received information about the Group's operations throughout the year enabling it regularly to evaluate the nature and extent of the risks to which the Group is exposed.

Internal control
The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. It relies on the Audit and Risk Committees to assist in this process. Significant changes to the risk assessment procedures were introduced two years ago to improve the management of risks at the business unit and functional levels. These have been maintained with a further review undertaken by external risk advisers which has assisted the Board in identifying some additional structural changes to strengthen further the area of risk management and activities overseen by the Risk Committee. Changes to the Group's risk management framework and processes are underway and these will be reported more fully in the 2013 Annual Report. Details of the Audit and Risk Committees are set out in the Corporate Governance Statement on page 43.

Management is responsible for implementing the controls which are designed to meet the particular needs of the Group, and the risks to which it is exposed, with procedures intended to provide effective internal control. The controls by their nature are designed to manage rather than eliminate risk and can only provide reasonable but not absolute assurance against material misstatement or loss. The processes used by the Board and, on its behalf, by the Audit and Risk Committees, have been in place throughout the year, and include reviewing:

- Monthly finance, operational and development reports
- Internal and external audit reports
- Significant issues identified by internal and external audits
- Significant Group risks and risk mitigation actions reported by the Risk Committee including updates to the Group's risk register
- Annual compliance statements in the form of self audit questionnaires
- Reports on other matters such as security, health, safety, environmental issues and fire risks

RISK AND RISK MANAGEMENT
CONTINUED

Risk management and governance structure

Board
- Responsible for governance structure
- Defines high level risk appetite and risk management framework
- Receives reports from Audit and Risk Committees on risk and internal controls

Audit Committee
- Advises the Board on the adequacy of internal controls and risk management framework
- Receives updates on risk management from the Chairman of the Risk Committee
- Receives reports from internal and external auditors on the status of internal controls
- Details of Audit Committee members can be found on pages 34 and 35

Risk Committee
- Proposes risk management framework
- Reviews business and Group risk registers
- Considers actions to improve management of risk
- Considers new or emerging risks
- Members include the Chief Executive, Group Finance Director, General Counsel and Company Secretary, business unit managing directors, the Group Director of Security and the Group Director of Risk and Internal Audit

Risk owners and managers
- Responsible for operational management and oversight of risk within individual businesses or functional areas
- Allocation of appropriate levels of resource for individual risk control

Internal financial control
The financial control framework includes the following key features:

- An annual strategic planning process
- An annual budget
- A system of monthly reporting by each operating unit which involves comparison of actual results with the original budget and the updating of a full year forecast
- Monthly reporting of performance to the Board
- Audited annual financial statements
- Interim financial statements reviewed by the auditors

The main controls which address the financial implications of the major business risks are centred on strict approval procedures. These are reviewed annually, approved by the Board and apply to all subsidiaries. They include:

- Executive Directors' approval of all major non routine revenue expenditure
- Board approval of all major capital expenditure
- Board approval of all acquisitions and disposals
- A system of authorisation limits which cascades throughout the Group
- Board consideration of any matter likely to have a material effect on the Group

Capital management
The Board's policy is to maintain a strong capital base and modest levels of net debt in order to maintain investor, creditor and market confidence and to sustain development of the business. Further details on capital management can be found in note 12 to the accounts on page 78.

Treasury, foreign exchange and borrowing facilities
The Group Treasury department provides a central service to Group companies and conducts its operations in accordance with clearly defined guidelines and policies, which have been reviewed and approved by the Board. Treasury transactions are only undertaken as a consequence of underlying commercial transactions or exposures and do not seek to take active risk positions. It is Group Treasury's role to ensure that the Group has sufficient available borrowing facilities to meet its needs in the foreseeable future.

Details of financial risk management can be found in note 12 to the accounts on page 73.

The principal risks identified by the Risk Committee and reported to the Board in 2011/12 are set out below. These are not presented in any particular order of potential materiality or probability of occurrence. It is not an exhaustive list as some risks may be as yet unknown and other risks, currently regarded as immaterial, could become material.

Health and safety failure

Risk
All of De La Rue's activities are subject to extensive internal Health, Safety and Environmental (HSE) procedures, processes and controls. Nevertheless, there is a risk that failure of process could, in the worst case, lead to a serious injury or fatality.

Mitigation
The Group has detailed health and safety standards which are internally audited and supplemented by certification to the OHSAS18001 standard in all major facilities providing regular independent external audit verification. As part of the HSE management system, global audits of legal compliance with HSE requirements are undertaken at all major sites annually. The Group HSE Committee reviews HSE performance regularly. 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. HSE performance is reported to the Board monthly. Travel security for employees is also kept under regular review, with enhanced arrangements introduced this year including for repatriation in the event of a serious illness or injury whilst overseas.

Non compliance/illegal behaviour by third parties acting outside the law or De La Rue policies

Risk
In some countries De La Rue relies on the services of third parties to represent its interests. There is a risk that third parties such as suppliers or agents could operate in a manner contrary to the Group's strict policies on ethical business conduct or the law, exposing the Group to potential reputational damage as well as possible financial loss as a result of disbarment from tenders.

Mitigation
The Group has a process for the appointment and remuneration of third party partners (TPPs) which operates totally independently of the sales function. The process includes a risk assessment of TPPs with external specialists engaged to undertake due diligence as appropriate. The process covers, inter alia, the appointment, reappointment and remuneration of TPPs. Further control measures are also in place such as regular training for sales personnel, senior managers and TPPs on the Code of Business Principles and anti bribery and corruption issues with a particular focus on maintaining compliance with the UK Bribery Act. The TPP processes are subject to regular review by external advisers to provide further assurance. CodeLine (whistleblowing) procedures have also been expanded to encourage employees to report any suspicious conduct (see 'Unethical behaviour by employees' opposite). The behaviours of TPPs are strictly monitored and their management is overseen by the General Counsel and Company Secretary who reports directly to the Board.

Unethical behaviour by employees

Risk
There are already many controls across the business to ensure that standards of behaviour by employees are maintained at an appropriate level. However, it is possible that employees acting either individually or in collusion with others could act in contravention of the Group's stringent requirements resulting in major reputational and financial damage to the business.

Mitigation
The Code of Business Principles underwent a fundamental review and was relaunched. It is kept under regular review and is enforced robustly, including dealing with non compliances through disciplinary procedures where necessary. The Group's whistleblowing policies and procedures form an integral part of the new code and were also relaunched last year under the banner of CodeLine. Reports can be made anonymously, including by email, and are handled by a senior manager and reviewed routinely by the Board. Strict recruitment procedures are maintained including mandatory vetting (screening) processes which are reviewed on a regular basis.

Adverse movements in foreign exchange

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 euro. Any material exposure to foreign exchange risk could have a major effect on the Group's profits.

Mitigation
The Group aims to hedge between 60 and 100 per cent of foreign exchange exposure risk arising from future commercial transactions and recognised assets and liabilities. An annual review of hedging policy is presented to the Board.

Product security

Risk
There is the potential for reputational damage in the event of the loss of materials from a manufacturing site 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.

Mitigation
Security remains a key focus across De La Rue and there has been a significant strengthening of the corporate security function over the course of the year. Security performance is reviewed by the Executive Committee and reported monthly to the Board. Robust physical and audit security procedures at production sites reduce the risk of an inadvertent loss or theft during manufacturing. Movements of security materials between De La Rue sites and onward delivery to customers are conducted applying stringent operational procedures using carefully selected carriers and suitably screened personnel. All movements are risk managed and monitored globally on a 24/7 basis. Procedures are kept under continuous review with any incident or non compliance subject to rigorous investigation. De La Rue maintains a comprehensive, global insurance programme.

RISK AND RISK MANAGEMENT
CONTINUED

Environmental breach

Risk
De La Rue's main banknote paper manufacturing site is at Overton mill which is located in an environmentally sensitive area. Any significant environmental breach, such as unauthorised discharges, could result in immediate suspension of operations at the site.

Mitigation
Environmental awareness is afforded high priority at all De La Rue manufacturing sites and particularly at Overton. To ensure continued compliance with regulations, constant monitoring of all key operating parameters is in place with regular testing of discharge water against performance criteria agreed by the Environment Agency. Controls and specialist personnel are in place on a continuous basis throughout the year, with regular training and awareness programmes in place for all employees. Ninety two per cent of our Supply Chain sites have achieved ISO14001:2004 accreditation.

Information security

Risk
The confidentiality, integrity and availability of information systems (IS) could be affected by factors that include human error, ineffective design or operation of key controls or through malfunction or deliberate attack. Outages and interruptions could affect the Group's ability to conduct day to day operations and any compromise of the confidentiality of information could impact its reputation with current and potential customers.

Mitigation
De La Rue keeps all aspects of IS security arrangements under regular review. There are a number of controls in place to manage this risk including network segregation, access restrictions, system monitoring, security reviews and vulnerability assessments of infrastructure and applications. Disaster recovery plans are in place to assist in the prompt recovery from significant system outages or interruptions. Business continuity arrangements, including business impact assessments and regular testing are kept under regular review and are subject to independent external verification.

Breach of competition regulations

Risk
Breach of competition regulations could result in significant financial penalties as well as reputational damage and disbarment from tenders.

Mitigation
Regular training takes place for all sales and other personnel who may have contact with competitors, for example at industry forums or during formal tender processes.

Failure to achieve the Improvement Plan

Risk
As detailed in the Chief Executive's review on pages 8 to 9 the Group is in the process of implementing a major programme of change. Failure to manage this process could result in disruptions to the business or dilution of the intended benefits.

Mitigation
A dedicated and fully resourced change team has been established under the full time guidance of a member of the Executive Committee. A controlled project improvement process is in place with proactive business engagement and early mitigation of key risks wherever possible.

Loss of key site

Risk
There are a number of key manufacturing sites across the business. The total loss of any one of these key sites could have a major financial impact, particularly where the site forms a single source of supply for the business.

Mitigation
It is a key focus to ensure that site risks are clearly prioritised and resourced and actions taken, wherever possible, to eliminate or minimise these risks. The development, updating and testing of business continuity plans is also an essential component in maintaining assurance for the continuity of operations. The Group aims to achieve the highest standards of risk engineering to minimise risks, particularly from fire hazards and the use of flammable solvents.

Geopolitical instability

Risk
Political unrest has the potential to delay procurement decisions for sensitive products such as banknotes and passports. Unexpected changes in key government positions may result in the unilateral cancellation of contracts under local jurisdiction. Breakdown of law and order can also disrupt freight schedules and increase shipping and delivery risks.

Mitigation
Close and regular contact is maintained with all key stakeholders so that any changes in customer requirements can be identified early. Financial risk exposure is mitigated through the use of secured payment mechanisms such as letters of credit or through close management of costs prior to receipt of payments.

CORPORATE RESPONSIBILITY

De La Rue takes seriously its responsibility to manage the business in an ethical and sustainable way. We work hard to ensure that good corporate responsibility policies and practices are incorporated in our day to day activities and relationships with our stakeholders.

FTSE4Good

De La Rue Advanced Partner Programme
During the year we launched the De La Rue Advanced Partner Programme in Rwanda, which included partnering with Rwanda Aid to fund the building of classrooms, providing a clean, safe and modern learning environment for c900 pupils, as well as a street children's village in the south west of the country.

De La Rue is also sponsoring the Rwanda Entrepreneurship Week and African Innovation Prize Award 2012 through a charity run by Cambridge University. The charity works alongside the Kigali Institute of Science and Technology to inspire entrepreneurship and provide grass roots funding for potential new initiatives by introducing over 120 of the brightest Rwandan students to the fundamentals of running and leading their own business.

Accountability and management processes
The Board receives monthly reports on corporate responsibility issues and is ultimately responsible for assessing the impact of these on De La Rue's business and for setting appropriate policies for the Group. The Chief Executive is the Board member with designated responsibility for corporate responsibility, supported by:

- The Executive Committee, which is responsible for the day to day management of corporate responsibility
- The Risk Committee, which discusses corporate responsibility at its meetings in the context of monitoring the effectiveness of internal control systems
- The Health, Safety and Environment Committee, whose responsibilities include making recommendations on health, safety and environmental strategy and identifying areas for improvement

Workplace
Code of Business Principles
During the year the Code of Conduct was relaunched as the Code of Business Principles. Nearly every employee has attended a senior management presentation on the new code, received a copy of it and acknowledged that it has been read and understood. Further training is planned to deepen employee awareness of all aspects of the code, which outlines De La Rue's core commitments, what they mean and how they should be implemented throughout the organisation. It is supplemented by more detailed policies and covers the following areas:

- Bribery and corruption
- Conflicts of interest
- Gifts and hospitality
- Health, safety and the environment
- Employment principles
- Records and reports
- Protecting personal information
- Insider trading and confidential information
- Competition and anti trust laws

Whistleblowing
The Group's whistleblowing procedures enable employees who have concerns about the application of the Code of Business Principles or business practices within the Group to raise them internally or anonymously through an independently run telephone helpline, the De La Rue CodeLine. The Board and Audit Committee receive details about any issue raised and how it has been followed up. Each year the Audit Committee reviews the policy and procedures.

CORPORATE RESPONSIBILITY
CONTINUED

Sri Lanka celebrates
At year end our colleagues in Sri Lanka celebrated seven years without a reportable injury. Over the past few years, as we have increased investment at the facility, significant building work has been undertaken, making this a huge achievement during a period of considerable change at the site.

Third party partners
The Group third party partner (TPP) team continues to develop and refine the processes and procedures for the appointment and reappointment of distributors, sales agents and consultants. These processes are subject to audit and external verification. All applications for appointment, reappointment and renewal of TPPs are managed by this central team which reports directly to the General Counsel and Company Secretary. Due diligence is undertaken at an appropriate level on all TPPs. All TPPs receive training on the Code of Business Principles and De La Rue's expected ethical behaviour standards. During the year an online anti bribery training module for partners was launched, providing a consistent and auditable process.

Health and safety
De La Rue recognises its responsibility to safeguard the health and safety of all stakeholders affected by its operations and is committed to keeping employees safe and secure when they are at work and travelling for work. This is achieved through clearly defined responsibilities, good communication and training, hazard spotting, risk assessments and by implementing appropriate controls at all facilities.

None of De La Rue's operations have been prosecuted for infringing any health and safety laws or regulations during 2011/12.

The Executive Committee and the Board receive confirmation that the business units and functions comply with Group policy and applicable laws through external and internal audits on their management systems, reports and measurement against action plans. These reports are used to develop effective improvement programmes.

One hundred per cent of our Supply Chain manufacturing sites have achieved OHSAS18001:2007 certification for their health and safety management system, which is externally audited.

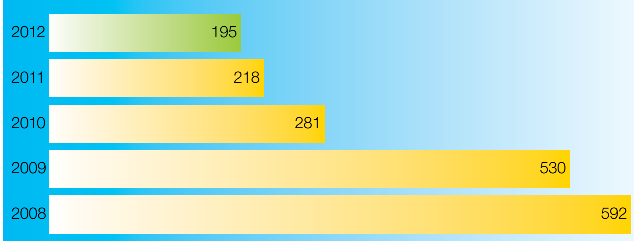
De La Rue works with its main suppliers and contractors to ensure their health and safety processes are robust. This year, in response to the many changes at our sites, including the implementation of a relocation of operations to Westhoughton and Gateshead and the installation of new machinery, we have put a renewed emphasis on contractor management. For example, at our Gateshead site, we reviewed our contractor management processes and training. Subsequently some 424 contractors have attended the new training.

The health and safety KPIs are shown opposite. The results are excellent; both the overall number of lost time accidents and the total days lost due to accidental injuries have reduced again this year. With organisational changes ongoing, we expect that in the coming year an even stronger emphasis will be required on health and safety training and setting health and safety related objectives for managers.

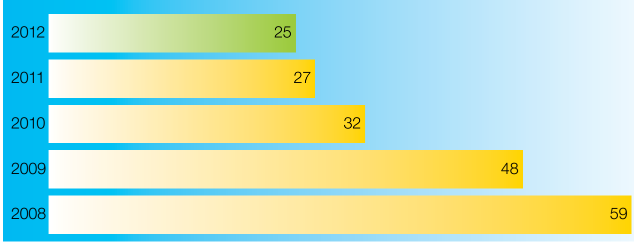
Achievements against our health and safety objectives for 2011/12 were:

- A successful 'Interlock 2011' integrated health, safety, environment and security conference was held in November 2011
- Significant resource was dedicated to the rollout of an internal cross site audit and compliance programme
- We maintained a reportable injury rate below our target

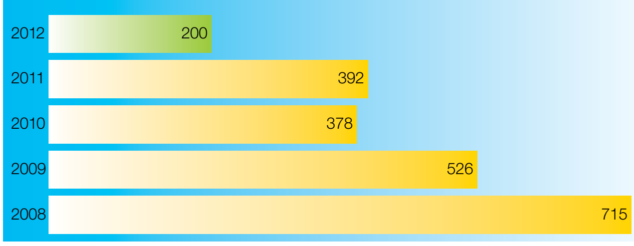
Total days lost due to accidental injuries



Total lost time accidents



Annualised reportable injury rate per 100,000 employees
Comparative UK manufacturing industry average:
2011: 672, 2010: 722, 2009: 851, 2008: 928



Health and safety objectives for 2012/13 are:

- To continue with our compliance audit programme and to carry out periodic cross site audits on good practices
- To maintain a reportable injury rate of 300 or lower
- To carry out a review of our occupational health provision ensuring that we maintain our good practices
- To hold 'Interlock 2012', an internal health, safety, environment, security and quality conference, in November 2012

Employees

The Group employs approximately 4,000 staff worldwide.

Significant changes have been made across the business during the year and many are still ongoing. The De La Rue leadership team is keen to understand how employees feel about the changes and what more can be done. During 2012/13 we are therefore planning to conduct an employee engagement survey, the results of which will be discussed in next year's Annual Report.

Training and development

The realignment of the business is nearing completion and a review of training and development is underway to ensure that employees are given the opportunity to fulfil their potential within the new structure. In the meantime De La Rue continues to identify training and development needs via business unit and Group talent reviews, and the personal development review process.

As part of De La Rue's learning and development strategy, UK Government funded courses continue to be implemented within De La Rue:

- National Vocational Qualifications (NVQ) are now a key part of our training programmes, ensuring consistency of provision across the business and promoting standardised practice. Over 200 employees signed up for fully funded NVQ courses during the year
- To improve the assessment of performance against standard operational practices, a standardised approach to confirming workplace competence has been introduced via a nationally accredited qualification. Twenty employees are now qualified as assessors and quality assurers and are being used as part of the site relocation project to ensure newly recruited staff meet internal workplace standards
- An accredited development programme aimed at middle managers in leadership and management is being piloted by 100 employees
- De La Rue continues to work in close partnership with the National Skills Academy for Materials Production and Supply, the Print and Paper Sector Skills Council, and providers within centres of excellence to ensure our programmes meet industry standards

CORPORATE RESPONSIBILITY CONTINUED

Communication
De La Rue communicates regularly with the unions representing its employees and its UK and European Works Councils. The UK National Employee Forum and European Employee Forum are both composed of elected employees, management representatives and employee nominated full time trade union officers. The Unite Union branch official with national responsibility for De La Rue serves as a permanent member of the UK and European Works Councils. A General Workers Union official from Malta is also a permanent member of the European Works Council.

During the year we successfully concluded a 90 day consultation with elected employee representatives regarding proposals to relocate our Holographics operation to our Westhoughton site and Security Print operations at Dunstable to our Gateshead facility.

A joint UK and European Forum meeting was held for the first time during the year. The meeting received a detailed briefing on the Improvement Plan from the Chief Executive. The event was very successful and will be repeated in 2012/13. In addition to the joint meeting, steering group meetings for both forums are held throughout the year and can be called for any special requirements.

Both forums receive formal updates on strategic business performance from senior managers and Executive Committee members. Open discussion and questions are encouraged. This year both forums were regularly informed and consulted on a job evaluation exercise at Gateshead and its implementation.

As part of De La Rue's continuing commitment to engagement with the works councils, in April 2012 representatives were invited to visit and tour the Gateshead site to share the results of the job evaluation exercise.

The communication processes at Group and local site level encourage employee engagement and broaden business understanding. In addition to the employee magazine and the intranet, the Chief Executive hosts regular conference calls in which all employees have the opportunity to participate and ask questions directly. He has also conducted a series of roadshows around major sites to present the Improvement Plan to employees.

Equality and diversity
De La Rue is committed to the fair and equitable treatment of its employees in recruitment, training, promotion and in terms and conditions of employment irrespective of gender, sexual orientation, religious beliefs, age, colour, ethnic or racial origin, nationality, disability or trade union membership. If an employee becomes disabled when in the Group's employment, full support is given through the provision of special training, equipment or other resources to facilitate continued employment wherever possible. Managers are required to ensure that employees understand their responsibility for the active implementation of the Group's policies. Details of De La Rue's human rights, equal opportunities, anti harassment and stress management policies are available on the Group's website.

To the extent permitted by relevant local laws, the Group monitors data on staff diversity to review policies and improve best practice.

A job evaluation exercise has been completed at Gateshead to ensure fairness and transparency within the site.

Environment
De La Rue endeavours to operate in a manner that minimises the environmental impacts of our activities, products and services.

None of De La Rue's operations have been prosecuted for infringing any environmental laws or regulations during 2011/12.

The organisation has a mature environmental management system. Ninety two per cent of our Supply Chain sites have achieved ISO14001:2004 certification.

The Group continues to measure greenhouse gas emissions, shown in the graph opposite, following the Greenhouse Gas Protocol, the most widely used international accounting tool for government and businesses. Overall greenhouse gas emissions were reduced by 3.9 per cent primarily through internal energy saving initiatives and investment in buildings infrastructure.

Water used per gross tonne of banknote paper produced is partly dependent on the volume, mix and complexity of the paper produced. This increased by 2.4 per cent during the year due to changes in manufacturing processes at Overton mill and the continuing focus on product quality. The rate of recycled water use at Overton mill has been maintained at c10 per cent of all water used.

Recycled and recovered solid waste as a percentage of all solid waste is dependent on the waste markets. De La Rue looks for any opportunities for recycling and recovery and various composting trials are ongoing in the UK. One continuing challenge for the business is the advance of the anti counterfeiting features in products which by their nature are complex to produce and can affect waste volumes. The Group nevertheless maintained its recycling and recovery rates and anticipates improvements in 2012/13 as a result of waste management initiatives introduced this year.

Four UK sites are currently operating under Climate Change Agreements that set energy reduction targets. De La Rue in the UK has also registered under the Carbon Reduction Commitment Energy Efficiency Scheme, and endeavours to increase energy efficiency and reduce carbon emissions in accordance with Government policy.

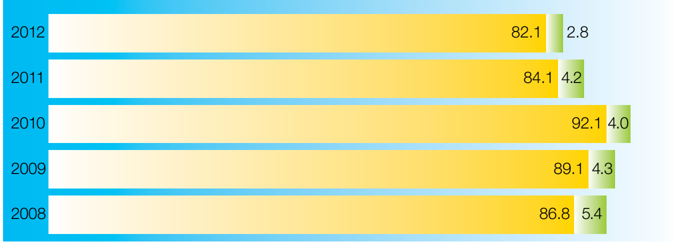
Examples of environmental achievements on a local and Group wide level over the past year include:

- De La Rue in Sri Lanka received an excellence award in the Visual Footprint Category at the 2012 Geo Responsibility Awards. The award is in recognition of De La Rue's performance and commitment to managing the environmental aspects of its operation
- An employee training programme leading to a nationally recognised award in Environmental Principles and Best Practice was introduced in Gateshead
- Supply Chain manufacturing sites embarked on a 'War on Waste' to improve resource efficiency
- Switching to LED lighting in manufacturing areas in Gateshead reduced the lighting related contribution to energy consumption by 50 per cent

Environmental objectives for 2012/13 are to:

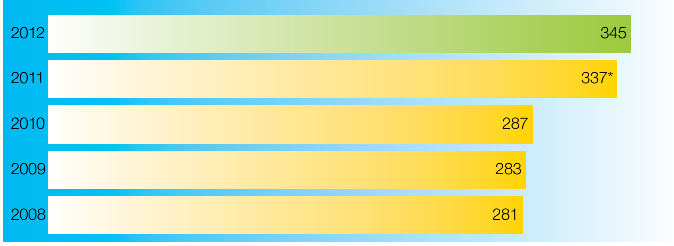
- Implement Group strategy for multi site ISO14001:2004 certification
- Reduce waste sent to landfill by 3 per cent each year during the three year period ending in 2013/14. The Group is on schedule to achieve this for continuing operations despite an increase this year due to business reorganisation
- Reduce energy consumption related to output by 3 per cent each year during the three year period ending in 2013/14. Overall energy consumption across the Group decreased by 6 per cent in 2011/12

Greenhouse gas emissions
'000 tonnes as CO_2
Transport emissions
Energy and production emissions

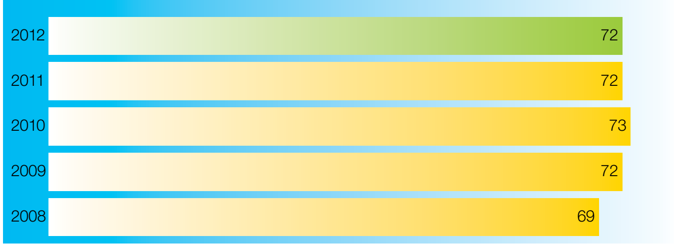


Water used per gross tonne of banknote paper
m^3

Note: Total water used (abstraction plus recycled) per production tonne of banknote paper produced at Overton. Production tonne definition here means production tonnes at standard weight including spoil less any paper trials. *2011 figure restated.



Recycled and recovered solid waste as a percentage of solid waste
Percentage



Community and charitable donations
From supporting local hospices in Kenya, Malta and the UK to donating books and computers to a children's educational centre in Russia, repainting classrooms for a school for autistic children and sponsoring and fundraising for local charities worldwide, our employees, facilities and factories continue to engage widely with local communities.

De La Rue is proud to support a variety of charitable causes on a local and international level. In 2011/12 Group donations for charitable purposes amounted to £93,000 (2010/11: £58,000), excluding donations made by the De La Rue Charitable Trust detailed below.

The Group operates a Give As You Earn scheme in the UK which enables employees to make regular donations to charity from their pre tax monthly salary. Donations are matched by De La Rue up to £500 per employee per annum and are included in the donation figure given above.

The De La Rue Charitable Trust aims to direct funds to appropriate causes in countries where De La Rue operates, emphasising educational projects promoting relevant skills, international understanding or relieving suffering. The Trust also matches funds raised by employees for charitable causes. During 2011/12, the Trust distributed £59,000 (2010/11: £46,000).

Marketplace

Customers

Customer focus is one of the pillars of the Improvement Plan and as part of our commitment to improving the products and services we provide, during the year Currency and CPS engaged a third party organisation to conduct a survey of their central bank and state print works customers. Feedback and comments were thoroughly reviewed, with team briefings taking place and appropriate action plans agreed to ensure that focus is maintained and that the customer is updated on progress made.

Suppliers

De La Rue continues to apply a consistent set of procurement policies and processes to deliver accountability, sustainable value for money and continuous improvement while enabling the Group to fulfil its legal and financial obligations and effectively manage risk. In particular, De La Rue expects its suppliers to share the Group's corporate responsibility values and commitment to ISO standards for HSE performance.

Overton mill sources cotton comber for use in banknote papermaking from a few key international suppliers. We continue to review these suppliers to ensure they comply with De La Rue's terms and conditions relating to the United Nations Convention on Rights of the Child and child labour and actively manage them by conducting child labour and employee working conditions audits.

Our Security Print site in the UK has been accredited with the FSC Chain of Custody status by the Forest Stewardship Council.

DIRECTORS AND SECRETARY

Nicholas Brookes (64)
Non-executive Chairman [2,3]
was appointed to the Board in March 1997 and became Chairman of the Company on 22 July 2004. Nicholas is Chairman of the Nomination Committee of the Board and a member of the Remuneration Committee. He is a director of Corporacion Financiera Alba SA, Axel Johnson Inc and the Institute of Directors. He will be retiring from his position as Chairman of the Company immediately following the Annual General Meeting on 26 July 2012.

Tim Cobbold (49)
Chief Executive [2,4]
was appointed to the Board as Chief Executive on 1 January 2011. Tim joined the Company from Emerson Electric Co following its acquisition of Chloride Group PLC, an international provider of secure power solutions, where he was initially chief operating officer and then, from 2008, chief executive officer. Prior to this, he was with Smiths Group plc where he held a wide variety of senior roles including a number of managing director positions. He is a chartered accountant and is a non-executive director of Drax Group plc.

Colin Child (54)
Group Finance Director [4]
was appointed to the Board on 1 June 2010. Colin was previously group finance director at DTZ Holdings plc, and prior to that he held roles as group finance director at Stanley Leisure plc, Fitness First Plc and National Express Group PLC. He is a chartered accountant and is a non-executive director of The Rank Group Plc.

Philip Rogerson (67)
Non-executive [2,3]
was appointed to the Board on 1 March 2012. Philip is currently chairman of Bunzl plc, Carillion plc and was, until 25 April 2012, chairman of Aggreko plc. He was an executive director of BG plc (formerly British Gas plc) from 1992 to 1998, latterly as deputy chairman and has subsequently held a number of non-executive appointments. He will succeed Nicholas Brookes as Chairman on his retirement following the Annual General Meeting on 26 July 2012.

Warren East (50)
Non-executive [1,2]
was appointed to the Board on 9 January 2007. Warren has been Chairman of the Audit Committee since 1 April 2009. He is chief executive officer of ARM Holdings plc, the world's leading semiconductor intellectual property supplier, a post he has held since October 2001, having joined in 1994. Prior to that, he worked for Texas Instruments Inc in a variety of roles.

Sir Jeremy Greenstock GCMG (68)
Non-executive [2, 3]
was appointed to the Board on 1 March 2005. From 1998 to 2003 Sir Jeremy served as Britain's UN Ambassador in New York and Permanent Representative on the UN Security Council. From 2003 to 2004 he served as HM Government's UK Special Representative for Iraq. He is chairman of Gatehouse Advisory Partners Limited, Lambert Energy Advisory Limited, and the UN Association – UK. He is also a trustee of the International Rescue Committee (UK) and a member of Chatham House Council. He is the Senior Independent Director.

Sir Julian Horn-Smith (63)
Non-executive [1, 2, 3]
was appointed to the Board on 1 September 2009. Sir Julian was until 2006 deputy chief executive officer of Vodafone plc, having joined as part of the founding team in 1984. He is a senior advisor to UBS Investment Bank and non-executive director at Bumi plc (previously known as Vallar plc), Digicel Group and was, until 17 May 2012, a non-executive director of Lloyds Banking Group plc. He was previously a non-executive director of Smiths Group plc from 2000 to 2006 and Sage Group plc from 2006 to 2007.

Victoria Jarman (39)
Non-executive [1, 2]
was appointed to the Board on 22 April 2010. Victoria started her career in 1995 with KPMG, before moving to Lazard Corporate Finance in 1998 where she was chief operating officer of Lazard's London and Middle East operations and a member of its European Management Committee. She has worked closely with the boards of major FTSE companies and businesses advising them on a variety of strategic options. She is a chartered accountant and a non-executive director and chairman of the Audit Committee of Hays plc.

Gill Rider CB (57)
Non-executive [1, 2, 3]
was appointed to the Board on 22 June 2006 and since 26 July 2007 has been the Chairman of the Remuneration Committee. Gill worked for Accenture for 27 years, latterly as global chief leadership officer, concentrating on organisation change, HR and leadership development. Most recently, she spent five years as Director General in the UK Government's Cabinet Office and as Head of the Civil Service Capability Group. She is president of the Chartered Institute of Personnel and Development and a non-executive director of Charles Taylor Consulting plc.

Edward Peppiatt (45)
General Counsel and Company Secretary [4]
was appointed as General Counsel of De La Rue plc on 1 March 2009 and as Company Secretary with effect from 1 April 2009. He is Chairman of the Risk Committee. Edward was previously general counsel and corporate secretary of Christian Salvesen PLC and before that practised as a corporate lawyer in the City.

[1] Member of the Audit Committee of the Board
[2] Member of the Nomination Committee of the Board
[3] Member of the Remuneration Committee of the Board
[4] Member of the Risk Committee of the Board.

Ages stated are those on 31 March 2012

SHAREHOLDERS AND SHARE CAPITAL

Issued Share Capital
As at 31 March 2012, there were 99,498,423 ordinary shares and 111,673,300 deferred shares in issue. The ordinary shares are listed on the London Stock Exchange.

Details of shares issued during the year are provided in note 18 to the Financial Statements on page 81.

Preemption rights and authority to allot
The Companies Act 2006 requires that any shares issued wholly for cash must be offered to existing shareholders in proportion to their existing holdings unless authorised to the contrary by a resolution of the shareholders. Resolutions giving such authority were passed in 2011. Authorities to renew for one year the power of Directors to allot shares pursuant to sections 570 and 573 of the Companies Act 2006 will be sought from shareholders at the Annual General Meeting (AGM). The Company was granted authority by its shareholders at the 2011 AGM to purchase a maximum of 10 per cent of its own ordinary shares either for cancellation or to be held in treasury (or a combination of these). No purchases have been made pursuant to this authority and a resolution will be put to shareholders to renew the authority for a further period of one year.

Takeover directive
Pursuant to section 992 of the Companies Act 2006, which implements the EU Takeovers Directive, the Company is required to disclose additional information as set out below.

Rights and restrictions on shares and transfers of shares
Certain restrictions, which are customary for a listed company, apply to the rights and transfers of shares in the Company. The rights and obligations attaching to the Company's ordinary and deferred shares, in addition to those conferred on their holders by law, are set out in the Company's Articles, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary. The key points are summarised below.

Ordinary shares
Notices of meetings must be given to every shareholder and to any person entitled to a share unless the Articles or the rights of the shares say they are not entitled to receive them from the Company. The Board can decide that only people who are entered on the register of members at the close of business on a particular day are entitled to receive the notice. On a show of hands, each holder of shares present in person and entitled to vote has one vote and, upon a poll, each such holder who is present in person or by proxy and entitled to vote has one vote for every share held.

Dividends and distributions on winding up to shareholders
Holders of ordinary shares may receive interim dividends approved by Directors and dividends declared in general meetings. On a liquidation and subject to a special resolution of the Company the liquidator may divide among members in specie the whole or any part of the assets of the Company and may, for such purpose, value any assets and may determine how such division shall be carried out.

Transfers of shares
The Company's Articles place no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them except: (i) in very limited circumstances (such as a transfer to more than four persons), (ii) where the Company has exercised its rights to suspend their voting rights or to prohibit their transfer following the omission by their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006, or (iii) where their holder is precluded from exercising rights by the Financial Services Authority's Listing Rules, the City Code on Takeovers and Mergers or any other regulations.

Deferred shares
Deferred shares carry limited economic rights and no voting rights. They are not transferable except in accordance with the Articles.

Dealings subject to the Model Code of the Listing Rules
Pursuant to the Listing Rules of the Financial Services Authority, Directors and other Persons Discharging Managerial Responsibilities and certain employees require the approval of the Company to deal in the ordinary shares of the Company.

Exercise of rights of shares in employee share schemes
Awards held by relevant participants under the Company's various share plans carry no voting rights until the shares are issued. The Trustee of the De La Rue Employee Share Ownership Trust does not seek to exercise voting rights on existing shares held in the employee trust. No shares are currently held in trust.

Substantial shareholdings
As at 31 March 2012, the Company had received formal notification of the following holdings of voting rights in its shares under the Financial Services Authority's Disclosure and Transparency Rules:

Persons notifying	Nature of Interest	% of issued ordinary share capital held
Prudential plc group of companies	Direct	12.89
Mondrian Investment Partners Limited	Indirect	5.80
Franklin Templeton Institutional LLC	Indirect	5.08
Ameriprise Financial, Inc	Direct	0.053
	Indirect	5.007
	Total	5.060
BlackRock Inc	Indirect	3.79
	Contracts for Difference	1.14
	Total	4.93
Kames Capital	Direct	2.90
	Indirect	1.06
	Contracts for Difference	0.05
	Total	4.01
Legal & General Group Plc*	Direct	3.86
Massachusetts Mutual Life Insurance Company	Indirect	3.03
Norges Bank	Direct	3.01

*On 11 May 2012 Legal & General Group Plc notified the Company that their holding had fallen below 3 per cent.

Relationship with shareholders
The Company places great importance on communications with and accountability to shareholders. A fully audited Annual Report and Accounts is made available to shareholders either in hard copy by post or via the Group's website and the Interim Statement is posted on the Group's website. Announcements are also regularly made by the Company through a Regulatory Information Service to the London Stock Exchange. The Chairman and the Senior Independent Director are available to meet key shareholders to discuss strategy, governance and other matters. All holders of ordinary shares are entitled to attend the AGM and receive a Notice of Meeting which is posted at least 20 working days before the AGM. They are also entitled to speak at general meetings of the Company, to appoint one or more proxies or corporate representatives, and to exercise voting rights. Shareholders may vote and appoint proxies electronically. At this year's AGM, voting on resolutions will be conducted on a poll. Results of the poll will be made available to shareholders on the Group's website. The Chairman will provide a trading update. The Chairmen of the Board Committees are also present. Shareholders may question the Board on these and other matters relating to the Group's business. Shareholders also have an opportunity to meet Directors informally after the meeting.

The share register is actively monitored. During the year meetings take place with individual institutional shareholders and analysts, and presentations are made at the time of major announcements. Additionally, the Chairman, Senior Independent Director, Executive Directors and some Non-executive Directors together with members of the Executive Committee met with major shareholders and analysts in July 2011. In February 2012, the Group hosted a sell-side analyst and investor presentation at its Gateshead facility, which included a tour of the site, to provide institutional investors and analysts with an overview of the business. The views of shareholders and analysts' and brokers' reports are reported to the Board and from time to time a survey of institutional shareholders' views is carried out by the Company's brokers.

Additional information to shareholders
Processes for the appointment and replacement of Directors are governed by the Company's Articles of Association, The UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Articles of Association may be amended by special resolution of shareholders. The powers of the Board are described in the Corporate governance statement on pages 40 to 44.

Annual General Meeting
The AGM will be held at 10:30 on Thursday 26 July 2012 at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS.

OTHER STATUTORY INFORMATION

Introduction
De La Rue plc is incorporated as a public limited company and is registered in England and Wales under the Companies Act 1985 with registered number 3834125 and has its registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS.

The Directors present their Annual Report for the period ended 31 March 2012, which includes the Business review, Corporate governance report and audited Financial Statements for the period. Pages 1 to 52 inclusive of this Annual Report comprise a Directors' Report which has been drawn up and presented in accordance with English law and the liabilities of the Directors in connection with that report are subject to the limitations and restrictions of such law. This Directors' Report also represents the management report for the purpose of compliance with DTR 4.1.8R of the UK Listing Authority disclosure rules.

The Business review contains certain forward looking statements which are subject to assumptions, risks and uncertainties; actual future results may differ materially from those expressed in or implied in such statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond De La Rue's ability to control or estimate precisely. The forward looking statements reflect the knowledge and information available at the date of preparation of this Annual Report, and will not be updated during the year. Nothing in this Annual Report should be construed as a profit forecast.

Payments to suppliers
The Company and Group's policy is that suppliers be paid on the basis of monthly summary invoicing plus 60 days subject to local laws or other exceptions. The average number of days' credit provided by suppliers to the Group has been calculated at 43 days (2010/11: 39 days). The Company does not have any trade payables.

Change of control
A number of agreements take effect, alter or terminate upon a change of control of the Company such as employee share plans as well as bank loan and certain commercial agreements. None of these is deemed to be significant in the context of the Group as a whole except for the following:

The £175.0m credit facility dated 11 March 2010 between the Company and four of its key relationship banks contains a provision such that, in the event of a change of control, any lender may, if it so requires, notify the agent that it wishes to cancel its commitment whereupon the commitment of that lender will be cancelled and all its outstanding loans, together with accrued interest, will become immediately due and payable.

A change of control will be deemed to have occurred if any person or persons acting in concert (as defined in the City Code on Takeovers and Mergers) at any time is/are or become interested in more than 50 per cent of the issued ordinary share capital of the Company.

Political donations
The Group's policy is not to make any political donations and none were made during the year. The Company will propose to shareholders at this year's AGM that the precautionary authority granted at the 2011 AGM, pursuant to the Companies Act 2006, be renewed and details are included in the Chairman's Letter and Notice of AGM.

Essential contracts or other arrangements
De La Rue confirms there are no persons with whom the Group has contractual or other arrangements which De La Rue considers are essential to its business in the context of the Group as a whole.

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements
The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- For the Group Financial Statements, state whether they have been prepared in accordance with IFRS as adopted by the EU
- For the Parent Company Financial Statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration report and Corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement in respect of the Disclosure and Transparency Rules

The Directors who held office at the date of approval of this report confirm to the best of their 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 management report represented by the Directors' Report includes 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

Provision of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

A resolution to reappoint KPMG Audit Plc as auditors to the Company will be proposed at the AGM.

By order of the Board

Edward Peppiatt
Company Secretary
29 May 2012

CORPORATE GOVERNANCE STATEMENT

General principles
The Board is collectively accountable to the Company's shareholders for good corporate governance and all Directors are responsible for complying with their legal and fiduciary obligations. The Board is firmly committed to complying with the highest standards of corporate governance, which is the system of internal principles, controls and processes it approves and by which the De La Rue Group is run in order to achieve its objectives while complying with the required standards of accountability and probity.

Compliance with The UK Corporate Governance Code
In the period to 31 March 2012, as detailed below and in the Remuneration report on page 45, the Company complied fully with the requirements of The UK Corporate Governance Code (the "Code"). The Code is publicly available at www.frc.org.uk

The Group's corporate governance procedures, which are approved by the Board, define the matters reserved to the Board, the terms of reference of various Committees of the Board and the functions delegated to these Committees as well as defining the jobs of the Chairman, Chief Executive, Group Finance Director and Non-executive Directors. The Company reviews and amends its corporate governance policies to reflect changes to legislation or good practice.

The Board approved the Code of Business Principles which strengthened, reinvigorated and replaced the existing Code of Conduct and defines the Group's business principles. This is discussed further in this section of the Annual Report and in the Corporate responsibility report on page 29. The document can be found on the Group's website.

The Company has complied with the provisions of the Code relating to internal control, which require the Board to review the effectiveness of internal controls and to have in place an ongoing process for identifying, evaluating and managing the key risks including financial and non financial, operational and compliance controls as well as risk management systems. As part of the Board's process for reviewing the effectiveness of the system of internal control, it delegates certain matters to the Audit Committee including:

- The review of external and internal audit plans
- Consideration of internal and external audit reports on the system of internal control
- Any material control weaknesses and discussions with management on the actions taken on problem areas identified by Board and Audit Committee members, in internal audit reports or in external audit management letters

This process has been in place throughout the year and up to the date of approval by the Board of the Annual Report and Accounts. The Board concluded its latest review in April 2012.

This does not extend to associated companies or joint ventures where the Group does not have management control.

Board of Directors

Board diversity
The Board noted the publication in February 2011 of Lord Davies of Abersoch's report *Women on Boards*, and the subsequent consultation undertaken by the Financial Reporting Council in relation to potential changes to the Code.

Women are already well represented on the Board of De La Rue plc. Twenty two per cent of the Board is currently comprised of women and this figure will increase to 25 per cent after Nicholas Brookes' retirement at the conclusion of the forthcoming AGM. The Board understands the benefits of greater board diversity and its aspiration and expectation is to maintain the proportion of women on the Board to at least the current level, while maintaining flexibility to ensure that all appointments are made on merit, regardless of gender. The Group's equality and diversity policy is discussed further in the Corporate responsibility report on page 32.

Composition of the Board
Following the appointment of Philip Rogerson (1 March 2012) the Board comprises six independent Non-executive Directors, the Non-executive Chairman and two Executive Directors. The Board has concluded that its composition throughout the year was and remains appropriately balanced.

There is a clear division between the management of the Board and the Executive Directors' responsibility for managing the Group's business. However, no individual or small group can dominate decision taking. The roles of the Chairman and Chief Executive are separated and clearly defined. The Chairman is primarily responsible for the working and leadership of the Board. The Chief Executive is responsible for running the business and implementing Board strategy and policy.

The Directors' biographies appear on pages 34 and 35 and the Board's policy is that the Chairman and Executive Directors should accept appointments to the boards of other companies only with the prior approval of the Board and that Non-executive Directors must seek the agreement of the Chairman and confirmation by the Board before accepting additional commitments that may affect the time they devote to their role.

Board changes
Nicholas Brookes will retire as Chairman and as a Non-executive Director following the AGM on 26 July 2012. Philip Rogerson joined the Board as a Non-executive Director and Chairman designate on 1 March 2012. Philip Rogerson is a highly experienced chairman and non-executive director with considerable international experience and well proven leadership skills.

The Non-executive Directors hold letters of appointment which will be displayed at the AGM, together with the Executive Directors' service agreements and Directors' indemnification agreements.

Philip Rogerson was appointed a Director since the last AGM and, being eligible, will offer himself for election at the AGM.

The Board has a policy that each Director be required to submit themself for annual re-election and accordingly all other Directors will retire and offer themselves for re-election.

The existing commitments of Directors appear on pages 34 and 35 and the Board is satisfied that these commitments do not conflict with their ability to carry out effectively their duties as Directors of the Company.

Subject to the provisions of relevant statutes, the Company's Articles and any directions given by special resolution, the Directors may exercise all the powers of the Company.

Succession planning
The Board reviews its composition at least annually, assessing the skills profile, diversity, type and number of Non-executive Directors required to enable the Board to perform effectively. On the recommendation of the Nomination Committee, Philip Rogerson was appointed a Non-executive Director and Chairman designate on 1 March 2012. He will succeed Nicholas Brookes as Chairman at the conclusion of the AGM on 26 July 2012. The Board also reviews the Group's internal talent review process in planning Executive Director and senior management succession.

Objectives of the Board
The Board agreed a number of specific areas for focus during 2011/12, including the following:

- Delivering value to shareholders and other stakeholders
- Strategic growth options and Improvement Plan
- Succession planning for the Chairman
- Risk management
- Adoption of practices to further enhance the effectiveness of the Board's procedures and working practices
- Remuneration strategy and policy and communication to shareholders to be led by the Chairman of the Remuneration Committee

Role and operation of the Board

The Board has a programme of fixed meetings during the year and it also meets on an ad hoc basis as required. The Board's core procedures are:

- Set out in the terms of reference for the Board, its Committees and Directors
- The control of risk through agreed evaluation and control procedures reviewed and revised annually
- To monitor the composition of the Board through the Nomination Committee

The Board has also reserved certain matters to itself to reinforce its control of the Group. Full details are set out on the Group's website. These include:

- Determining the responsibilities of Directors, in particular those of the Chairman and Chief Executive
- Approving internal control processes
- Approving the final and interim Financial Statements
- Approving, in conjunction with the Audit Committee, the recommendation of dividends
- Approving appointments to, and removals from, the Board and the terms of reference and membership of Board Committees
- Approving the Group's strategy and annual budget
- Authorisation of authority levels, financial and treasury policies and any acquisition or disposal

The Board delegates authority to run the business to the Chief Executive. The Chief Executive manages the Group's day to day activities and presents to the Board the strategic options for growth in shareholder value. In conjunction with the Executive Committee, comprising the business unit managing directors and other senior executives, the Chief Executive sets the operating plans and budgets required to deliver the agreed strategy. The role and responsibilities of the Chairman, Chief Executive, Group Finance Director, Senior Independent Director and other Directors are also clearly defined. Full details are set out on the Group's website. The Executive Directors and the Executive Committee operate within clearly defined limits of authority delegated by the Board.

The Board provides leadership of the Group within a framework of prudent and effective internal controls, including financial, operational and compliance controls and risk management systems. These are required to identify and manage the risks and their potential effect whilst ensuring that material changes are reported to the Board in a timely fashion. The Board reviews the effectiveness of those controls and systems and is assisted by the Audit and Risk Committees.

The controls by their nature are designed to manage, rather than eliminate, risk and can only provide reasonable but not absolute assurance against material misstatement or loss. Details of the processes and controls are set out more fully in the Risk and risk management report on pages 25 to 28. The Board reviews matters reserved to itself and the performance of management in achieving agreed goals and objectives at its meetings. The Board timetable ensures that the Board receives regular reports and presentations from the Executive Directors, operational managing directors and key functions. Directors receive agendas and Board papers generally five days before each Board meeting; minutes are circulated as soon as possible after the meeting. The Board reviews progress on implementing actions arising from the Board and its Committee meetings each month.

There is also a defined procedure for dealing with urgent matters between Board meetings.

Any Director can request additional information from management at any time. All Directors have direct access to the advice and services of the General Counsel and Company Secretary who is responsible for ensuring that Board procedures are followed. The Board decides the appointment and removal of the Company Secretary.

Board evaluation and effectiveness review

A performance evaluation of the Board and each of the Nomination, Remuneration and Audit Committees is carried out annually. The performance evaluation for 2011/12 involved the use of an external independent facilitator. The Risk Committee was evaluated by the Board. The process involved completion of online questionnaires which focused on Board composition, expertise and dynamics, Board support and process, structure, behaviours and key issues, such as strategy and succession, against delivery of the Board's objectives and addressing any issues identified during the previous review or which became relevant during the year. A report on the performance of the Board and each of the principal Committees was compiled by the external facilitator and presented to the Board and each relevant Committee as a tool for discussing and agreeing appropriate actions for the forthcoming year.

The Chairman and each Committee Chairman has discussions with each Director or Committee member based on the responses and each Director's own views regarding effectiveness of the Board or Committee as a whole and the individual Director's performance. The Senior Independent Director is responsible for appraising the Chairman's performance in discussions with the Non-executive Directors in the absence of the Chairman. The Chairman and the Non-executive Directors also meet in the absence of the Executive Directors. The Board and individual Committees considered the output from the review in May 2012 and concluded that the Board, its Committees and individual Director performance were effective. Any areas for improvement are agreed by the Board.

Conflicts of interests

Directors have a duty to avoid a direct or indirect interest which conflicts, or may conflict, with the interests of the Group unless that conflict has been authorised by the Board. Such conflict may arise by reason of a situation or a specific transaction. The Board has established a process to review at least annually and, if thought appropriate, authorise any conflict of interest and has carried out such review and authorised all Directors' situational conflicts. Any transactional conflicts are reviewed as they arise. Directors are asked to review and confirm reported conflicts of interests as part of the year end process.

Indemnity

To the extent permitted by the Companies Act 2006 and the UKLA Listing Rules the Company indemnifies certain officers so that the Company may advance defence costs in civil or regulatory proceedings on such terms as the Board may reasonably determine but any advance must be refunded if the Director or officer is subsequently convicted. The indemnity will not provide cover where the Director or officer has acted fraudulently or dishonestly.

Details of attendance at Board and Committee meetings

The number of Board meetings and Committee meetings attended by each Director during the year was as follows:

Directors' attendance 2011/12	Audit Committee	Board	Nomination Committee	Remuneration Committee
Number of meetings held	4	13	2	5
Nicholas Brookes	–	13	2	5
Colin Child	–	13	–	–
Tim Cobbold	–	13	2	–
Warren East	3	12	1	–
Sir Jeremy Greenstock	–	13	2	5
Sir Julian Horn-Smith	4	10	1	3
Victoria Jarman	4	13	2	–
Gill Rider	4	13	2	5
Philip Rogerson†	–	1/1*	–	–

†Appointed to the Board and Nomination and Risk Committees 1 March 2012

*Number of meetings held during the year while a serving Director

CORPORATE GOVERNANCE STATEMENT CONTINUED

Role of Non-executive Directors

The Non-executive Directors, all of whom are considered by the Board to be independent as at 31 March 2012, have an appropriate range of business, financial and international experience which is relevant to the Company's activities and which allows them constructively to assist in the development of strategy. None of the Non-executive Directors holds a material shareholding in the Company. Under the Code, Nicholas Brookes ceased to be independent after his appointment on 22 July 2004 as Chairman but the Board considers that his contribution and objectivity in Board and Committee discussions were fully consistent with those of an independent director.

Sir Jeremy Greenstock is the Senior Independent Director and shareholders may contact the Senior Independent Director if they feel their concerns are not being addressed through normal channels.

Non-executive Directors confirm on appointment and any reappointment that they are able to allocate sufficient time to enable them to discharge their duties properly. Directors who have been unable to attend Board or Committee meetings have made known their views on pertinent matters before the meeting.

Induction and training

All new Directors receive an induction on joining the Company, for which the Chairman is responsible. This covers such matters as the strategy, operation and activities of the Group (including key financial data, and business, social and environmental risks to the Group's activities), corporate governance matters such as the role of the Board and individual Committees, and the Company's corporate governance procedures as outlined in this report. They are advised on the duties and obligations of directors of a listed company. Site visits and meetings with senior management are also arranged. Any newly appointed Director, who has not previously been a director of a listed company, is invited to attend external training covering such duties and responsibilities. Directors are briefed, where appropriate, by the Company's internal and external advisers, on changes to legislation, regulation or market practice, as well as receiving briefings from individual businesses throughout the year. The Board received specific briefing on the key implications for the Company of the UK Bribery Act and on appropriate measures being adopted and implemented to address these. The Directors, especially Committee Chairmen, have the opportunity of attending appropriate training sessions.

The Board visits an operational site at least annually (Gateshead and Debden in 2011/12). Directors are also encouraged to visit other sites and meet with staff. The General Counsel and Company Secretary, in conjunction with the Chairman, ensures that there is proper communication between the Board and its Committees and senior management and that Non-executive Directors receive appropriate information. The Chairman reviews and the General Counsel and Company Secretary facilitates induction and other professional development as required.

Directors may take independent professional advice at the Company's expense, although no such advice was sought during the year.

Appointments and annual election

Following a decision by the Board in 2010, all Directors are required to submit themselves for annual re-election. New Directors are subject to election by shareholders at the first opportunity after their appointment. Non-executive Directors are appointed for an initial period of two years with the expectation of three such two year terms subject to satisfactory performance.

The Board may invite a Non-executive Director to serve a further term after six years following a detailed review at the end of this period, subject to re-election.

The Board, having carried out the effectiveness and evaluation process, considers the performance of each of the Directors standing for election and re-election at this year's AGM to be fully satisfactory and is of the opinion that they have demonstrated ongoing effectiveness and continued commitment to the role. The Board strongly supports their election and re-election and recommends that shareholders vote in favour of the resolutions at the AGM.

Corporate responsibility

Information on the Group's initiatives and commitment to corporate responsibility can be found in the Corporate responsibility report on pages 29 to 33.

Business ethics

De La Rue delivers high profile security print products to customers across the world, offering them security, confidence and efficiency. It is essential that the Group maintains the trust and confidence of its customers, and everyone it deals with, both inside and outside De La Rue, by demonstrating complete integrity in the way the Group and its business partners behave.

De La Rue has clear core values and principles which govern how the Group does business and which everyone within De La Rue must follow. The way De La Rue delivers these will be reflected in the way the Group competes for business and delivers its services.

All employees are required to follow the Code of Business Principles approved by the Board when performing their duties as employees or where they are representing De La Rue. In addition, all business partners worldwide must follow this Code of Business Principles when they are representing De La Rue.

More detailed policies and procedures supplement the Code of Business Principles. The main principles are that employees and, where relevant, business partners must:

- Not accept, offer or encourage bribes
- Comply with health and safety requirements and protection of the environment
- Comply with employment and data protection law
- Comply with competition/anti trust law
- Conduct business dealings with customers, suppliers and third parties honestly
- Avoid conflicts of interests in any business dealings
- Comply with the Company's Share Dealing Code

The policies have been reviewed and updated during the year and a programme of Code of Business Principles' refresher training will be rolled out during 2012/13. The Code of Business Principles is a key feature of the induction programme given to all new starters. Specific online training on competition law and working with third party partners (TPPs) is made available to relevant employees.

The policies and procedures related to the appointment and reappointment of and management of distributors, sales agents and sales consultants are regularly reviewed to drive continuous improvements of the management of bribery and corruption risks. The Group third party partner team continues to develop and refine the processes and procedures for the appointment of distributors, sales agents and consultants. All applications for appointment and reappointment of TPPs are managed by this central team which reports directly to the General Counsel and Company Secretary.

Due diligence undertaken on TPPs was extended during the year. An online training module focusing on anti bribery and corruption and other De La Rue policies was launched during the year for completion by TPPs, to create a consistent and auditable training platform.

Committees of the Board
The Board has established Audit, Remuneration, Nomination, General Business and Risk Committees with appointed Chairmen and fixed terms of reference which are reviewed annually. The terms of reference and duties of the Audit, Nomination, Remuneration and Risk Committees appear on the Group's website and are also available on request. The Board is satisfied that the Committees have the appropriate balance of skills, experience, independence and that they discharged their responsibilities satisfactorily. Membership of these Committees is given in the Directors' biographies on pages 34 and 35. Further details of Committees and key activities performed during the year are given in this Annual Report.

Nomination Committee
The Committee consists of six independent Non-executive Directors at the date of this report together with the Chairman and the Chief Executive.

The Committee meets at least once a year and otherwise as necessary and makes recommendations to the Board with regard to any vacancies for Executive or Non-executive Directors or changes that are considered necessary. The Committee has the power to employ the services of such advisers as it deems necessary in order to carry out its responsibilities. The Committee also reviews the time commitment required of Non-executive Directors at least once a year. The Board, as a whole, approves the appointment and removal of Directors and retains appropriate executive search consultants, having prepared a job specification for the particular role to be filled. The principal activity of the Committee under the leadership of Sir Jeremy Greenstock during 2011/12 was succession planning and the recruitment of Philip Rogerson, our new Non-executive Director and Chairman designate, following a rigorous recruitment process in conjunction with an external search consultant.

Remuneration Committee
Gill Rider was appointed to the Remuneration Committee in July 2006 and she has been the Committee Chairman since 26 July 2007. Details of the Committee and of the remuneration policy can be found in the Remuneration report on pages 45 to 52.

General Business Committee
The Committee meets when necessary to deal with routine matters arising between scheduled Board meetings. Only independent Non-executive Directors may decide matters relating to the administration or the implementation of the Company's share schemes (other than for the purpose of allotting shares on exercise).

Risk Committee
The terms of reference and the composition of the Risk Committee were amended recently. Core responsibilities of the Risk Committee are to:

- Assist the Board by assessing and reporting on the effectiveness of the Company's internal control and risk management systems
- Assist the Board in fulfilling its responsibilities by reviewing the framework for managing risks throughout the Group
- Provide an appropriate level of reporting on the status of risk management within the Group
- Promote awareness of internal control issues and risk management
- Provide an appropriate level of reporting to the Board, which retains the overall responsibility, on the status of internal risk management

The Committee, chaired by the General Counsel and Company Secretary, meets and reports to the Board at least twice a year. Other members of the Committee include the Chief Executive, Group Finance Director, heads of the principal functions, all business unit managing directors, Group Director of Risk and Internal Audit and the Group Director of Security. Any Director is entitled to attend any meeting. At the year end, following review by the Audit Committee of internal financial controls and of the processes covering these controls, the Board evaluates the results of the risk management procedures conducted by senior management.

The Committee is assisted by Group wide committees which deal with specific areas of risk such as the Health, Safety and Environment Committee and the Security Committee.

Details of risk management and particular risks within the Group are set out on pages 25 to 28.

Audit Committee
Warren East was appointed Chairman of the Audit Committee on 1 April 2009. He is the chief executive of a listed company with strong financial experience. In addition, Victoria Jarman had relevant financial experience with Lazard Corporate Finance and before that KPMG. All members of the Audit Committee are independent Non-executive Directors. The external auditors, Chairman, Chief Executive, Group Finance Director, General Counsel and Company Secretary and the internal auditors, Ernst & Young LLP, attend each meeting at the invitation of the Committee Chairman. Ernst & Young LLP and KPMG Audit Plc each meet the Committee without Executive Directors or employees of the Company being present.

The Audit Committee provides an independent overview of the effectiveness of the internal financial control systems and financial reporting processes. Its principal responsibilities include:

- The appointment of the external auditor and the agreement of terms of engagement at the start of each audit and the external audit fee
- Approving and reviewing progress on audit plans across the businesses and the effectiveness of the internal audit
- Reviewing the integrity of the interim and full year Financial Statements
- Reviewing and monitoring the external auditor's independence and objectivity
- Reviewing reports on the effectiveness of the Group's whistleblowing procedures and arrangements, details of which are set out on pages 27 and 29

During the year, the Audit Committee met on four occasions and dealt with the following additional matters:

- Reviewed the Company's TPP process
- The risk management assessment process

Internal audit
Assurance over the design and operation of internal controls across the Group is provided through a combination of techniques. The Board through the Audit Committee monitors the effectiveness of internal control systems through reports received from the internal audit function during the year. The internal audit function is outsourced to Ernst & Young LLP. Internal audit continued to ensure that efforts were better aligned to the operational risks that De La Rue faces while maintaining an emphasis on reviewing the adequacy and effectiveness of general finance and IT controls across the Group on a cyclical basis. In addition to internal audit work, management operate a system of self assessment internal control reviews, where management are required to detail and certify controls in operation to ensure the control environment in their business areas is appropriate. Actions agreed are followed up by senior management to ensure that satisfactory control is maintained. The internal audit plan is set and reviewed by the Audit Committee. Additionally, the Audit Committee reviews reports from the external auditors (KPMG Audit Plc (KPMG)) on internal control matters noted as part of their audit work.

Auditors
The Audit Committee assesses annually the qualification, expertise and resources and independence of the external auditors and the effectiveness of the audit process. The Audit Committee's assessment is performed by an audit satisfaction questionnaire completed by the Chairman, relevant senior management and Audit Committee members.

KPMG have been the Company's auditors since 11 October 2006. The Audit Committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness. During the year, the Audit Committee considered the tenure, performance and audit fees of the external auditor, and the level of non audit work undertaken, and recommended to the Board that a resolution for the reappointment of KPMG for a further year as the Company's auditor be proposed to shareholders at the AGM in July 2011. The resolution was passed and KPMG was reappointed for a further year.

KPMG's Senior Statutory Auditor has served as the Group's audit engagement partner for six years, one more than would usually be the case. The one year extension, which is permitted in certain circumstances, was considered necessary by the Audit Committee in order to preserve audit quality in the context of the issues facing the Group in 2010/11 and the changes in executive management. A new audit engagement partner will be responsible for the audit of the Group's 2013 Annual Report and Accounts.

The Audit Committee places great emphasis on the objectivity of the Group's auditors, KPMG, in reporting to shareholders.

The KPMG audit partner is present at Audit Committee meetings to ensure communication of matters relating to the audit. The Audit Committee has discussions with the auditors, without management being present, on the adequacy of controls and on judgemental areas and receives and reviews the auditors' highlights reports and management letters which are one of the main outputs from the external audit.

The scope and key focus of the forthcoming year's audit is discussed with, and approved by, the Audit Committee.

Independence and objectivity of auditors
The Audit Committee has a detailed policy covering:

- Choosing the statutory auditor and approving the audit fee
- Commissioning non audit work
- Defining circumstances in which it is appropriate or inappropriate for incumbent auditors to be allowed to provide or prohibited from providing non audit work
- De La Rue's procedures for procuring non audit services from external sources, which specifically prohibits KPMG from undertaking certain types of service (including but not limited to services where it would audit its own work, where it would act in an advocacy role for the Group or where it would participate in activities normally undertaken by management)

It may be cost effective for KPMG to perform certain non audit services, in particular where the skills and experience required make KPMG the most suitable supplier. Certain categories of non audit services, including corporation tax compliance and due diligence services, must be subject to competitive tender unless it is justifiable in the circumstances not to do so. Areas which would not normally be acceptable non audit services but in exceptional circumstances may be considered appropriate, such as litigation and compliance services, require the specific prior approval of the Chairman of the Audit Committee. The selection criteria include detailed proposals, timescales, local resource, cost and the safeguards put in place by KPMG. In addition, any individual assignment to be undertaken by KPMG where the fee is likely to be in excess of £50,000 must be approved by the Audit Committee prior to any commencement of work. During 2011/12 the amount of non audit fees paid to KPMG was £0.3m.

The safeguards KPMG put in place avoid compromising their objectivity and independence. They report to the Audit Committee on how they comply with professional and regulatory requirements and best practice designed to ensure their independence. Key members of the KPMG audit team rotate and the firm ensures, where appropriate, that confidentiality is maintained between different parts of the firm providing services to De La Rue.

A copy of the Corporate governance statement will be made available on the Group's website.

By order of the Board

Edward Peppiatt
Company Secretary
29 May 2012

REMUNERATION REPORT

Letter from the Chairman of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration report for the period ended 31 March 2012, for which the Company will be seeking approval from shareholders at the AGM on 26 July 2012.

In 2010/11, we highlighted the rationale for changes that were made to the remuneration arrangements during a period of great uncertainty for the Group following the exceptional and well publicised challenges that the Group faced in 2010.

The exceptional circumstances required the Remuneration Committee to make one off changes to the executive pay arrangements. The rationale for the exceptional changes was fully disclosed and explained in the Remuneration report 2011.

The Improvement Plan announced in May 2011 sets stretching targets to grow revenues, reduce costs and return the business to achieve a 2013/14 operating profit in excess of £100m. The Board has been pleased with the improved financial performance during 2011/12. The Improvement Plan, the reorganisation of the business and the increased emphasis on supply chain management are already improving efficiency and performance. The Group's operating profit margin increased by 3.2 percentage points to 11.9 per cent as reported in the Chief Executive's review on page 8. De La Rue's improved total shareholder return compared with the FTSE 250 index is demonstrated in the TSR chart on page 52.

The Group is in a better position than it was in 2010/11 and there is a much greater level of understanding of the business among the investment community. The Improvement Plan is a three year project and considerable changes still need to be made. Accordingly, incentive arrangements which focus the Executive Directors and the wider senior management team on De La Rue's profitability continue to be important.

We reported that the Remuneration Committee would be reviewing the policy and the principles to ensure that the executive remuneration framework serves the best interests of shareholders.

I have ensured that our largest shareholders have been kept informed of proposals on executive remuneration during the year under review and this report provides additional details.

The main points are as follows:

- Basic salaries for the Executive Directors have been increased by 3 per cent from 1 April 2012 consistent with increases for the majority of UK employees
- The awards under the Performance Share Plan will revert to a maximum of 100 per cent of salary down from 150 per cent in 2011/12
- Maximum payments under the Annual Bonus Plan remain unchanged at 100 per cent of salary for the Chief Executive and 80 per cent of salary for the Group Finance Director with an additional maximum of 35 per cent of salary payable to both in deferred shares

Our main aims have been to ensure simplicity of design in our pay arrangements and to continue the focus on profit and efficiency.

Gill Rider
Chairman of the Remuneration Committee
29 May 2012

Introduction to the Remuneration report
The Remuneration report provides the information required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and describes how the Company applied the principles of The UK Corporate Governance Code (the "Code").

Constitution of the Remuneration Committee
The Remuneration Committee comprises: Gill Rider (Chairman), Nicholas Brookes, Philip Rogerson (from 1 March 2012), Sir Jeremy Greenstock and Sir Julian Horn-Smith. The Remuneration Committee consists entirely of Non-executive Directors all of whom are considered to be independent (as defined by the Code), except the Chairman of the Company, who was independent until his appointment as Chairman on 22 July 2004. Their biographical details appear on pages 34 and 35. The Committee meets as required. Five meetings were held during the period and attendance details are set out on page 41. Its remit is to determine the Group's policy for executive remuneration, to determine the remuneration packages of the Chairman, Executive Directors and certain other senior executives who report to the Chief Executive, including pension rights and compensation payments, and to oversee the implementation and operation of share incentive schemes. Details of how the Committee has carried out these responsibilities are set out in this report. Terms of reference for the Committee are set out in full on the Group's website.

The Remuneration Committee adopts the principles of good governance as set out in the Code and complies with the Listing Rules of the Financial Services Authority.

The Chief Executive and the Group Director of Human Resources are normally invited by the Remuneration Committee to attend meetings of the Committee. The General Counsel and Company Secretary, who is also Secretary to the Committee, advised on governance issues.

No one is present when his or her own remuneration or contractual terms are discussed and no one is involved in the decision making on their own remuneration. The Chief Executive is consulted on the remuneration of executives directly reporting to him and other senior executives and seeks to ensure a consistent approach across the Group.

Advisers
The Committee is authorised to use independent consultants. During 2011/12 Towers Watson UK Limited (Towers Watson) was appointed by the Remuneration Committee to advise on executive remuneration. Towers Watson has also provided ad hoc pensions advice. New Bridge Street (an Aon Hewitt company) advised on whether the performance targets which determine the vesting of share options were achieved.

Both Towers Watson and New Bridge Street are members of the Remuneration Consultants' Group which oversees the Code of Conduct in relation to executive remuneration consultancy in the UK.

General policy
The Group operates in a competitive market and is committed to achieve sustained improvements in performance as part of the Improvement Plan and this depends crucially on the individual contributions of each of the executive team and of employees at all levels. The Group's remuneration policy aims to align the interests of the Executive Directors and other senior executives with those of shareholders. The Committee believes that variable performance related pay and incentives should account for a significant proportion of the overall remuneration package of Executive Directors so that the remuneration of Executive Directors is aligned with the Group's performance. Performance related pay accounts for at least 60 per cent of pay for maximum levels of attainment.

The Remuneration Committee benchmarks key roles against similar positions in comparable companies and obtains detailed information from external and internal sources about current market practices. Key roles include Executive Directors and members of the Executive Committee. The Remuneration Committee is sensitive to the fact that the market data can be inflationary and uses the data carefully.

Performance targets set for the incentive schemes are designed to provide maximum awards for exceptional performance. The incentive schemes are designed to enhance the alignment between Executive Directors and shareholders with due consideration to business requirements and shareholder interests.

The Remuneration Committee has discretion to consider other factors, such as ethical behaviours, corporate responsibility, environment and health and safety matters as it sees fit when determining incentive targets.

In setting the Group's executive remuneration policy, the Remuneration Committee believes that the Group should provide:

- Competitive rewards, which will attract and retain high calibre employees with the skills and commitment to drive performance and which reflect individual responsibilities and experience
- Incentive arrangements which are fair, competitive, simple to understand and transparent. They should also be subject to challenging performance targets reflecting the Group's objectives to motivate senior executives to focus on both annual and longer term performance

The simplicity of design arising from the changes in 2011/12 has helped maintain focus which, in the Remuneration Committee's view, is now serving the Group well.

Main components of remuneration
Executive Directors' remuneration is provided in the form of:

- Basic salary
- Annual awards under the Annual Bonus Plan (ABP) (cash plus deferred shares)
- Annual awards under the Performance Share Plan (PSP)
- A range of typical benefits which include cash payments in lieu of pension

Details of the emoluments of the Executive Directors during the period are in the table on page 49.

Changes in 2011/12
As outlined in last year's Remuneration report, the Remuneration Committee made changes in 2011/12 to the policy in respect of the PSP, but this did not affect the level of annual bonuses, or the operation of the PSP. The ABP was simplified by introducing a single performance measure of earnings per share (EPS) to replace operating profit and cash flow. Under the PSP, EPS growth and relative total shareholder return measured against the FTSE 250 were replaced by operating profit which determines the vesting of shares awarded in 2011/12. The target is linked to the Improvement Plan target to achieve a 2013/14 operating profit in excess of £100m.

The Remuneration Committee enhanced the maximum level of awards to Tim Cobbold and Colin Child in respect of the 2011/12 awards under the PSP to 150 per cent of salary as described more fully below.

Salaries for Executive Directors for 2012/13
The Remuneration Committee has decided that with effect from 1 April 2012, the base salaries of the Executive Directors will be increased by 3 per cent and this is consistent with increases across the majority of De La Rue's UK workforce. There were no increases in 2011/12. The Remuneration Committee, taking into account performance, experience and responsibilities, determines the basic salary for each Executive Director. Executive Directors' salaries are reviewed annually by the Remuneration Committee and managed generally having regard to employees' pay and conditions elsewhere in the Group.

When assessing salaries in the market place, the Remuneration Committee makes prudent use of the survey data supplied by Towers Watson Limited, focusing on companies of similar size and complexity in the FTSE 250.

Annual Bonus Plan and Performance Share Plan

The ABP and PSP were approved by shareholders at the July 2010 AGM. The intention continues to be that both plans will be used to make annual, performance linked awards to executives. Further information on the plans is found below and on page 50.

Annual Bonus Plan

Under the ABP the annual bonus is paid in a combination of cash and share based elements with a mandatory holding period for shares of three years, calculated as a percentage of salary and is based on achieving business targets for the year set by the Remuneration Committee. The maximum bonus opportunity as a percentage of salary is 135 per cent for the Chief Executive, Tim Cobbold (which comprises a cash element of 100 per cent of salary and a deferred share element with a maximum of 35 per cent of salary) and 115 per cent for the Group Finance Director, Colin Child (80 per cent cash and a maximum 35 per cent in deferred share bonus). The cash portion of the award is paid immediately subject always to the achievement of the performance criteria and the payment of the share based portion of the award is made at the end of three years if the individual remains in employment. The Committee considers each year the appropriate performance measures to align the reward strategy with the business plan.

The ABP is structured so that there is no payment unless a minimum performance threshold has been achieved and the maximum payout will only be made if stretching and challenging targets are met.

In 2011/12, the ABP had a single performance criterion of EPS. The Group's strong growth in revenue and profit resulted in an increase in headline EPS over the year of 81 per cent to 43.5 pence. This resulted in payments of 80 per cent of the maximum cash portion of the award and 80 per cent of the maximum deferred share portion of the award for the Executive Directors.

Details of Executive Directors' emoluments for the year are shown on page 49.

EPS growth will remain the sole performance criterion for the ABP in 2012/13. The Remuneration Committee, as before, will set stretching targets. Bonuses will only be paid in full if De La Rue's performance is exceptional.

Performance Share Plan

The purpose of the PSP is to provide executives and selected senior managers with a long term incentive award that promotes long term value creation for shareholders and reinforces the alignment of interest between the participants and shareholders.

Special arrangements under the PSP for 2011/12

As reported previously, the Remuneration Committee agreed some important changes to the PSP for 2011/12. On an exceptional basis share based awards were made under the PSP of 150 per cent of salary for both Tim Cobbold and Colin Child. At the same time, the proportion of shares that vest at threshold was reduced from 50 per cent of the award to zero at threshold. To ensure absolute focus on delivering the Improvement Plan, the Remuneration Committee decided that operating profit should be the sole performance measure that determines the vesting of awards made in 2011/12.

For the 2011/12 awards, threshold performance is an operating profit of £85m at the end of the three year performance period which is expected to equate to approximately 30 per cent compound annual EPS growth. Target performance will be linked to the Improvement Plan target (£100m of operating profit) and for Executive Directors, shares to the value of 100 per cent of salary on grant will vest at target. The shares will only vest in full for operating profit performance of £115m which is expected to be the equivalent of a compound annual growth in EPS in excess of 45 per cent. The Remuneration Committee believes this is extremely challenging and is fully aligned with the Improvement Plan. The Remuneration Committee also believes that this is preferable to a lower level of award with less stretching growth targets.

PSP Awards 2012/13

The Remuneration Committee will consult with major shareholders and voting guidance services before awards are made.

Share retention policy

The Committee believes it is important that the interests of the Executive Directors should be closely aligned with those of shareholders. The Committee adopted a policy that certain key executives (being Executive Directors and other members of the Executive Committee) should be encouraged to hold and retain a personal shareholding in the Company equivalent to one times salary over a period of five years. The Directors' share interests table is on page 48.

Benefits

All Executive Directors and certain senior employees are eligible for a range of taxable benefits which include provision of a car allowance, cash payments in lieu of pension contributions, membership of a private medical scheme and life assurance and reimbursement of the annual subscription to an appropriate professional body. In addition, the Chief Executive and Group Finance Director are provided with permanent health insurance.

Executive Directors' service agreements

Tim Cobbold and Colin Child have rolling service agreements allowing 12 months notice period from the Company and six months' notice from the executives. Both contain provision, at the Company's sole discretion, for payment in lieu of notice not exceeding 12 months basic salary, excluding bonus but including benefits.

Tim Cobbold's service agreement dated 12 December 2010 has a provision which allows him, in the event of a change of control or Court sanctioning a compromise or arrangement under the Companies Act 2006, to give the Company not less than one month's notice and, subject to such notice, the Company will make a payment in lieu of notice of one year's salary (excluding bonus) and the cost of providing contractual benefits for a period of 12 months. This provision was negotiated as part of Tim Cobbold's recruitment arrangements and was deemed to be necessary to secure his agreement to join the Company.

Colin Child's service agreement dated 20 May 2010 has a provision, which expired on 10 November 2011, which entitled him in the event of a change of control to give the Company not less than one month's notice. A payment in lieu of notice in accordance with his service agreement would have been payable under such circumstances.

In determining compensation for early termination of a service contract, the Remuneration Committee carefully considers the specific circumstances, the Company's commitments under the individual's contract and the individual's obligation to mitigate loss.

External directorships of Executive Directors

The Board considers whether it is appropriate for an Executive Director to serve as a non-executive director of another company and has agreed the appointments below. Tim Cobbold is a non-executive director of Drax Group plc. Colin Child is a non-executive director of The Rank Group Plc. In each case the relevant Director was permitted to retain the fees as shown in the table below:

External directorship fees

	Payment received £
Tim Cobbold	52,500
Colin Child (for the period 1 January 2012 to 31 March 2012)	10,000

Directors' share interests (audited information)

The interests in ordinary shares of 44 152/175p of Directors holding office at the end of the financial year are set out below.

	31 March 2012 Total number of shares	26 March 2011 Total number of shares
Nicholas Brookes	**37,408**	37,408
Tim Cobbold	**14,813**	14,813
Colin Child	**14,813**	14,813
Warren East	**4,314**	4,314
Sir Jeremy Greenstock	**1,492**	1,492
Sir Julian Horn-Smith	**1,500**	1,500
Victoria Jarman	**1,481**	1,481
Gill Rider	**454**	454
Philip Rogerson (appointed 1 March 2012)	**–**	–

There have been no changes in Directors' interests in ordinary shares since 31 March 2012. All interests of the Directors and their families are beneficial.

Pension

All Executive Directors and senior executives in the UK may join the HM Revenue & Customs registered De La Rue Defined Contribution Pension Plan (the Plan). Senior executives who were members of the closed defined benefit sections of the De La Rue Pension Scheme (the Scheme) before October 2010 may, instead of joining the Plan, remain in that Scheme until it closes to future accrual in 2013.

Executives who have reached the Lifetime Allowance are offered the option of remaining in pensionable service and incurring a personal tax charge, known as the Lifetime Allowance Charge, on any excess benefits or opting out of pensionable service and receiving a cash allowance in lieu of pension contribution. Executive Directors and senior executives who are entitled to pension contributions in excess of the Annual Allowance will be offered the option of receiving the balance of their entitlement above the Annual Allowance as a cash allowance in lieu of pension contribution. The Committee has decided that the Group will not compensate any Executive Director or employee for any additional tax which may be payable as a result of a member reaching the Lifetime Allowance or exceeding the Annual Allowance.

Details of each Executive Director's pension arrangements are detailed below.

Tim Cobbold is eligible for a pension contribution of 30 per cent of his basic salary. Contributions of £50,000 were made into the Plan for him during the year; contributions in excess of this, amounting to £85,000, were paid to him as a cash allowance. He has elected to receive a cash allowance of 30 per cent of his salary in lieu of future pension contributions from 1 April 2012. He is covered for a lump sum on death in service of four times his basic salary; in addition, the accrued value of the contributions made to the Plan will be used to provide further benefits for his dependants.

Colin Child is covered for a lump sum on death in service of four times his salary. During the year the Company made a contribution to his self invested personal pension plan of 25 per cent of his basic salary amounting to £78,750. He has elected to receive a cash allowance of 25 per cent of his salary in lieu of future pension contributions from 1 April 2012.

The cash allowance to Tim Cobbold is included in the Directors' emoluments table on page 49.

Directors’ emoluments (audited information)

	2012 Salary and fees £’000	2012 Annual Bonus Plan[(a)] Cash £’000	2012 Annual Bonus Plan[(a)] Shares deferred for three years £’000	2012 Pension Allowance[(b)] £’000	2012 Other benefits (excluding pensions) £’000	Total to 31 March 2012 £’000	2011 Total £’000
Executive Directors							
Tim Cobbold	**450**	**360**	**126**	**85**	**28**	**1,049**	153[(c)]
Colin Child	**315**	**202**	**88**	**–**	**21**	**626**	262[(c)]
James Hussey (resigned 12 August 2010)	**–**	**–**	**–**	**–**	**–**	**–**	152
Simon Webb (resigned 31 May 2010)	**–**	**–**	**–**	**–**	**–**	**–**	375
	765	**562**	**214**	**85**	**49**	**1,675**	942
Non-executive Chairman[(d)]							
Nicholas Brookes	**165**	**–**	**–**	**–**	**–**	**165**	165
Non-executive Directors[(d)]							
Warren East	**47**	**–**	**–**	**–**	**–**	**47**	47
Sir Jeremy Greenstock	**40**	**–**	**–**	**–**	**–**	**40**	40
Sir Julian Horn-Smith	**40**	**–**	**–**	**–**	**–**	**40**	40
Victoria Jarman	**40**	**–**	**–**	**–**	**–**	**40**	38
Gill Rider	**47**	**–**	**–**	**–**	**–**	**47**	47
Philip Rogerson (appointed 1 March 2012)	**3**	**–**	**–**	**–**	**–**	**3**	–
Aggregate emoluments	**1,147**	**562**	**214**	**85**	**49**	**2,057**	1,319

Notes

(a) The figures above represent emoluments earned as Executive Directors during the relevant financial period and include the cash element of the ABP for 2011/12 which is paid immediately in the year following that in which it is earned. The ABP also comprises an element of deferred shares, the value of which is capped at 35 per cent of salary on grant. The shares are conditionally awarded based on the market share price at the time of award following announcement of the full year results. They are deferred for three years. The deferred share portion of the award shown in the table above represents the cash value on grant of the number of shares to be awarded

(b) The pension allowance shown in the table above relates to cash in excess of pension contributions paid to Tim Cobbold. In addition to the cash allowance, the Company paid contributions of £50,000 on Tim Cobbold’s behalf into the De La Rue Defined Contribution Pension Plan, which are not shown in the table above. The Company also paid contributions of £78,750 directly into Colin Child’s self invested personal pension plan which are not shown in the table above. The pension arrangements for Executive Directors are described on page 48

(c) The 2011 emoluments for Tim Cobbold and Colin Child represent amounts earned subsequent to their appointment on 1 January 2011 and 1 June 2010 respectively. No awards were made under the ABP in respect of this period

(d) The Remuneration Committee and the Board determine the fees for the Chairman and Non-executive Directors respectively and these are based on independent external advice

Directors’ share options (audited information)

The awards over De La Rue plc shares held by Executive Directors under the PSP, Recruitment Share Award, Retention Share Award (see page 51 for details of the Recruitment Share Award and the Retention Share Award) and Sharesave Scheme during the period are detailed below:

	Date of award	Total award as at 26 March 2011	Exercised during year	Awarded during year	Lapsed during year	Awards held at 31 March 2012	Mid market share price preceding date of award (pence)	Market price at exercise date (pence)	Performance targets (see below)	Date from which exercisable	Expiry date	Average fair value per share[(a)] (pence)
Tim Cobbold												
Recruitment Share Award	Jan 11	65,549	–	–	–	**65,549**	686.50	–	–[(b)]	Jan 14	Jan 21	687
Performance Share Plan	Jan 11	65,549	–	–	–	**65,549**	686.50	–	–[(c)]	Jan 14	Jan 21	597
	Jun 11	–	–	88,839	–	**88,839**	759.80[1]	–	–[(c)]	Jun 14	Jun 21	734
						219,937						
Sharesave options	Dec 11	–	–	1,245	–	**1,245**	722.66[2]	–	–[(b)]	Mar 15	Aug 15	210
Colin Child												
Retention Share Award	Jan 11	45,884	–	–	–	**45,884**	686.50	–	–[(b)]	Jan 14	Jan 21	687
Performance Share Plan	Jan 11	45,884	–	–	–	**45,884**	686.50	–	–[(c)]	Jan 14	Jan 21	597
	Jun 11	–	–	62,187	–	**62,187**	759.80[1]	–	–[(c)]	Jun 14	Jun 21	734
						153,955						
Sharesave options	Dec 11	–	–	1,245	–	**1,245**	722.66[2]	–	–[(b)]	Mar 15	Aug 15	210

[1] Mid market value of an ordinary share averaged over the five dealing days immediately preceding award date

[2] Mid market value of an ordinary share averaged over the three dealing days immediately preceding grant date

Notes

(a) Estimated value of award at time of grant (see also note 19 to the Financial Statements)

(b) No performance conditions are attached to the awards under the Recruitment Share Award, Retention Share Award and the Sharesave Scheme

(c) Details of the performance conditions attached to the PSP are set out on pages 47 and 50

Share awards under the ABP in 2012 are excluded from the above Directors’ share options table as the awards had not been made at the date of this report.

Dividend Shares

An additional award of shares may be released on the vesting date in respect of awards under the PSP, Recruitment Share Award and Retention Share Award equivalent in value to the amount of dividends that would have been received since the award date in respect of the number of shares that the executives acquire. As at 31 March 2012 and based on the prevailing market share price on the respective dividend record date the dividend shares accrued and assuming full vesting as appropriate pursuant to the relevant plan rules were as follows:

Tim Cobbold: 11,942 ordinary shares

Colin Child: 8,359 ordinary shares

The closing mid market price of De La Rue plc shares at 31 March 2012 was 900p and the highest and lowest mid market prices during the year were 1001p and 730p respectively.

Current schemes

Sharesave Scheme

All UK employees may join the Company's HM Revenue & Customs approved Sharesave Scheme. Options are granted over De La Rue plc shares, at the prevailing market price at the time of grant (with a discretionary discount to the market price), to employees who agree to save between £5 and £250 per month over a period of three or five years. A grant was made in December 2011 at a price of 722.66p which was at a 20 per cent discount and 24 per cent of eligible employees participated.

Under the current Rules of the Scheme, this arrangement is due to expire on 17 July 2012. The Company is seeking approval to extend the terms of the Sharesave Scheme for an additional 10 years. In addition, a number of minor amendments are proposed in order to update the statutory references which apply to the Scheme. Further details are included in the Explanatory Notes to the Notice of the AGM accompanying this Annual Report.

US Employee Share Purchase Plan

The US Employee Share Purchase Plan (USESPP), established under Section 423 of the US Internal Revenue Code, provides a competitive incentive for US employees to invest up to 10 per cent of basic salary each year in the Company's shares, subject to the statutory limit (currently US$25,000 worth of shares). No performance conditions are attached to options under the USESPP. The Tenth Offering under the USESPP began on 1 January 2012 and 21 per cent of eligible employees participated. The purchase price is 85 per cent of the lower of the market value of a De La Rue share either at the beginning or end of the offering period of 31 December 2012.

Similar to the Sharesave Scheme, this arrangement is due to expire on 17 July 2012 and the Company will seek to extend the term of the USESPP for an additional 10 years. Details are included in the Explanatory Notes to the Notice of AGM.

Existing share plans

The Company established the ABP and the PSP in July 2010. The plans are designed to provide rewards that align the interests of executives with those of shareholders and which are in line with both the Group's short term and long term performance goals.

Annual Bonus Plan

Awards under the ABP are made to Executive Directors and selected senior executives on achievement of the annual bonus targets set at the beginning of the financial year, and comprise both a cash element and a share element.

The maximum market value of all shares over which any individual may be granted a share award in any financial year under the ABP shall not exceed an amount equal to 35 per cent of salary.

Share based awards under the ABP may only vest after three years from the date of grant while the award holder remains an employee within the Group. Awards may vest early where employment ceases in specified good leaver circumstances and awards in these circumstances will vest in full.

Additional shares may be made equivalent in value to the amount of dividends that would have been received since the award date under the ABP in respect of the number of shares that the participant acquires under the ABP.

Performance Share Plan

The PSP was approved by shareholders in 2010. Awards are made annually to Executive Directors and selected senior executives generally following the announcement of results.

The maximum market value of all shares over which any individual may be granted awards in any financial year under the PSP shall not exceed an amount equal to one times his or her salary at time of award other than in exceptional circumstances. It is currently intended that all share awards for UK participants will be made as nil cost options (which may be exercised by the participant following the third anniversary of the award date up to a date no later than the tenth anniversary of the award date) although awards may take the form of either a conditional allocation or forfeitable shares.

As noted on page 47 both Tim Cobbold and Colin Child received awards under the PSP in 2011/12 to the value of 150 per cent of salary.

Awards under the PSP for the financial year 2010/11 are subject to two performance measures. Over the performance period, 60 per cent of the award is subject to achievement of an annual rate of increase in EPS in excess of RPI. Where EPS exceeds RPI by 3 per cent compound per annum, 50 per cent of the award will vest, rising on a straight line basis to full vesting where EPS increase exceeds RPI by 5 per cent compound per annum. If the minimum target is not achieved, the proportion of awards subject to the EPS test will not vest.

The remaining 40 per cent of the award is based on the Company's total shareholder return (TSR) relative to the TSR of the companies in the FTSE 250 index excluding investment trusts over the three year performance period, with 50 per cent of this portion of each award vesting if the Company's TSR is at least at the median in the comparator group, rising on a straight line basis to full vesting for upper quartile performance.

EPS was chosen because it is a key performance indicator for the business and for shareholders. Relative TSR was chosen because it is a measure that is familiar to our institutional shareholders.

There will be no retesting of either of the performance targets.

Under normal circumstances, awards may only vest after three years and if the relevant post grant performance targets have been met. Awards may be allowed to vest early where employment ceases in specified good leaver circumstances and in these circumstances performance conditions and apportionment for the time that the award has been held shall be applied.

If there is a change of control of the Company by way of a general offer, or if there is a general offer following a change of control or there is a voluntary winding up, awards will vest early. Under the ABP, awards vesting early will vest in full. Under the PSP, unless the Remuneration Committee determines otherwise, apportionment for the time that the award has been held shall be applied, subject to the extent to which the performance targets have been fulfilled.

The Company may transfer additional shares to participants equivalent in value to the amount of dividends that would have been received since grant in respect of the number of shares that the participants acquire under the PSP.

At the time the PSP was introduced and following consultation with major shareholders on the principal features of the PSP, the Remuneration Committee placed a reduced emphasis on relative TSR because management had little influence over TSR performance. The greater emphasis on EPS performance was considered to be fair and appropriately challenging with a range intended to require stretching performance for all awards to vest, aligning shareholder and management interests.

The Remuneration Committee decided that PSP awards made in 2011/12 should be subject to a single operating profit performance measure as described on page 47 of this report.

Special arrangements

Recruitment Share Award and Retention Share Award

As previously disclosed in the 2010/11 Remuneration report, Tim Cobbold and Colin Child received recruitment and retention awards of shares respectively on 31 January 2011.

Features common to both awards are as follows:

- The value of the awards on grant was 100 per cent of salary
- Shares will normally vest three years after the award date and in Colin Child's case provided he remains with the Company
- There are no performance criteria attached to vesting
- The shares will vest in the event of a change of control
- The awards are not pensionable

Specific to Recruitment Share Award: The award will vest after a termination of service, provided that the termination was not for cause (ie misconduct or in any of the circumstances allowing for summary dismissal under Tim Cobbold's service agreement). Vesting after termination would take place on the third anniversary of grant, although the Remuneration Committee has the power to accelerate.

Specific to Retention Share Award: In the event that Colin Child ceases employment under the good leaver provision, the Remuneration Committee will consider pro rating awards for time from the award date to cessation of employment.

The Remuneration Committee is of the view that the special share awards were fully justified for the recruitment of Tim Cobbold as Chief Executive and the retention of Colin Child as Group Finance Director given the internal and external challenges facing the Group and that shareholders will benefit from these exceptional arrangements. The terms of the special share awards together with awards under the PSP will enhance the alignment between the Executive Directors and shareholders and these decisions were taken with due consideration to business requirements and shareholder interests.

The Board may choose to satisfy an award with either new or existing shares. Accordingly, no firm commitment has been entered into to issue shares, nor has any decision to do so yet been made. The choice need not be made until the time at which an award is exercised, but the authority to allot any such new shares on a non pre emptive basis would be that conferred by shareholders on 21 July 2011.

Superseded schemes

Deferred Bonus and Matching Share Plan

The Company established the Deferred Bonus and Matching Share Plan (the Plan) in July 2005 which, following a review in 2007, was extended until 2010 although no awards were made in 2010. The Plan was replaced with the PSP and ABP as detailed on page 50 of this report.

Awards of deferred allocations of shares (Deferred Shares) were made to former Executive Directors and selected senior executives based on the achievement of annual performance targets to be satisfied before the awards were made.

The number of Deferred Shares will be matched by additional free shares (Matching Shares) which will be released on the third anniversary of the allocation of the Deferred Shares provided predetermined performance targets are satisfied and the participant is still employed within the Group.

There are two performance targets, each one of which applies to allocations of up to 50 per cent of the Matching Shares. Fifty per cent is based on the achievement of an annual rate of increase in EPS of a De La Rue share over the annual rate of increase in RPI of a minimum of 3 per cent per annum. If the minimum target is not achieved, no matching share allocation subject to the EPS test will be awarded. If EPS increases by 5 per cent or more above the annual rate of increase in RPI, the eligible participant will receive 100 per cent of Matching Shares subject to the EPS test, with intermediate straight line vesting.

The remaining 50 per cent of the Matching Share element is based on De La Rue's TSR relative to the TSR of the companies comprising the FTSE 250 excluding investment trusts over the relevant period. The proportion of any matching allocation subject to this test will be 50 per cent for median performance, and 100 per cent for upper quartile performance, with intermediate straight line vesting.

No Matching Shares will be released for performance below that which qualifies for the minimum number of Matching Shares.

An additional award of shares will be released on the vesting date equal in value to the amount of dividends which would have been payable on the Deferred Shares over the performance period.

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) was introduced in 2006 to retain key individuals who were not eligible for the Deferred Bonus and Matching Share Plan. The LTIP is a cash based plan under which participating employees may, subject to the performance measure being met, receive up to 20 per cent of their annual salary as a cash payment at the end of three years after an allocation is made. Executive Directors do not participate in this plan.

The performance measure is EPS. The test is achievement of an annual rate of increase in earnings per share which is at least 3 per cent over the annual rate of increase in RPI. At the minimum achievement a cash payment equivalent to 15 per cent of annual salary is payable while an EPS increase of 5 per cent or more above the annual rate of increase in RPI will result in 20 per cent of annual salary being payable.

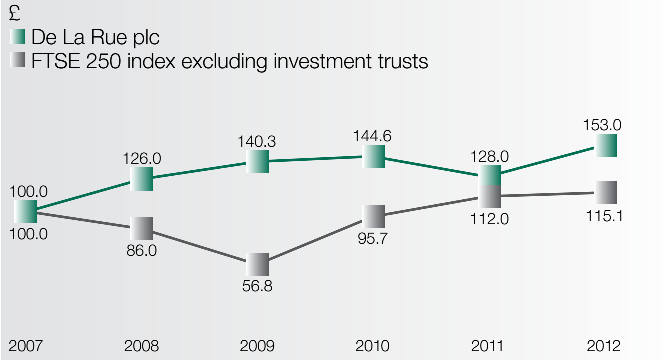
Executive Share Option Plan (ESOP)

The Executive Share Option Plan, which expired on 17 July 2006 for the purpose of grants of options, provided for the grant of options at a price equal to the average market value of a De La Rue plc ordinary share over the three dealing days immediately preceding the date of grant, with a performance condition based on the achievement of an earnings per share growth target. At 31 March 2012, 2,454 executive share options remained outstanding (2010/11: 10,562). Executive Directors do not hold any executive share options.

The ESOP was replaced by the LTIP.

Dilution limits
The share incentives operated by the Company comply with the Association of British Insurers share dilution guidelines.

Total shareholder return performance graph
The graph below shows the value, by 31 March 2012, of £100 invested in De La Rue plc on 31 March 2007 compared with the value of £100 invested in the FTSE 250 index excluding investment trusts, assuming in each case the reinvestment of dividends. The other points plotted are the values at intervening financial year ends. The FTSE 250 has been chosen as the index as De La Rue is a constituent. (Source: Thomson Reuters)



Total shareholder return

Non-executive Directors
Non-executive Directors do not have service contracts and have letters of appointment specifying fixed terms of office. Terms of appointment are initially for two years with the expectation of three such two year terms. The Board may invite Non-executive Directors to serve a further term after a six year term following a detailed review. The Non-executive Directors' current terms of appointment are detailed below:

Non-executive Director	Current expiry of appointment	Date of first appointment
Warren East	8 January 2013	9 January 2007
Sir Julian Horn-Smith	1 September 2013	1 September 2009
Sir Jeremy Greenstock	28 February 2014	1 March 2005
Victoria Jarman	21 April 2014	22 April 2010
Gill Rider	21 June 2012	22 June 2006
Philip Rogerson	28 February 2014	1 March 2012

Nicholas Brookes was initially appointed as a Non-executive Director on 19 March 1997 and as Chairman of the Company on 22 July 2004. He will retire as Chairman and as a Non-executive Director following the Annual General Meeting on 26 July 2012.

Philip Rogerson was appointed a Non-executive Director and Chairman designate on 1 March 2012. He will succeed Nicholas Brookes as Chairman on his retirement.

Remuneration for Non-executive Directors
The Board determines the fees paid to Non-executive Directors taking into account market norms, comparator companies and the duties required of Non-executive Directors. Details of fees to the Chairman and other Non-executive Directors are set out on page 49. The Chairman did not receive a fee increase in 2011/12. The fees for Non-executive Directors were last increased in 2008 and the Board agreed an increase of 3 per cent in the fees for 2012/13. The Chairmen of the Audit and Remuneration Committees each receive an additional fee for their work. Non-executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's annual incentive arrangements, or share option schemes. No compensation is payable to the Chairman or to any Non-executive Director if the appointment is terminated early.

By order of the Board

Gill Rider
Chairman of the Remuneration Committee
29 May 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DE LA RUE PLC

We have audited the Financial Statements of De La Rue plc for the 53 week period ended 31 March 2012 set out on pages 54 to 94. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 39, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements
A description of the scope of an audit of Financial Statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on Financial Statements
In our opinion:

- The Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2012 and of the Group's profit for the 53 week period then ended
- The Group Financial Statements have been properly prepared in accordance with IFRS as adopted by the EU
- The Parent Company Financial Statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice
- The Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group Financial Statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- The information given in the Corporate governance statement set out on pages 40 to 44 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the Financial Statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A Corporate governance statement has not been prepared by the Company

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 59, in relation to going concern
- The part of the Corporate governance statement on pages 40 to 44 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the Board on Directors' remuneration

A J Sykes
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

29 May 2012

GROUP INCOME STATEMENT

For the period ended 31 March 2012

	Notes	2012 £m	2011 £m
Revenue	1	**528.3**	463.9
Operating expenses – ordinary	2	**(465.2)**	(423.5)
Operating expenses – exceptional	3	**(24.8)**	(15.6)
Total operating expenses		**(490.0)**	(439.1)
Operating profit		**38.3**	24.8
Comprising:			
Operating profit before exceptional items		**63.1**	40.4
Exceptional items	3	**(24.8)**	(15.6)
Profit on sale of associated undertaking	3	**–**	55.1
Profit before interest and taxation		**38.3**	79.9
Interest income	4	**0.3**	0.9
Interest expense	4	**(4.4)**	(4.7)
Retirement benefit obligation finance income	22	**39.4**	35.7
Retirement benefit obligation finance expense	22	**(40.7)**	(39.0)
Net finance expense		**(5.4)**	(7.1)
Profit before taxation		**32.9**	72.8
Comprising:			
Profit before tax and exceptional items		**57.7**	33.3
Exceptional items	3	**(24.8)**	39.5
Taxation	5	**(0.7)**	(5.4)
Profit for the year		**32.2**	67.4
Comprising:			
Profit for the year before exceptional items		**43.8**	24.3
(Loss)/ profit for the year on exceptional items	3	**(11.6)**	43.1
Profit attributable to equity shareholders of the Company		**31.6**	66.9
Profit attributable to non controlling interests		**0.6**	0.5
		32.2	67.4

Profit for the year attributable to the Company's equity holders			
Earnings per share			
Basic	6	**31.8p**	67.6p
Diluted	6	**31.5p**	67.2p

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 March 2012

	Notes	2012 £m	2011 £m
Profit for the financial year		**32.2**	67.4
Other comprehensive income			
Foreign currency translation differences for foreign operations		**(3.9)**	(1.3)
Net actuarial losses on retirement benefit obligations	22	**(63.6)**	(31.0)
Change in fair value of cash flow hedges		**(0.8)**	1.2
Change in fair value of cash flow hedges transferred to Income Statement		**(2.5)**	5.9
Ineffective portion of change in fair value of cash flow hedges transferred to the Income Statement	12	**0.3**	(0.3)
Income tax relating to components of other comprehensive income	5	**13.5**	5.3
Other comprehensive income for the year, net of tax		**(57.0)**	(20.2)
Comprehensive income for the year		**(24.8)**	47.2
Comprehensive income for the year attributable to:			
Equity shareholders of the Company		**(25.4)**	46.7
Non controlling interests		**0.6**	0.5
		(24.8)	47.2

GROUP BALANCE SHEET

At 31 March 2012

	Notes	2012 £m	2011 £m
ASSETS			
Non current assets			
Property, plant and equipment	8	**160.9**	162.0
Intangible assets	9	**24.2**	23.3
Investments in associates and joint ventures		**0.1**	0.1
Deferred tax assets	14	**40.4**	27.8
Derivative financial instruments	12	**–**	0.3
		225.6	213.5
Current assets			
Inventories	10	**68.6**	67.5
Trade and other receivables	11	**83.6**	89.7
Current tax assets		**0.6**	6.7
Derivative financial instruments	12	**5.9**	15.5
Cash and cash equivalents	13	**24.0**	32.6
		182.7	212.0
Total assets		**408.3**	425.5
LIABILITIES			
Current liabilities			
Borrowings	16	**(48.8)**	(63.8)
Trade and other payables	15	**(170.2)**	(164.4)
Current tax liabilities		**(33.6)**	(33.1)
Derivative financial instruments	12	**(5.6)**	(13.5)
Provisions for other liabilities and charges	17	**(40.2)**	(27.0)
		(298.4)	(301.8)
Non current liabilities			
Retirement benefit obligations	22	**(145.6)**	(102.9)
Deferred tax liabilities	14	**(1.3)**	(1.0)
Derivative financial instruments	12	**(0.9)**	(0.6)
Provisions for other liabilities and charges	17	**(6.9)**	–
Other non current liabilities	15	**(0.8)**	(2.4)
		(155.5)	(106.9)
Total liabilities		**(453.9)**	(408.7)
Net (liabilities)/assets		**(45.6)**	16.8
EQUITY			
Share capital	18	**45.7**	45.6
Share premium account		**30.7**	29.1
Capital redemption reserve		**5.9**	5.9
Hedge reserve		**(1.2)**	1.0
Cumulative translation adjustment		**(1.4)**	2.5
Other reserve		**(83.8)**	(83.8)
Retained earnings		**(45.4)**	13.0
Total equity attributable to shareholders of the Company		**(49.5)**	13.3
Non controlling interests		**3.9**	3.5
Total equity		**(45.6)**	16.8

Approved by the Board on 29 May 2012

Nicholas Brookes
Chairman

Colin Child
Group Finance Director

GROUP STATEMENT OF CHANGES IN EQUITY

For the period ended 31 March 2012

	Attributable to equity shareholders							Non controlling interest	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 27 March 2010	45.5	28.4	5.9	(3.9)	3.8	(83.8)	10.4	3.2	9.5
Comprehensive income for the year	–	–	–	4.9	(1.3)	–	43.1	0.5	47.2
Share capital issued	0.1	0.7	–	–	–	–	–	–	0.8
Employee share scheme:									
– value of services provided	–	–	–	–	–	–	1.9	–	1.9
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(0.5)	–	(0.5)
Dividends paid	–	–	–	–	–	–	(41.9)	(0.2)	(42.1)
Balance at 26 March 2011	45.6	29.1	5.9	1.0	2.5	(83.8)	13.0	3.5	16.8
Comprehensive income for the year	–	–	–	(2.2)	(3.9)	–	(19.3)	0.6	(24.8)
Share capital issued	0.1	1.6	–	–	–	–	–	–	1.7
Employee share scheme:									
– value of services provided	–	–	–	–	–	–	2.5	–	2.5
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	0.4	–	0.4
Dividends paid	–	–	–	–	–	–	(42.0)	(0.2)	(42.2)
Balance at 31 March 2012	**45.7**	**30.7**	**5.9**	**(1.2)**	**(1.4)**	**(83.8)**	**(45.4)**	**3.9**	**(45.6)**

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. An analysis of the movements in the hedge reserve is shown in note 12.

Cumulative translation adjustment
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.

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 plc), 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.

GROUP CASH FLOW STATEMENT

For the period ended 31 March 2012

	Notes	2012 £m	2011 £m
Cash flows from operating activities			
Profit before tax		**32.9**	72.8
Adjustments for:			
Finance income and expense		**5.4**	7.1
Depreciation and amortisation		**26.6**	24.4
Increase in inventory		**(2.1)**	(7.9)
Decrease/(increase) in trade and other receivables		**6.6**	(11.6)
Increase/(decrease) in trade and other payables		**11.6**	(9.9)
Increase/(decrease) in reorganisation provisions		**17.3**	(1.4)
Special pension fund contributions		**(23.1)**	(42.5)
Loss on disposal of property, plant and equipment and software intangibles		**3.0**	1.4
Non operating exceptional items		**–**	(55.1)
Other non cash movements		**0.2**	2.4
Cash generated from operating activities		**78.4**	(20.3)
Tax received		**7.1**	4.8
Net cash flows from operating activities		**85.5**	(15.5)
Cash flows from investing activities			
Net proceeds from sale of investment in associate		**–**	75.4
Purchases of property, plant, equipment and software intangibles		**(32.1)**	(30.7)
Development assets capitalised		**(3.7)**	(4.3)
Proceeds from sale of property, plant and equipment		**0.4**	0.3
Net cash flows from investing activities		**(35.4)**	40.7
Net cash inflow before financing activities		**50.1**	25.2
Cash flows from financing activities			
Proceeds from issue of share capital		**1.7**	0.8
(Repayments of)/proceeds from borrowings		**(7.3)**	6.0
Finance lease principal payments		**–**	(0.2)
Interest received		**0.3**	0.9
Interest paid		**(3.5)**	(4.5)
Dividends paid to shareholders		**(42.0)**	(41.9)
Dividends paid to non controlling interests		**(0.2)**	(0.2)
Net cash flows from financing activities		**(51.0)**	(39.1)
Net decrease in cash and cash equivalents in the year		**(0.9)**	(13.9)
Cash and cash equivalents at the beginning of the year		**23.4**	37.8
Exchange rate effects		**–**	(0.5)
Cash and cash equivalents at the end of the year		**22.5**	23.4
Cash and cash equivalents consist of:			
Cash at bank and in hand	13	**24.0**	31.9
Short term bank deposits	13	**–**	0.7
Bank overdrafts		**(1.5)**	(9.2)
	20	**22.5**	23.4

ACCOUNTING POLICIES

De La Rue plc (the Company) is a public limited company incorporated and domiciled in the United Kingdom. The address of its registered office is disclosed on page 96 of this Annual Report. The consolidated Financial Statements of the Company for the period ended 31 March 2012 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates. The Parent Company Financial Statements present information about the Company as a separate entity and not about its Group. The principal activities of the Group are described in note 1. The principal accounting policies adopted in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

European Union (EU) law (IAS Regulation EC 1606/2002) requires that the consolidated Financial Statements, for the period ended 31 March 2012, be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU (Adopted IFRS). These consolidated Financial Statements have been approved by the Directors and prepared in accordance with Adopted IFRS including interpretations issued by the International Accounting Standards Board (IASB).

The Company has elected to prepare its Parent Company Financial Statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

During the year a number of amendments to IFRS became effective and were adopted by the Group, none of which had a material impact on the Group's net cash flows, financial position, total comprehensive income or earnings per share. A number of other new and amended IFRS were issued during the year which do not become effective until after 1 April 2012, none of which are likely to have a material impact on the Group.

Basis of preparation

The consolidated Financial Statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below. The accounts have been prepared as at 31 March 2012, being the last Saturday in March. The comparatives for the 2010/11 financial year are for the period ended 26 March 2011.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 12 to 21 of the Business Review. The accounting policies used in the preparation of the financial position are described in pages 60 to 64. In addition, pages 73 to 78 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 on pages 22 to 24 of the Business Review.

As described on page 24, the Group meets its funding requirements through cash generated from operations and a revolving credit facility which expires in September 2013. The Group's forecasts and projections, which cover a period of more than twelve months, taking into account reasonably possible changes in normal trading performance, show that the Group should be able to operate within its currently available facilities. The Group has sufficient financial resources together with assets that are expected to generate cash flow in the normal course of business. As a consequence and notwithstanding the net liability position being reported in the consolidated balance sheet, which has arisen due to the increase in the value of the deficit in the retirement benefit obligations, or the uncertainty as to the outcome of the paper production issues noted on page 7, the Directors have a reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Basis of consolidation

The consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 March 2012. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The results of subsidiaries acquired or disposed of during the year are included in the consolidated Financial Statements from the date that control commences or until the date that control ceases. The majority of the subsidiaries prepare their Financial Statements up to 31 March except for certain subsidiaries whose year end is 31 December. In the case of the subsidiaries whose Financial Statements are made up to 31 December 2011, results for the period to 31 March 2012 and the balance sheet as at 31 March 2012 have been consolidated.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (ie discount on acquisition) is credited to the Income Statement in the period of acquisition. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra Group transactions, balances, income and expenses are eliminated on consolidation.

ACCOUNTING POLICIES CONTINUED

Significant accounting policies and judgements applied

Foreign currency

Foreign currency transactions

These Financial Statements are presented in sterling, which is the functional and presentational currency of the Company. The functional currency of Group entities is principally determined by the primary economic environment in which the respective entity operates.

Transactions in foreign currencies entered into by Group entities are translated into the functional currencies of those entities at the rates of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement.

Foreign currency non monetary items measured in terms of historical cost are translated at the rate of exchange at the date of the transaction. Exchange differences on non monetary items are recognised in line with whether the gain or loss on the non monetary item itself is recognised in the Income Statement or in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (refer to the accounting policy on derivative financial instruments below for details of the Group's accounting policies in respect of such derivative financial instruments).

Financial Statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and intangible assets, are translated at the exchange rate prevailing at the balance sheet date. Income and expenses are translated at average exchange rates (which approximate to actual rates). Exchange differences arising on retranslation are recognised in the Group's translation reserve, which is a component of equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the Income Statement as part of the gain or loss on sale.

Exchange differences in respect of foreign operations that arose before 27 March 2004, the date of transition to Adopted IFRS, are presented as part of retained earnings, as permitted by IFRS 1.

Net investment in foreign operations

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in foreign operations are recognised in the translation reserve to the extent the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised as finance income or costs in the Income Statement. Cumulative gains or losses in equity arising since the date of transition to Adopted IFRS are taken to the Income Statement on disposal of the foreign operation.

Financial instruments

The Group's operating activities expose it to financial risks of changes in foreign currency exchange rates and interest rates. 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. Derivative financial instruments are only used for hedging purposes. 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.

Derivative financial instruments are recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The gain or loss on subsequent fair value measurement is recognised in the Income Statement unless the derivative qualifies for hedge accounting when recognition of any resultant gain or loss depends on the nature of the item being hedged.

Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and are effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are recycled to the Income Statement in the period in which the hedged item also affects the Income Statement.

However, if the hedged item results in the recognition of a non financial asset or liability, the amounts accumulated in equity on the hedging instrument are transferred from equity and included in the initial measurement of the cost of the asset or liability. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Income Statement. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Income Statement as they arise.

Fair value hedges

For an effective hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in net income. Gains or losses from remeasuring the derivative or, for non derivatives, the foreign currency component of its carrying value, are recognised in net income.

Embedded derivatives

Derivatives embedded in other financial instruments or other non financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. Any unrealised gains or losses on such separated derivatives are reported in the Income Statement.

Revenue recognition

Group revenue predominantly represents sales to external customers of manufactured products which fall within the Group's ordinary trading activities. This excludes VAT and other sales taxes.

Revenue is recognised in the Income Statement to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group and the amount can be reliably measured. In practice this means that revenue is recognised when goods are supplied to external customers in accordance with the terms of sale.

When goods are supplied, this is when the significant risks and rewards of ownership are transferred to the buyer.

Revenues and costs on project based contracts are recognised by reference to the stage of completion, based on the work performed to date and the overall contract profitability. The assessment of the stage of completion is dependent on the nature of the contract and is assessed by reference to reviews of work performed, achievement of contractual milestones and costs incurred.

Revenue on service based contracts is recognised as services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any impairment losses. Goodwill is not amortised and is stated at cost less any accumulated impairment losses.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of consideration transferred in a business combination over the Group's share of the fair value of identifiable assets, liabilities and contingent liabilities of the business acquired at the date of acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. At the date of acquisition, the goodwill is allocated to cash generating units for the purpose of impairment testing and is tested annually for impairment and when there are indications of impairment. Any impairment loss is recognised immediately in the Income Statement and is not subsequently reversed.

Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business. Goodwill arising on the acquisition of subsidiaries is presented in goodwill and goodwill arising on the acquisition of associates is presented in investments in associates. Internally generated goodwill is not recognised as an asset.

Goodwill arising on acquisitions before 27 March 2004 (the date of transition to IFRS) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Development costs

Expenditure incurred in the development of products or enhancements to existing product ranges is capitalised as an intangible asset only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured. Development costs not meeting these criteria are expensed in the Income Statement as incurred. Capitalised development costs are amortised on a straight line basis over their estimated useful economic lives once the product or enhancement is available for use. Product research costs are written off as incurred.

Other intangible assets

Intangible assets purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost less accumulated amortisation and impairment losses. Software intangibles are amortised on a straight line basis over the shorter of their useful economic life or their licence period at rates which vary between three and five years.

Distribution rights are capitalised at cost less accumulated amortisation and impairment losses and are amortised over their useful economic lives as determined by the life of the products to which they relate.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation, less accumulated depreciation and any accumulated provision for impairment in value. Assets in the course of construction are included in property, plant and equipment on the basis of expenditure incurred at the balance sheet date.

No depreciation is provided on freehold land. Freehold and long leasehold buildings are depreciated over their estimated useful economic lives of 50 years. Other leasehold interests are depreciated over the lesser of the unexpired period of the lease and 50 years.

The Group's policy is to write off the cost or valuation of all other plant and equipment evenly over their estimated remaining useful life at rates which vary between eight per cent and 50 per cent per annum. The principal annual rate of depreciation used is 10 per cent on plant and machinery and on fixtures and fittings. No depreciation is provided for assets in the course of construction.

Depreciation methods, residual values and useful lives are reviewed at least at each financial year end, taking into account commercial and technical obsolescence as well as normal wear and tear, provision being made where the carrying value exceeds the recoverable amount.

ACCOUNTING POLICIES CONTINUED

Borrowing costs
Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

Impairment
Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the Income Statement.

Non financial assets
The carrying amounts of the Group's non financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet ready for use, the recoverable amount is estimated at each reporting date.

Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. In addition, goodwill is tested at least annually for impairment. Impairment tests are performed for all Cash Generating Units (CGUs) to which goodwill has been allocated at the balance sheet date or whenever there is indication of impairment. For all other intangible assets, an impairment test is performed whenever an indicator of impairment exists.

An impairment loss is recognised immediately in the Income Statement for the amount by which the asset's carrying value exceeds its recoverable amount, the latter being the higher of the asset's fair value less costs to sell and value in use and, in the case of goodwill, is not subsequently reversed. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

For other intangible assets, at each balance sheet date an assessment is made to determine whether there is any indication that an impairment loss recognised in prior periods may no longer exist or has decreased. Where such an indication exists, an impairment loss is reversed to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Associated companies
An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity.

The Group's share of the results, assets and liabilities of associated companies are included in these Financial Statements using the equity method of accounting, except when classified as held for sale. The results are presented after interest, tax and non controlling interest. Investments in associates are carried in the Balance Sheet at cost as adjusted by the post acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of the individual investment. Losses of the associate in excess of the Group's interest in that associate are not recognised unless the Group has a legal or constructive obligation to fund those losses.

Any excess of the cost of acquisition over the fair values of the identifiable net assets at the date of acquisition of the associate is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (ie discount on acquisition) is credited to the Income Statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Associated companies prepare their financial information as at 31 December. Results for the period to 31 March and the Balance Sheet as at 31 March have been included in the consolidated statements.

Leasing
A lease is defined as an agreement whereby the lessor conveys to the lessee the right to use a specific asset for an agreed period of time in return for a payment or a series of payments.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as property, plant and equipment at an amount equal to the fair value of the leased asset or, if lower, the present value of minimum lease payments at the inception of the lease, and then depreciated over their useful economic lives. Lease payments are apportioned between repayment of capital and interest. The capital element of future lease payments is included in the Balance Sheet as a liability. Interest is charged to the Income Statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to the Income Statement on a straight line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Where a leasehold property is vacant, or sublet under terms such that the rental income is less than the head lease rental cost, provision is made for the best estimate of unavoidable lease payments during the vacancy or on the anticipated future shortfall of sub lease income compared with the head lease expense.

Taxation

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 using the balance sheet liability method, providing for temporary differences 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 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.

Inventories

Inventories and work in progress are valued at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis and comprises directly attributable purchase and conversion costs, including direct labour and an allocation of production overheads based on normal operating capacity that have been incurred in bringing those inventories to their present location and condition. Net realisable value is the estimated selling price less estimated costs of completion and selling costs.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash held by the Group and short term deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

Loans

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings on an effective interest basis.

Employment benefits

Pensions

The Group operates a number of retirement benefit schemes. The major schemes are defined benefit pension funds with assets held separately from the Group. The cost of providing benefits under each scheme is determined using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in operating costs in the Group Income Statement. Past service costs are similarly included where the benefits have vested, otherwise they are amortised on a straight line basis over the vesting period. The expected return on assets of funded defined benefit pension schemes and the imputed interest on pension scheme liabilities are disclosed as retirement benefit obligation finance income and retirement benefit obligation finance expense respectively in the Income Statement.

Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full in the period in which they arise.

The liability recognised in respect of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of the scheme assets, as determined by actuarial valuations carried out at the balance sheet date.

The Group's contributions to defined contribution plans are charged to the Income Statement in the period to which the contributions relate.

Share based payments

The Group operates various equity settled and cash settled option schemes. For equity settled share options, the services received from employees are measured by reference to the fair value of the share options. The fair value is calculated at grant date and recognised in the consolidated income statement, together with a corresponding increase in shareholders' equity, on a straight line basis over the vesting period, based on the numbers of shares that are actually expected to vest, taking into account non market vesting conditions (including service conditions). Vesting conditions, other than non market based conditions, are not taken into account when estimating the fair value.

For cash settled share options, the services received from employees are measured at the fair value of the liability for options outstanding and recognised in the consolidated Income Statement on a straight line basis over the vesting period. The fair value of the liability is remeasured at each reporting date and at the date of settlement with changes in fair value recognised in the consolidated Income Statement.

Share option schemes

The De La Rue Employee Share Ownership Trust is a separately administered trust. Liabilities of the trust are guaranteed by the Company and the assets of the Trust mainly comprise shares in the Company.

The own shares held by the Trust are shown as a reduction in shareholders' funds. The shares will be held at historical rates until such time as they are disposed of. Any profit or loss on the disposal of own shares is treated as a movement in reserves rather than as an Income Statement item.

Provisions

Provisions are recognised when the Group has a present obligation in respect of a past event, it is probable that an outflow of resources will be required to settle the obligation, and where the amount can be reliably estimated. Provisions are measured at the Directors' best estimate of the amount required to settle the obligation at the balance sheet date and are discounted where the time value of money is considered material.

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.

ACCOUNTING POLICIES CONTINUED

New accounting standards and interpretations
The following revised and amended standard has been issued but is not yet effective and therefore has not been adopted by the Group in these consolidated Financial Statements:

- Amendment to IAS 19, Employee Benefits which is effective for accounting periods beginning on or after 1 January 2013. The amendment will result in net finance costs no longer including the full effect of expected long term return on plan assets

The impact of this amendment on the Group's financial performance is still being assessed.

Critical accounting judgements and key sources of estimation uncertainty
The Group's accounting policies are set out above. Management is required to exercise significant judgement in the application of these policies. Areas which management believe require the most critical accounting judgements or which involve estimation are as follows:

Critical accounting judgements in applying the Group's accounting policies
Cash flow hedge accounting
The Group enters into forward contracts to hedge the risk of movements in foreign exchange and interest rates. These contracts fall within the definition of derivative financial instruments and accordingly have to be recorded at fair value. Accounting for these contracts as cash flow hedges allows, to the extent the hedges are effective, the change in values of the derivatives to be recognised in other comprehensive income and accumulated in equity. In order to achieve cash flow hedge accounting it is necessary for the Group to determine, on an on going basis, whether a forecast transaction being hedged is highly probable and whether the hedge is effective.

Exceptional items
The Directors consider items of income and expenditure which are both material by size and/or by nature and non recurring 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 (other than those within the scope of IFRS 5), curtailments on defined benefit pension arrangements, restructuring of businesses and asset impairments. All exceptional items are included on the appropriate Income Statement category to which they relate.

Income taxes
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.

Key sources of estimation uncertainty
Impairment of assets
The Group tests annually whether goodwill and other assets that have indefinite useful lives are impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit is determined based on value in use calculations prepared on the basis of management's assumptions and estimates of future cash flows, discounted at suitable rates.

Provisions for other liabilities and charges
The Group measures provisions at the Directors' best estimate of the amount required to settle the obligation at the balance sheet date, discounted where the time value of money is considered material. These estimates take account of available information, historical experience and the likelihood of different possible outcomes. Both the amount and the maturity of these liabilities could be different from those estimated.

Pension obligations
Pension costs within the Income Statement and the pension obligations as stated in the Balance Sheet are both dependent upon a number of assumptions chosen by management. These include the expected long term rate of return on the relevant plan assets, the rate used to discount future liabilities, the expected longevity for current and future pensioners and estimates of future rates of inflation.

The expected return on plan assets assumption is determined on a uniform basis, taking into consideration long term historical returns, asset allocation and future estimates of long term investment returns. The discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. See page 24 for details of the relative sensitivity of the value of the scheme liabilities to changes in the discount and inflation rates.

NOTES TO THE ACCOUNTS

1 Segmental analysis

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

Currency

- provides printed banknotes, banknote paper and banknote security features

Solutions

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

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

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

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

NOTES TO THE ACCOUNTS CONTINUED

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

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

Geographic analysis of revenue by origin

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

Geographic analysis of non current assets

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

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

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

2 Expenses by nature (excluding exceptional items)

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

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

3 Exceptional items

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

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

Exceptional costs in the prior year related to the following:

- A curtailment gain following the closure of the defined benefit pension scheme to further accruals from 2013
- An exceptional charge relating to the paper production quality issues incurred in the year ended 26 March 2011 of £29.0m included production and rectification costs of £19.9m, a £0.9m impairment of receivables, legal costs of £3.5m and other costs of £4.7m mainly relating to losses on derivatives related to sales and purchase contracts rendered ineffective by the cancellation of shipments. Provision has not been made for the potential costs of resolutions or for potential fines from regulatory authorities. The nature and extent of these resolutions and potential fines will be the subject of ongoing discussion, the outcome of which cannot be estimated reliably at present. The issue is more fully described in note 25: Contingent liabilities
- Corporate costs in relation to the engagement of legal and professional advisors following a takeover approach for the Group

The profit arising on the sale of an associated undertaking is in respect of the sale of the Group's share in Camelot, the UK national lottery operator, which was completed on 8 July 2010.

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

4 Interest income and expense

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

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

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

5 Taxation

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

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

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

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

6 Earnings per share

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

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

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

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

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

Earnings

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

Weighted average number of ordinary shares

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

7 Equity dividends

	2012 £m	2011 £m
Final dividend for the year ended 26 March 2011 of 28.2p paid on 4 August 2011	**28.0**	–
Interim dividend for the period ended 24 September 2011 of 14.1p paid on 6 January 2012	**14.0**	–
Final dividend for the year ended 27 March 2010 of 28.2p paid on 5 August 2010	**–**	27.9
Interim dividend for the period ended 25 September 2010 of 14.1p paid on 12 January 2011	**–**	14.0
	42.0	41.9

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

NOTES TO THE ACCOUNTS CONTINUED

8 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	In course of construction £m	Total £m
Cost					
At 27 March 2010	53.5	306.5	17.8	20.0	397.8
Exchange differences	(0.4)	(2.1)	(0.2)	(0.1)	(2.8)
Additions	–	8.8	0.9	13.5	23.2
Transfers from assets in the course of construction	1.1	11.8	0.6	(13.5)	–
Reclassifications	–	(3.5)	3.5	–	–
Disposals	(0.1)	(6.6)	(1.9)	(0.7)	(9.3)
At 26 March 2011	54.1	314.9	20.7	19.2	408.9
Exchange differences	(0.2)	(4.8)	(0.2)	(0.1)	(5.3)
Additions	2.2	6.3	2.9	19.7	31.1
Transfers from assets in the course of construction	5.1	12.6	1.9	(22.6)	(3.0)
Disposals	(1.0)	(8.8)	(1.4)	(0.4)	(11.6)
At 31 March 2012	**60.2**	**320.2**	**23.9**	**15.8**	**420.1**
Accumulated depreciation					
At 27 March 2010	21.2	198.1	12.9	–	232.2
Exchange differences	(0.1)	(1.3)	(0.2)	–	(1.6)
Depreciation charge for the year	1.5	20.1	1.6	–	23.2
Reclassifications	–	(3.2)	3.2	–	–
Disposals	(0.1)	(5.6)	(1.2)	–	(6.9)
At 26 March 2011	22.5	208.1	16.3	–	246.9
Exchange differences	(0.1)	(3.1)	(0.2)	–	(3.4)
Depreciation charge for the year	1.5	19.7	2.9	–	24.1
Disposals	–	(7.5)	(0.9)	–	(8.4)
At 31 March 2012	**23.9**	**217.2**	**18.1**	**–**	**259.2**
Net book value at 31 March 2012	**36.3**	**103.0**	**5.8**	**15.8**	**160.9**
Net book value at 26 March 2011	31.6	106.8	4.4	19.2	162.0
Net book value at 27 March 2010	32.3	108.4	4.9	20.0	165.6

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

9 Intangible assets

	Goodwill £m	Development costs £m	Software assets £m	Distribution rights £m	Total £m
Cost					
At 27 March 2010	8.5	12.5	7.6	0.4	29.0
Exchange differences	(0.1)	(0.5)	–	–	(0.6)
Additions	–	5.6	1.4	–	7.0
Disposals	–	(1.6)	(0.6)	–	(2.2)
At 26 March 2011	8.4	16.0	8.4	0.4	33.2
Exchange differences	(0.2)	–	–	–	(0.2)
Additions	–	3.7	0.4	–	4.1
Disposals	–	(0.5)	(0.1)	–	(0.6)
At 31 March 2012	**8.2**	**19.2**	**8.7**	**0.4**	**36.5**
Accumulated amortisation					
At 27 March 2010	0.6	2.7	6.0	0.4	9.7
Exchange differences	–	(0.1)	–	–	(0.1)
Amortisation for the year	–	1.1	0.1	–	1.2
Disposals	–	(0.9)	–	–	(0.9)
At 26 March 2011	0.6	2.8	6.1	0.4	9.9
Exchange differences	(0.1)	–	0.1	–	–
Amortisation for the year	–	1.5	1.0	–	2.5
Disposals	–	–	(0.1)	–	(0.1)
At 31 March 2012	**0.5**	**4.3**	**7.1**	**0.4**	**12.3**
Carrying value at 31 March 2012	**7.7**	**14.9**	**1.6**	**–**	**24.2**
Carrying value at 26 March 2011	7.8	13.2	2.3	–	23.3
Carrying value at 27 March 2010	7.9	9.8	1.6	–	19.3

Goodwill is allocated to the Group's Cash Generating Units (CGUs) identified according to business segment and country of operation.

A segment level summary of the goodwill allocation is presented below:

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

The majority of the goodwill relates to the acquisition of CSI Inc in 2001 which was allocated to Currency and Cash Processing Solutions on the basis that the acquired business generated synergies for both CGUs. The estimates of recoverable amount are based on value in use calculations which are based on cash flow projections covering a five year period based on the latest projections approved by management plus a terminal year. The key assumptions underlying these projections are summarised below:

(a) Currency: The volume and price of orders secured, particularly in respect of banknotes and banknote papers, are based on a combination of the current order book and past experience, taking into account:

(i) Expectations in respect of economic growth and central banks' banknote circulation policies

(ii) The Group's knowledge of its customer base, gained through its long standing relationships with them

Material input prices and foreign exchange rates are also factors but are not considered significant in the context of the headroom available in the calculations.

(b) Cash Processing Solutions: Unit sales of large sorters and the extent of maintenance income generated from these sales are based on a combination of orders on hand and past experience

The pre tax discount rate used for both Currency and Cash Processing Solutions was 13.2 per cent (2010/11: 13.4 per cent). The discount rates applied take into account the Group's weighted average cost of capital (WACC) and the relative risks associated with the CGUs' operations. The post tax discount rate used is unchanged compared to the prior year, reflecting the fact that the Group's WACC has not changed and the risks associated with the CGUs in question have not materially changed. Cash flows beyond the period covered by the projections have been held constant.

Sensitivity analysis has been performed and management do not consider there to be any reasonably possible change in assumptions that could result in the assets' recoverable amounts falling below their book values.

NOTES TO THE ACCOUNTS CONTINUED

10 Inventories

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

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

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

11 Trade and other receivables

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

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

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

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

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

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

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

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the financial asset directly.

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

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

12 Financial risk

Financial risk management

Overview

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

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

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

Liquidity risk

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

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

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

Market risk

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

(a) Currency risk

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

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

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

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

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

(b) Interest rate risk

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

Credit risk

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

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

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

NOTES TO THE ACCOUNTS CONTINUED

12 Financial risk continued

Reporting of financial risks

Fair values

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

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

Fair value measurement basis for derivative financial instruments

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

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

Forward exchange contracts used for hedging

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

Interest rate swaps

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

Embedded derivatives

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

Determination of fair values of non derivative financial assets and liabilities

Trade and other receivables and payables

Due to their short maturities, trade and other payables, and trade and other receivables have been stated at their book values which approximate their fair values.

Non derivative financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The interest rates used to discount estimated cash flows, where applicable, are based on sterling LIBOR.

At 31 March 2012 the discount rate used was 1.0 per cent (2010/11: 1.0 per cent).

Hedge reserves

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

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

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

12 Financial risk continued

Hedge reserve movements in the Income Statement were as follows:

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

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

Liquidity risk

The following are the contractual undiscounted cash flow maturities of financial liabilities, including contractual interest payments and excluding the impact of netting agreements.

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

26 March 2011	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Total undiscounted cash flows £m	Impact of discounting and netting £m	Carrying amount £m
Non derivative financial liabilities						
Unsecured bank loans and overdrafts	63.7	–	–	63.7	–	63.7
Finance lease liabilities	0.1	–	–	0.1	–	0.1
Derivative financial liabilities						
Gross amount payable from currency derivatives						
– Forward exchange contracts designated as cash flow hedges	40.5	(0.1)	–	40.4	(37.9)	2.5
– Short duration swap contracts designated as fair value hedges	(12.1)	–	–	(12.1)	12.4	0.3
– Fair value hedges – other economic hedges	150.9	11.6	–	162.5	(157.5)	5.0
Interest rate swaps	0.2	–	–	0.2	(0.1)	0.1
	243.3	11.5	–	254.8	(183.1)	71.7

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

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

12 Financial risk continued

Forward foreign exchange contracts

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

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

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

Short duration swap contracts

(i) Cash management swaps

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

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

(ii) Balance sheet swaps

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

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

Embedded derivatives

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

Gains and losses on fair value hedges

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

Market risk: Currency risk

Exposure to currency risk

The following significant exchange rates applied during the year:

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

Sensitivity analysis

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

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

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

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

12 Financial risk continued

Interest rate risk

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

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

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

Sensitivity analysis

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

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

Credit risk

Exposure to credit risk

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

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

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

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

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

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

NOTES TO THE ACCOUNTS CONTINUED

12 Financial risk continued

Capital management

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

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

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

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

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

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

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

13 Cash and cash equivalents

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

An analysis of cash, cash equivalents and bank overdrafts is shown in the Group Cash Flow Statement.

All cash and deposits are of a floating rate nature, earn interest based on the relevant national LIBID equivalents and are recoverable within three months.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 12.

14 Deferred taxation

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

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

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

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

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Property, plant and equipment £m	Fair value gains £m	Development costs £m	Other £m	Total £m
Liabilities					
At 27 March 2010	8.3	0.4	1.3	0.6	10.6
Recognised in the Income Statement	0.5	–	0.6	(0.1)	1.0
Recognised in equity	–	–	–	0.4	0.4
At 26 March 2011	8.8	0.4	1.9	0.9	12.0
Recognised in the Income Statement	0.2	–	(0.2)	(0.3)	(0.3)
Recognised in equity	–	–	–	(0.4)	(0.4)
At 31 March 2012	**9.0**	**0.4**	**1.7**	**0.2**	**11.3**

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
Assets					
At 27 March 2010	(1.4)	(35.5)	(0.3)	(9.6)	(46.8)
Recognised in the Income Statement	(0.3)	3.6	(0.7)	(1.0)	1.6
Recognised in equity	0.5	4.2	–	1.5	6.2
Exchange differences	–	–	–	0.2	0.2
At 26 March 2011	(1.2)	(27.7)	(1.0)	(8.9)	(38.8)
Recognised in the Income Statement	(1.1)	(0.5)	(0.4)	(2.5)	(4.5)
Recognised in equity	(0.2)	(6.8)	–	(0.4)	(7.4)
Exchange differences	–	–	–	0.3	0.3
At 31 March 2012	**(2.5)**	**(35.0)**	**(1.4)**	**(11.5)**	**(50.4)**

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

Deferred income tax assets are recognised for tax losses available to carry forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

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

Unremitted earnings totalled £444.1m at 31 March 2012 (2010/11: £429.3m). Deferred income tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries where the timing of the reversal can be controlled and it was considered unlikely that dividends would be paid from those subsidiaries.

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

UK tax rate

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

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

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

NOTES TO THE ACCOUNTS CONTINUED

15 Trade and other payables

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

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

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

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

16 Borrowings

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 12.

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

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

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

Finance lease liabilities

Finance lease liabilities are payable as follows:

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

17 Provisions for liabilities and charges

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

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

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

Warranty provisions relate to present obligations for defective products and include known claims as well as anticipated claims that had not been reported at the balance sheet date. The provisions are management judgements based on information currently available, past history and experience of the products sold. However, it is inherent in the nature of the business that the actual liabilities may differ from the provisions. The precise timing of the utilisation of these provisions is uncertain but is generally expected to fall within the year. Warranty provisions include £5.0m in respect of the 2010 paper production quality issues described in note 3: Exceptional items, which are expected to be utilised within twelve months.

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

18 Share capital

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

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

The deferred shares carry no voting rights and are unlisted.

19 Share based payments
At 31 March 2012, De La Rue plc has a number of share based payment plans, which are described below. These plans have been accounted for in accordance with the fair value recognition provisions of IFRS 2, Share Based Payments, which means that IFRS 2 has been applied to all grants of employee share based payments granted after 7 November 2002 that had not vested at 1 January 2005 and cash settled awards outstanding at 1 January 2005.

The compensation cost and related liability that have been recognised for De La Rue's share based plans are set out in the table below:

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

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

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

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

Reconciliations of option movements over the period to 31 March 2012 for each class of options are shown below:

Annual Bonus Plan
For details of the Annual Bonus Plan, refer to the Remuneration report on pages 45 to 52.

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

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

19 Share based payments continued

Deferred Bonus and Matching Plan

The plan was open to eligible senior executives around the Group. The plan is a combination of three elements: deferred allocation, dividend allocation and matching allocation. The matching allocation is linked to the deferred allocation and is subject to the following performance condition: up to 50 per cent of the award is released subject to an earnings per share test and up to 50 per cent is released based on the performance of the total shareholder return test (TSR) against the companies in the FTSE 250 excluding investment trusts. The performance conditions are described in more detail on page 51. The TSR performance condition has been incorporated into the Monte Carlo simulation model used to estimate the fair value of these options.

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

Executive Share Option Plan

The Executive Share Option Plan was open to eligible senior executives around the Group. Options were granted at a price equal to the average market price of a share over the three dealing days immediately preceding the date of grant with a performance condition based on the achievement of an earnings per share growth target. The performance condition relates to the achievement over three years of 3 per cent per annum earnings per share growth over the rate of increase in the Retail Price Index. If this condition is not met at the end of the performance period the options will lapse. A pre vesting forfeiture rate of 5 per cent per annum has been assumed.

	2012		2011	
	Number of options '000	**Weighted average exercise price pence per share**	Number of options '000	Weighted average exercise price pence per share
Options outstanding at start of year	**10**	**388.05**	10	388.05
Granted	**–**	**–**	–	–
Forfeited	**–**	**–**	–	–
Exercised	**(8)**	**382.03**	–	–
Expired	**–**	**–**	–	–
Outstanding at end of year	**2**	**407.42**	10	388.05
Exercisable at year end	**2**	**407.42**	10	388.05

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

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

Executive Share Option Scheme

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

	2012		2011	
	Number of options '000	**Weighted average exercise price pence per share**	Number of options '000	Weighted average exercise price pence per share
Options outstanding at start of year	**–**	**522.30**	18	487.88
Exercised	**–**	**522.30**	(18)	487.49
Expired	**–**	**–**	–	–
Outstanding at end of year	**–**	**–**	–	522.30
Exercisable at year end	**–**	**–**	–	522.30

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

19 Share based payments continued

Performance Share Plan

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

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

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

Retention and Recruitment Share Award

For details of the Recruitment Share Award and Retention Share Award, refer to the Remuneration report on pages 45 to 52.

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

The shares have been allocated based on a share price of 686.5p.

Savings Related Share Option Scheme

The Scheme is open to all UK employees. Options are granted at the prevailing market price at the time of the grant (with a discretionary discount to the market price) to employees who agree to save between £5 and £250 per month over a period of three or five years.

There are no performance conditions attaching to the options. After the three or five year term has expired, employees normally have six months in which to decide whether or not to exercise their options. A pre vesting forfeiture rate of 5 per cent has been assumed.

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

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

US Employee Share Purchase Plan

De La Rue operates a US Employee Share Purchase Plan for US employees. Under the plan, employees have an option to purchase De La Rue plc shares at the end of each 12 month savings period at a price which is the lower of the market value of the De La Rue plc share either at the beginning or the end of the offering period, less a 15 per cent discount. In 2011/12, 12,745 shares (2010/11: 14,014 shares) were allotted pursuant to the plan. It is estimated that 13,000 shares will be required to satisfy the Company's 2012/13 obligations in respect of employees' savings under the plan as at 31 March 2012.

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

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

20 Analysis of net debt

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

21 Group operating leases

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

22 Retirement benefit obligations

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

(a) Defined benefit pension plans

	UK defined benefit pension £m	Overseas defined benefit pension £m	Gross defined benefit pension £m	Deferred tax £m	Net defined benefit pension £m
At 27 March 2010	(124.8)	(2.3)	(127.1)	35.5	(91.6)
Exchange differences	–	0.1	0.1	–	0.1
Current service cost included in operating profit	(7.6)	(0.2)	(7.8)	2.2	(5.6)
Curtailments	16.0	–	16.0	(4.5)	11.5
Net finance expense	(3.2)	(0.1)	(3.3)	0.9	(2.4)
Actuarial gains and losses arising over the year	(31.1)	0.1	(31.0)	8.7	(22.3)
Cash contributions and benefits paid	50.2	–	50.2	(14.1)	36.1
Change in tax rate	–	–	–	(1.0)	(1.0)
At 26 March 2011	(100.5)	(2.4)	(102.9)	27.7	(75.2)
Exchange differences	–	0.1	0.1	–	0.1
Current service cost included in operating profit	(7.8)	(0.2)	(8.0)	2.0	(6.0)
Net finance expense	(1.3)	–	(1.3)	0.4	(0.9)
Actuarial gains and losses arising over the year	(63.6)	–	(63.6)	16.5	(47.1)
Cash contributions and benefits paid	29.9	0.2	30.1	(7.8)	22.3
Change in tax rate	–	–	–	(3.8)	(3.8)
At 31 March 2012	**(143.3)**	**(2.3)**	**(145.6)**	**35.0**	**(110.6)**

NOTES TO THE ACCOUNTS CONTINUED

22 Retirement benefit obligations continued

Amounts recognised in the consolidated Balance Sheet:

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

Amounts recognised in the consolidated Income Statement:

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

Amounts recognised in the Statement of Comprehensive Income:

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

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

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

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

Principal actuarial assumptions:

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

The expected rate of return on plan assets has been determined following advice from the plans' independent actuary and is based on the expected return on each asset class together with consideration of the long term asset strategy.

The mortality assumptions used to assess the defined benefit obligation for the UK plan are based on tables issued by the Continuous Mortality Investigation Bureau. At 31 March 2012 and 26 March 2011 mortality assumptions were based on the PxA92 birth year tables multiplied by a rating of 125 per cent and allowance for medium cohort mortality improvements in future, with a 0.5 per cent mortality improvement underpin. The resulting life expectancy for a 65 year old pensioner is 20.6 years (2010/11: 20.6 years).

22 Retirement benefit obligations continued

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

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

History of experience gains and losses:

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

The largest defined benefit pension plan operated by the Group is in the UK. A full actuarial valuation of the plan was carried out by a qualified actuary as at 5 April 2009 and updated to 31 March 2012. The plan is valued formally every three years, the next valuation being as at April 2012.

Changes in the fair value of UK plan assets:

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

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

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

Movements in the fair value of plan assets and defined benefit pension obligations for overseas plans have not been disclosed as these plans are not considered sufficiently material to warrant such disclosure. The Group expects to contribute around £24m to its UK pension fund in 2012/13.

(b) Defined contribution pension plans

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

NOTES TO THE ACCOUNTS CONTINUED

23 Employees

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

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

24 Capital commitments

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

25 Contingent liabilities

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

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

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

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

26 Related party transactions

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

Key management compensation

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

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

COMPANY BALANCE SHEET

At 31 March 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Investments in subsidiaries	4a	**152.4**	152.4
		152.4	152.4
Current assets			
Debtors receivable within one year	5a	**87.0**	63.8
Cash at bank and in hand		**1.8**	1.7
		88.8	65.5
Creditors: amounts falling due within one year			
Borrowings	6a	**(21.3)**	(28.4)
Other creditors	7a	**(15.1)**	(7.2)
		(36.4)	(35.6)
Net current assets		**52.4**	29.9
Total assets less current liabilities		**204.8**	182.3
Creditors: amounts falling due after more than one year	8a	**–**	(9.0)
Net assets		**204.8**	173.3
Capital and reserves			
Called up share capital	9a	**45.7**	45.6
Share premium account	10a	**30.7**	29.1
Capital redemption reserve	10a	**5.9**	5.9
Retained earnings	10a	**122.5**	92.7
Total shareholders' funds		**204.8**	173.3

Approved by the Board on 29 May 2012

Nicholas Brookes
Chairman

Colin Child
Group Finance Director

ACCOUNTING POLICIES – COMPANY

Basis of preparation
The Financial Statements of De La Rue plc (the Company) have been prepared under the historical cost convention and have been prepared in accordance with the Companies Act 2006 and applicable UK accounting standards.

Under Section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account. The Company has taken advantage of the exemption in Financial Reporting Standard (FRS) 29 (IFRS 7), Financial Instruments: Disclosures, not to prepare a financial instrument note as the information is available in the published consolidated Financial Statements of the Group.

The Company has taken advantage of the exemption from preparing a Cash Flow Statement under the terms of FRS1, Cash Flow Statements.

The accounts have been prepared as at 31 March 2012, being the last Saturday in March. The comparatives for the 2010/11 financial year are for the period ended 26 March 2011.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company Financial Statements.

Foreign currencies
Amounts receivable from overseas subsidiaries which are denominated in foreign currencies are translated into sterling at the appropriate year end rates of exchange. Exchange gains and losses on translating foreign currency amounts are included within the interest section of the profit and loss account except for exchange gains and losses associated with hedging loans that are taken to reserves.

Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the dates of the individual transactions. Monetary assets and liabilities denominated in foreign currencies are subsequently retranslated at the rate of exchange ruling at the balance sheet date. Such exchange differences are taken to the profit and loss account.

Other receivables
Other receivables are measured at amortised cost less any provision for impairment. Trade and other receivables are discounted when the time value of money is considered material.

Investments
Investments are stated at cost or valuation in the Balance Sheet, less provision for any permanent diminution in the value of the investment.

Retirement benefits
The pension rights of the Company employees are dealt with through a self administered scheme, the assets of which are held independently of the Group's finances. The scheme is a defined benefit scheme that is funded partly by contributions from members and partly by contributions from the Company and its subsidiaries at rates advised by independent professionally qualified actuaries. In accordance with FRS 17, De La Rue plc accounts for its contributions as though it were a defined contribution scheme. This is because the underlying assets and liabilities of the scheme cover the Company and a number of its subsidiaries and those assets and liabilities cannot be split between each subsidiary on a consistent and reasonable basis. Full details of the scheme and its deficit (measured on an IAS 19 basis) can be found in note 22 to the consolidated Financial Statements.

Share based payments
The Company operates various equity and cash settled option schemes although the majority of plans are settled by the issue of shares. The services received from employees are measured by reference to the fair value of the share options. The fair value is calculated at grant date and recognised in the profit and loss account, together with a corresponding increase in shareholders' funds, on a straight line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value. FRS 20 has been applied to share settled share options granted after 7 November 2002.

Where the Company grants options over its own shares to the employees of its subsidiary undertakings these awards are accounted for by the Company, as an additional investment in its subsidiary. The costs are determined in accordance with FRS 20 share based payments. Any payments made by the subsidiary undertaking in respect of these arrangements are treated as a return of this investment.

Share based payments recharged to subsidiaries are recorded via the intercompany loan account.

Dividends
Under FRS 21, final ordinary dividends payable to the shareholders of the Company are recognised in the period that they are approved by the shareholders. Interim ordinary dividends are recognised in the period that they are paid.

Taxation
The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Financial guarantee contracts
Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

NOTES TO THE ACCOUNTS – COMPANY

1a Employee costs and numbers

Employee costs are borne by De La Rue Holdings plc. For details of Directors' remuneration, refer to disclosures in the Directors' Report on pages 45 to 52.

	2012 Number	2011 Number
Average employee numbers	**4**	2

2a Auditor's remuneration

Auditor's remuneration is borne by De La Rue Holdings plc. For details of auditor's remuneration, see note 2 to the consolidated Financial Statements.

3a Equity dividends

For details of equity dividends, see note 7 to the consolidated Financial Statements.

4a Investments

	2012 £m	2011 £m
Investments comprise:		
Investments in subsidiaries	**152.4**	152.4

	£m	£m
Cost		
At 31 March 2012 and 26 March 2011	**152.4**	152.4

For details of investments in Group companies, refer to principal subsidiaries, branches and associated companies on page 94.

5a Debtors

	2012 £m	2011 £m
Amounts due within one year		
Amounts owed by Group undertakings	**87.0**	63.8

6a Borrowings

	2012 £m	2011 £m
Short term borrowings		
Bank loans and overdrafts	**21.3**	28.4

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2012 £m	2011 £m
US dollar	**21.3**	24.0
Euro	**–**	0.2
Sterling	**–**	0.7
Other currencies	**–**	3.5
	21.3	28.4

7a Other creditors

	2012 £m	2011 £m
Amounts falling due within one year		
Amounts due to Group undertakings	**14.0**	3.6
Accruals and deferred income	**1.1**	3.6
Other creditors	**15.1**	7.2

8a Creditors: Amounts due after more than one year

	2012 £m	2011 £m
Amounts due to Group undertakings	**–**	9.0

9a Share capital

For details of share capital, see note 18 to the consolidated Financial Statements.

10a Other reserves

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 27 March 2010	45.5	28.4	5.9	39.8	119.6
Share capital issued	0.1	0.7	–	–	0.8
Profit for the financial year	–	–	–	92.9	92.9
Dividends paid	–	–	–	(41.9)	(41.9)
Employee share scheme:					
– value of services provided	–	–	–	1.9	1.9
At 26 March 2011	45.6	29.1	5.9	92.7	173.3
Share capital issued	0.1	1.6	–	–	1.7
Profit for the financial year	–	–	–	69.0	69.0
Dividends paid	–	–	–	(42.0)	(42.0)
Employee share scheme:					
– value of services provided	–	–	–	2.8	2.8
At 31 March 2012	**45.7**	**30.7**	**5.9**	**122.5**	**204.8**

11a Share based payments

For details of share based payments, see note 19 to the consolidated Financial Statements and the Remuneration Report on pages 45 to 52.

12a Related party transactions

The Company has no transactions with or amounts due to or from subsidiary undertakings that are not 100 per cent owned either directly by the Company or by its subsidiaries.

For details of key management remuneration, see note 26 to the consolidated Financial Statements.

PRINCIPAL SUBSIDIARIES, BRANCHES AND ASSOCIATED COMPANIES

As at 31 March 2012

The trading companies and branches listed below include those which principally affect the profits and assets of the Group. A full list of subsidiary undertakings will be filed with the Company's Annual Return.

Country of incorporation and operation		Activities	De La Rue interest in ordinary shares %
Europe			
United Kingdom	DLR (No.1) Limited	Holding company	100
	DLR (No.2) Limited	Holding company	100†
	De La Rue Holdings plc	Holding and general commercial activities	100
	De La Rue International Limited	Security paper and printing, sale and maintenance of CPS products and services, identity systems, brand protection and holograms	100
	De La Rue Overseas Limited	Holding company	100
	De La Rue Investments Limited	Holding company	100
	Portals Group Limited	Holding company	100
	Portals Property Limited	Property holding company	100
Channel Islands	The Burnhill Insurance Company Limited	Insurance	100
Malta	De La Rue Currency and Security Print Limited	Security printing	100
The Netherlands	De La Rue BV	Holding company and distribution and marketing of CPS products	100
Russia	De La Rue CIS	Manufacturing, distribution, service and marketing	100
Switzerland	Thomas De La Rue A.G.	Holding company	100
North America			
USA	De La Rue North America Holdings Inc.	Holding company	100
	De La Rue North America Inc.	Security printing	100
South America			
Brazil	De La Rue Cash Systems Limitada	Distribution, service and marketing	100
Mexico	De La Rue Mexico, S.A. de C.V.	Distribution, marketing and identity systems	100
Africa			
Kenya	De La Rue Currency and Security Print Limited	Security printing	100
Far East			
China	De La Rue Trading (Shenzhen) Co Limited	Distribution, service and marketing	100
Hong Kong	De La Rue Systems Limited	Distribution, service and marketing	100
Sri Lanka	De La Rue Lanka Currency and Security Print (Private) Limited	Security printing	60

†Held directly by De La Rue plc

FIVE YEAR RECORD

Profit and Loss Account

	Note	2008 £m	2009 £m	2010 £m	2011 £m	**2012 £m**
Revenue						
– Continuing operations		467.0	502.4	561.1	463.9	**528.3**
– Discontinued operations	(a)	286.6	121.6	–	–	**–**
Total		753.6	624.0	561.1	463.9	**528.3**
Operating profit						
– Continuing operations		79.2	96.5	109.2	40.4	**63.1**
– Exceptional items – operating		–	(8.9)	(7.5)	(15.6)	**(24.8)**
Total		79.2	87.6	101.7	24.8	**38.3**
Share of profits of associated companies		7.1	8.9	6.3	–	**–**
Exceptional items – non operating		2.6	–	–	55.1	**–**
Profit on continuing operations before interest		88.9	96.5	108.0	79.9	**38.3**
Net interest income/(expense)		2.0	1.4	(5.1)	(3.8)	**(4.1)**
Retirement benefit obligation net finance income/(expense)		0.3	(1.8)	(6.3)	(3.3)	**(1.3)**
Profit on continuing operations before taxation		91.2	96.1	96.6	72.8	**32.9**
Taxation		(24.7)	(28.5)	(26.2)	(5.4)	**(0.7)**
Profit on continuing operations after taxation		66.5	67.6	70.4	67.4	**32.2**
Discontinued operations		21.9	296.5	–	–	**–**
Equity non controlling interests		(0.3)	(1.1)	(0.5)	(0.5)	**(0.6)**
Profit for the financial year		88.1	363.0	69.9	66.9	**31.6**
Dividends		(105.4)	(376.7)	(40.9)	(41.9)	**(42.0)**
Retained (loss)/profit for the period		(17.3)	(13.7)	29.0	25.0	**(10.4)**
Earnings per ordinary share from continuing operations		43.4p	50.9p	71.0p	67.6p	**31.8p**
Diluted earnings per share from continuing operations		42.7p	50.4p	70.5p	67.2p	**31.5p**
Headline earnings per ordinary share (before exceptional items)		41.7p	57.0p	76.2p	24.0p	**43.5p**
Dividends per ordinary share	(b)	21.4p	41.1p	42.3p	42.3p	**42.3p**
Profit on continuing operations before taxation and exceptional items		88.6	105.0	104.1	33.3	**57.7**

Balance Sheet

	£m	£m	£m	£m	**£m**
Non current assets	226.0	228.6	222.3	213.5	**225.6**
Net current liabilities	(87.3)	(87.6)	(67.2)	(58.6)	**(90.9)**
Net cash/(debt)	106.7	(33.1)	(11.0)	(31.2)	**(24.8)**
Other liabilities	(29.9)	(87.3)	(134.6)	(106.9)	**(155.5)**
Equity non controlling interests	(2.3)	(2.9)	(3.2)	(3.5)	**(3.9)**
Equity shareholders' funds	213.2	17.7	6.3	13.3	**(49.5)**

Notes

(a) Discontinued operations include all businesses discontinued between 2008 and 2012. Thus continuing operations are those businesses continuing as at 31 March 2012.

(b) Includes proposed final dividend which, in accordance with IFRS accounting requirements, has not been accrued.

SHAREHOLDERS' INFORMATION

Registered office
De La Rue House
Jays Close
Viables
Basingstoke
Hampshire
RG22 4BS

Telephone: +44 (0)1256 605000
Fax: +44 (0)1256 605336

Registered Number: 3834125
Company Secretary: Mr E H D Peppiatt

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Telephone: +44 (0)870 703 6375
Fax: +44 (0)870 703 6101

Annual General Meeting
The Annual General Meeting will be held at 10:30 on Thursday 26 July 2012 at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in a separate notice to shareholders. The Notice of Meeting can also be found in the investors section on the Group's website.

Electronic shareholder communications
Shareholders can register online at www.investorcentre.co.uk/ecomms to receive statutory communications electronically rather than through the post. Shareholders who choose this option will receive an email notification each time the Group publishes new shareholder documents on its website. Shareholders will need to have their Shareholder Reference number ('SRN') available when they first log in. This 11 character number (which starts with the letter C or G) can be found on share certificates and dividend tax vouchers. Shareholders who subscribe for electronic communications can revert to postal communications or request a paper copy of any shareholder document at any time in the future.

Electronic voting
All shareholders can submit proxies for the AGM electronically by logging onto Computershare's website at www.eproxyappointment.com

Shareholder enquiries
Enquiries regarding shareholdings or dividends should, in the first instance, be addressed to Computershare Investor Services PLC. Details of shareholdings and how to make amendments to personal details can be viewed online at www.investorcentre.co.uk Shareholder helpline telephone: +44 (0)870 703 6375

Dividends
Shareholders are encouraged to have dividends paid directly into their bank accounts to ensure an efficient payment method on the payment date. Shareholders selecting this payment method will receive a tax voucher in respect of each dividend payment.

Consolidation of shares
Where registered shareholdings are represented by several individual share certificates, shareholders may wish to have these replaced by one consolidated certificate. De La Rue will meet the cost for this service. Share certificates should be sent to the Company's registrar together with a letter of instruction.

Internet
The Group has a wide range of information that is available on its website www.delarue.com including:

- Financial information – annual and interim reports, financial news and events
- Share price information
- Shareholder services information
- Press releases both current and historical

Analysis of shareholders at 31 March 2012

	Shareholders		Shares	
By range of holdings	Number	%	Number	%
0 – 1,000	5,282	76.84	1,744,034	1.75
1,001 – 5,000	1,190	17.31	2,325,666	2.34
5,001 – 10,000	103	1.50	727,004	0.73
10,001 – 100,000	187	2.72	6,734,066	6.77
100,001 – 500,000	82	1.19	18,164,858	18.26
500,001 and above	30	0.44	69,802,795	70.15
Total	6,874	100.00	99,498,423	100.00

Share dealing facilities
Computershare Investor Services PLC
Computershare, the Company's registrar, provides a simple way to sell or purchase De La Rue plc shares.

Internet share dealing
Available 24 hours a day/seven days a week with real time pricing in market hours. Commission is charged at 1 per cent, subject to a minimum charge of £20, with no set up or annual management fees. Further information can be obtained by logging on to: www.computershare.com/dealing/uk

Telephone share dealing
Commission is charged at 1 per cent plus £25, with no set up or annual management fees. The telephone share dealing service is available from 8:00 to 16:30 Monday to Friday, excluding bank holidays on telephone number: +44 (0)870 703 0084

Stocktrade
An execution only telephone dealing service has been arranged with Stocktrade which provides a simple way for buying or selling De La Rue plc shares. Basic commission is 0.5 per cent, with a minimum charge of £17.50 up to £10,000 and then 0.2 per cent thereafter with no maximum. For further information, please call +44 (0)845 601 0995 and quote reference Low Co103.

Capital gains tax
March 1982 valuation
The price per share on 31 March 1982 was 617.5p.

Shareholders are advised to refer to their brokers/financial advisers for detailed advice on individual capital gains tax calculations.

Financial calendar

Ex dividend date for 2011/12 final dividend	4 July 2012
Record date for final dividend	6 July 2012
Payment of 2011/12 final dividend	2 August 2012

Jersey's £100 commemorative note, designed and printed by De La Rue and issued by the States of Jersey to coincide with the Diamond Jubilee of Her Majesty Queen Elizabeth II. The note incorporates an engraving of the portrait 'Equanimity'; a creative collaboration between artist Chris Levine and holographer Robert Munday of UK company Spatial Imaging. The portrait was commissioned by Jersey Heritage Trust on behalf of the Island of Jersey to mark the octocentennial anniversary of the island's allegiance to the Crown.

Area of intaglio detail shown under magnification on front cover.

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