De La Rue plc
Annual Report 2013

De La Rue
200
INNOVATING FOR THE FUTURE

1813
2013

Innovating for the future

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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

Innovating for 200 years

De La Rue

Over the past 200 years, De La Rue has established an unparalleled record of innovation that continues today.

Founded by Thomas de la Rue in Guernsey in February 1813, De La Rue is a trusted partner of governments, central banks, issuing authorities and commercial organisations operating in over 150 countries across the world.

Innovation milestones

1813

Thomas de la Rue's first commercial venture was in 1813, when he published the first edition of *Le Miroir Politique* newspaper in Guernsey.

1831

The modern playing card was evolved with the invention of a new process – the typographical method. As a result Thomas de la Rue was awarded a Royal Letters Patent from King William IV for the manufacture of playing cards.

1838

To celebrate the Coronation of Queen Victoria, Thomas de la Rue printed a special golden edition of *The Sun* newspaper.

1846

In 1846 De La Rue registered its patent for the first envelope folding machine. In one hour the machine could produce 2,700 envelopes. It was exhibited, with several other De La Rue innovations, at the Great Exhibition of 1851 in London.

1853

De La Rue was awarded the contract to print adhesive fiscal stamps for the UK's Board of Inland Revenue. Not only the first stamps to be surface printed, they were also the first perforated stamps to be issued.

1881

De La Rue developed the first practical fountain pens in 1881, which were later to be developed into the famous Onoto pen.

1940s

During World War II, Portals, De La Rue's subsidiary, developed the incorporation of an embedded metallic thread into banknotes to defend against the threat of counterfeit notes.

2009

In June 2009, De La Rue secured a 10 year contract to design and produce the new UK ePassport, one of the most secure identity documents in the world today.

The design is based on a theme of 'Scenic United Kingdom', capturing images from across the UK. Sitting behind these images are highly sophisticated layers of security features to ensure the passport's integrity.

In November 2012, just 24 months after production commenced, the ten millionth ePassport was issued.

1967

De La Rue jointly developed and installed the world's first through the wall ATM at Barclays Bank in Enfield, UK.

Photo below used with kind permission of Barclays Bank PLC

2013

In April 2013 De La Rue won the Queen's Award for Enterprise: Innovation for its super wide Optiks™ banknote security thread with a clear window in the banknote, and the associated papermaking process.

Optiks™ represents a step change in both security thread and papermaking technology.

This is the twelfth time that De La Rue has been honoured with a Queen's Award.

THE QUEEN'S AWARDS
FOR ENTERPRISE
INNOVATION
2013

1984

Building on earlier innovations in security thread technology, in 1984 Portals pioneered the revolutionary process for incorporating a windowed thread into a banknote. This has become a well established feature in many banknotes around the world.

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Innovative technologies

Safeguard™

Safeguard™, De La Rue's polymer substrate, is the result of an intensive four year development and investment programme and provides customers with an alternative substrate offering improved durability.

De La Rue is the only supplier to offer full vertical integration of polymer design, substrate manufacture and printing expertise. Our award winning design expertise ensures that Safeguard™ notes meet the customers' aesthetic and security criteria including novel design elements using clear window areas in the note. Established banknote print processes are all compatible with Safeguard™.

To mark our 200th anniversary, we have produced a sample house banknote using Safeguard™ which depicts a Grey Heron, with the clear window used as a design feature to depict its aquatic habitat.

Cornerstone®

In response to the problem of folded corners on banknotes in circulation which reduces their useful life, De La Rue launched Cornerstone® in 2003. This innovative approach reinforces and stiffens the corners of the banknote as an integral part of the papermaking process. In the past 10 years Cornerstone® has been incorporated in over 22 billion banknotes.

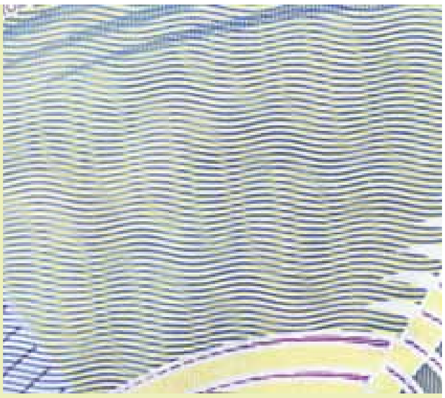
Cornerstone® has also been successfully introduced as a feature in passports, providing additional durability to the paper of the personal data page. In addition, Cornerstone® provides increased security against counterfeiting or substitution of the data page.

Cornerstone® in a passport (right) and in a banknote (below)

Spectrum™

Spectrum™ is a new print feature which builds on proven latent image technology. The printed image changes as the angle of view is shifted, revealing additional images and colours. Spectrum™ is available in a range of colours and effects, offering considerable design flexibility.

An area depicted as a leaf where the sections of the leaf change colour when tilted



An area on the note which, when tilted, the pattern changes from a linear to a bicolour circular pattern

Innovative technologies

SPARK® Orbital™

SPARK® Orbital™ is an innovative ink effect that has been developed by De La Rue as an extension of SICPA's optically variable SPARK® ink technology. By using a novel magnetic process during production, a new effect has been created where a bright ring appears to slip freely within the print area. This is a security feature that is easy for the public to see and understand. It can be developed in a range of designs and colour combinations, has a wide number of applications and is suitable for both paper and polymer substrates.

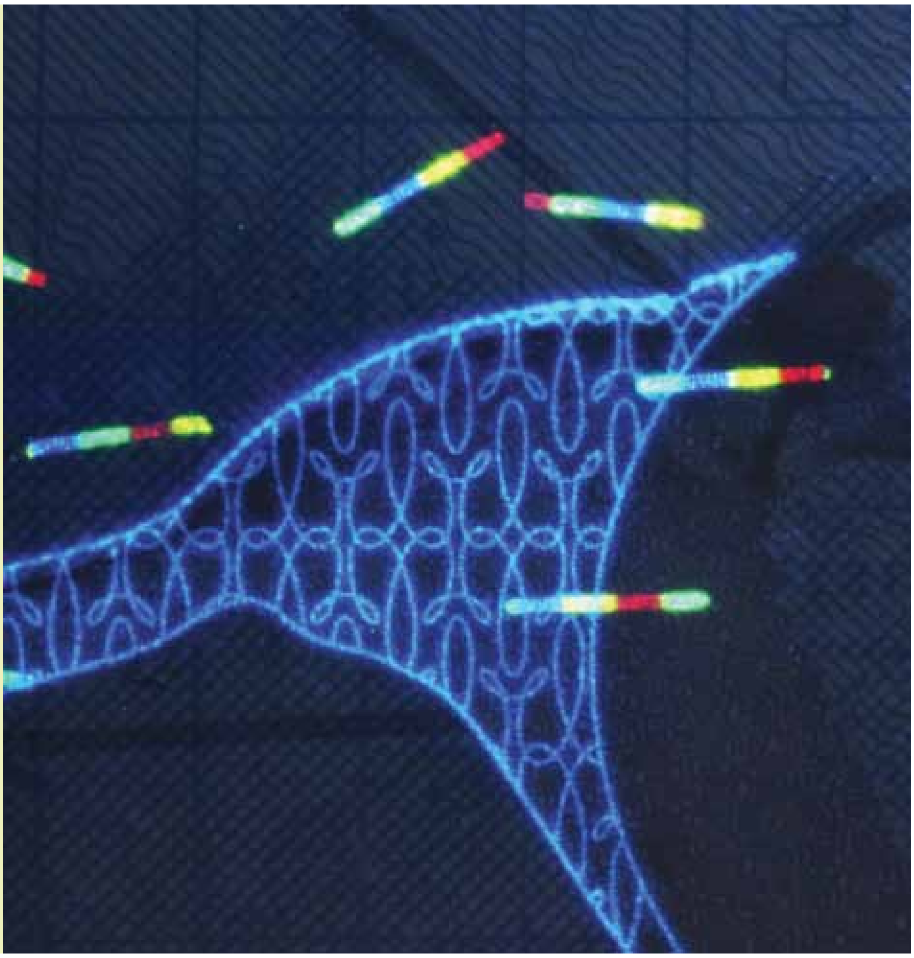
Government revenue solutions

De La Rue has successfully implemented a product authentication system for the Cameroon government. The system is a dual language, web based solution which allows the Ministry of Finance to order and monitor the delivery of tax stamps. The traceability of every stamp is assured by the use of unique codes and handheld scanners, deployed by Customs and Trade inspectors to scan products in real time. This checks whether a label is valid and applied to the correct product.

With many years of experience implementing tax stamp schemes, De La Rue was able to implement this highly complex solution involving numerous products, countries and stakeholders. For our customer this is the first step towards a wider consumer and revenue protection programme and demonstrates real leadership in the reduction of illicit and potentially dangerous goods.

Banded fibres

In 2009 De La Rue developed a new system for incorporating bands of visible or fluorescent fibres in a tightly controlled area of passport paper. Typically seen next to the spine of a passport book, these bands present a simple but effective countermeasure to page insertion or counterfeiting. The UK ePassport was the first identity document to include this feature, which has since been adopted by other countries.



De La Rue 200

INNOVATING FOR THE FUTURE

Innovative design

Design

De La Rue's award winning design and origination department is the largest of any commercial banknote and security printer in the world. It provides an industry leading centre of excellence for the design of banknotes and security documents.

Banknote design is a complex process which begins with a concept agreed with the customer. The design realisation process must then accommodate all aspects of banknote production including the choice of substrate, multiple overt and covert security features as well as sorting and authentication requirements.

Our team of highly experienced banknote designers has been consistently successful in winning design awards, both for banknotes designed entirely in house and for collaborative projects with central banks.

Our security print experts, using specialist software, handle more than 100 complex design projects a year, from personal identification documents such as passports, to authentication labels and a varied range of other secure print products.

Holographics

De La Rue has been designing and producing secure holograms since 1987, pioneering and refining classical holography techniques to bring stunning colour and depth effects recognisable in their holographic images.

Commencing with secure labels for video cassettes, De La Rue produced its first banknote holograms in 1993. This led to holograms being specified for other secure documents such as payment cards, identity documents, fiscal stamps and brand authentication devices.

Kazakhstan 5000 tenge

De La Rue's track record of winning international recognition for banknote design has continued, with the International Bank Note Society selecting the Kazakhstan 5000 tenge note as their 2012 Banknote of the Year.

This banknote was jointly designed by the National Bank of Kazakhstan and De La Rue working in close collaboration. In keeping with other Kazakh banknotes, this denomination has a portrait orientation on the front of the note and a more traditional landscape orientation on the back.

The front of the note depicts the Kazakh Eli monument, the national emblem and the national flag, along with images of flying doves.

High level holographic features include De La Rue's Depth™ security thread, which appears on the surface of the front of the note, and Depth™ stripe which appears on the back.

Innovative future

R&D

The Group has a track record of successful innovation and is determined that this continues into the future. We are focusing our expertise and investment to accelerate the rate of idea generation and development and enable us to offer customers the very latest technologies. This allows us to provide differentiation and achieve competitive advantage.

Initiatives include:

- Dedicated customer conferences and user groups to understand future customer requirements
- Establishment of several technical partnerships, including with suppliers, allowing us to work with leading edge experts around the world to develop new secure products and solutions
- Collaboration with academic institutions on material science research to gain access to early stage technologies
- Investment in an industry leading technology centre and a new holographics laboratory


Artist's impression of De La Rue's new technology centre

De La Rue at a glance

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 recent years, 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.

2013 Revenue

£483.7m

2012: £528.3m

2013 Operating profit
(before exceptional items)

£63.2m

2012: £63.1m

2013 Profit before tax

£51.5m

2012: £32.9m

2013 Headline earnings per share
(before exceptional items)

44.4p

2012: 43.5p

2013 Operating cash inflow

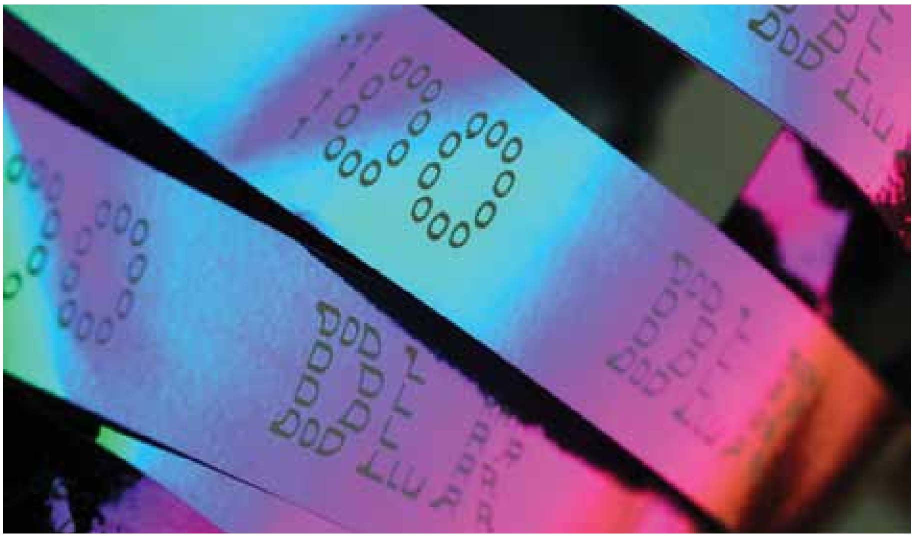
£40.4m

2012: £78.4m

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.

2013 share of Group revenue	2013 share of Group operating profit (before exceptional items)
61.2%	60.1%
2012: 64.2%	2012: 72.1%



Solutions

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

2013 share of Group revenue	2013 share of Group operating profit (before exceptional items)
38.8%	39.9%
2012: 35.8%	2012: 27.9%

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. These solutions 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, focusing on the provision of passport, ePassport, national ID and eID, driving licence and voter registration schemes.

Our vision

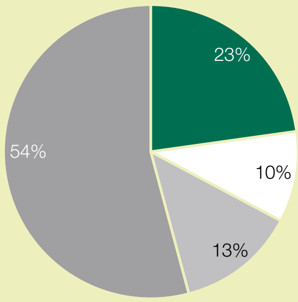
De La Rue's vision is to be the leading provider of secure products and services, touching the lives of everyone, everyday.

We will achieve this by building long term, mutually beneficial partnerships through a sustained focus on customers, innovation, professionalism and operational excellence.

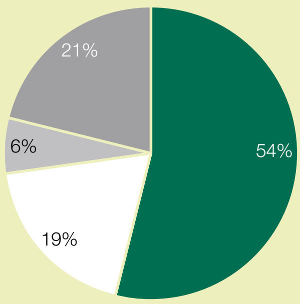
The values and behaviours that will enable us to realise this vision are understood across the business.

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



How we create value

Central banks, issuing authorities and commercial organisations rely on our products and solutions to deliver security and confidence when conducting their everyday transactions. With an increasingly mobile society and technological developments, the ability to buy things securely, to protect identity, revenues and brands, and to fight counterfeiting and illicit trade are of increasing importance.

De La Rue offers a proven track record in innovation, sophisticated design capabilities and in the 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 add value.

We are investing in our people, assets, processes and innovation, enabled by our cash generative business model. This ensures we have the technology and capacity to meet customer needs, maintain an industry leading position and deliver sustainable growth while providing attractive returns for investors.

Chairman's statement

We enter the year with increased cost savings identified and a strong pipeline of order opportunities, which must of course be secured for delivery in the year. As a result, the Board remains confident of achieving the 2013/14 Improvement Plan target.

Philip Rogerson
Non-executive Chairman

Group results

Against a backdrop of a more challenging currency market, including delays in expected orders, the Group has reported an 8 per cent reduction in revenue to £483.7m (2011/12: £528.3m).

Operating profit before exceptional items was in line with the prior year at £63.2m (2011/12: £63.1m). Profit before tax and exceptional items increased by 2 per cent to £59.1m (2011/12: £57.7m) reflecting lower finance costs.

Exceptional charges in the year totalled £7.6m (2011/12: £24.8m) predominantly in relation to the ongoing implementation of the Improvement Plan.

Headline earnings per share, before exceptional items, increased by 2 per cent to 44.4p (2011/12: 43.5p). Basic earnings per share was 43.3p (2011/12: 31.8p).

De La Rue has continued its track record of good cash generation with net cash of £40.4m generated from operations. At the year end, the Group had a modest level of net debt of £76.7m (2011/12: £24.8m). Interest cover, before exceptional items, remained strong at 18 times (2011/12: 15 times).

Dividend

The Board is recommending a final dividend of 28.2p per share (2011/12: 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 2013, this will give a total dividend for the year of 42.3p per share (2011/12: 42.3p per share). Subject to approval by shareholders, the final dividend will be paid on 1 August 2013 to shareholders on the register on 5 July 2013.

Strategy

In May 2011 the Group announced the three year Improvement Plan, and focus on this will remain the priority for the business until the conclusion of the 2013/14 financial year. In the year to March 2013 we continued to build on De La Rue's fundamental strengths and on addressing the opportunities for improvement in many parts of the business. As is reported below, significant progress, particularly on process improvement and cost reduction, has been delivered and will continue in the 2013/14 financial year.

We are, however, well advanced in developing the Group strategy for the period following completion of the Improvement Plan and expect to be able to share conclusions with investors during the later part of the financial year. The strategy will build further on the Group's fundamental strengths of brand, market access, innovation and geographic reach and will also leverage leaner operating capability, further cost reduction opportunities and enhanced R&D performance post the Improvement Plan.

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

Sir Julian Horn-Smith, who was appointed a Non-executive Director of the Company on 1 September 2009, stepped down as a Director on 31 December 2012 owing to his other business commitments. The Board would like to thank Julian for his wise counsel and significant contribution to the business.

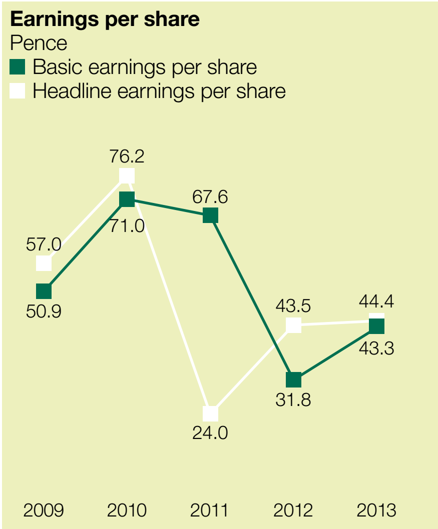
Andrew Stevens joined as a Non-executive Director of the Company on 2 January 2013, bringing extensive international experience in the technology and engineering sectors, having spent over 30 years operating across the globe.

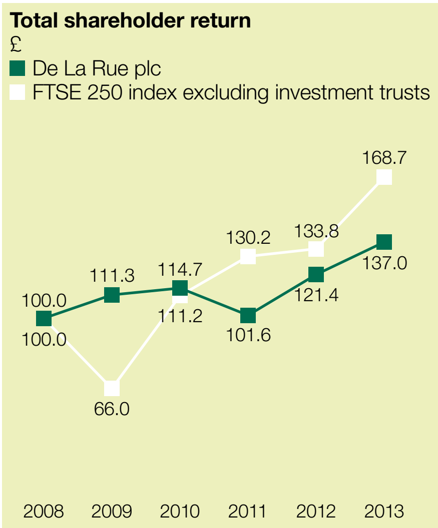
Sir Jeremy Greenstock, who was appointed a Non-executive Director of the Company on 1 March 2005, and has served as the Senior Independent Director since January 2010, has decided to retire from the Board following the AGM in July 2013. Jeremy has made an invaluable contribution during his time on the Board and the Group has benefited greatly from his sound advice and international experience. The Board thanks Jeremy for his commitment and guidance and wishes him well.

Warren East will become the Senior Independent Director with effect from 25 July 2013.

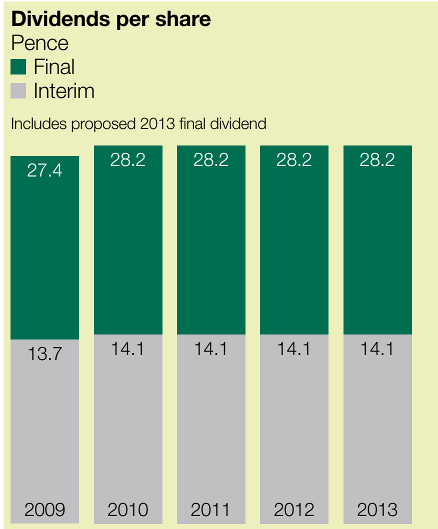
Outlook

We enter the new financial year with increased cost savings identified and a strong pipeline of order opportunities, more than 10 per cent higher than at the same time last year. Whilst these opportunities must be secured for delivery in the year, the Board remains confident of achieving the 2013/14 Improvement Plan target of an operating profit in excess of £100m (excluding the impact of IAS 19).





The graph shows the value, at 30 March 2013, of £100 invested in De La Rue plc on 29 March 2008 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)



Chief Executive's review

Given the fundamental strengths of the business and real momentum on the Improvement Plan, I believe that the Group has a strong foundation from which to achieve sustainable growth over the long term.

Tim Cobbold
Chief Executive

Introduction
During the year, we have made good progress on the Improvement Plan and enter the third year of the Plan with real momentum. The benefits gained in cost savings and process improvement have helped improve our operating margin notwithstanding the challenging market conditions.

The Group has reported an 8 per cent reduction in revenue to £483.7m (2011/12: £528.3m) largely reflecting lower trading volumes in the Currency business unit. Operating profit (before exceptional items) was £63.2m (2011/12: £63.1m).

Savings of £12m were realised in the period bringing the annual cost reductions under the Improvement Plan to £20m.

Order intake in the period was lower than originally expected, reflecting delays in a number of important Currency contracts, lower overspill and the challenging currency market. At the year end, the Group 12 month order book, excluding currently suspended orders, was down 17 per cent at £207m (2011/12: £248m).

However, the pipeline of order opportunities is strong, with an increased level of overspill prospects compared with the low level experienced in 2012/13. We expect that an appropriate proportion of this pipeline will be converted into orders for delivery in 2013/14.

Delivering the Improvement Plan
We have continued to make good progress on the implementation of the Plan, the benefits of which have become more important in the increasingly challenging currency market. The improvements generated through the revenue initiatives have helped in part to mitigate these challenges. The cost reduction programme is ahead of schedule and is now expected to exceed our original target by £10m and deliver annual savings of £40m by the end of the Plan. We have identified further cost reduction opportunities that will be pursued in the periods beyond 2013/14.

The Plan includes an investment programme to improve manufacturing capability, quality and efficiency with capital expenditure in the period of £37.1m, bringing the cumulative spend in the first two years of the Plan to £69.2m. Over the three years of the Plan we expect to have invested c£100m. This ongoing programme will give the Group greater flexibility and improve its competitive position, allowing it to respond better to market opportunities.

Revenue growth

Customer focus and innovation are two key elements of the Improvement Plan designed to generate sustainable long term growth. Both aspects are now well established and have considerable momentum throughout the organisation.

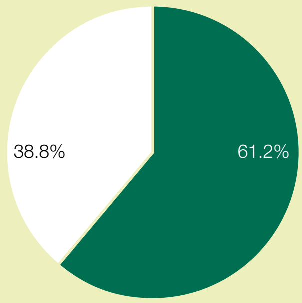
Country plans

- These are now an established part of our sales planning process and are in use throughout the business. They ensure that the Group's sales activities are coordinated as well as providing a strategic perspective on the opportunities in a country or region. As a result we have combined sales responsibilities in a number of territories

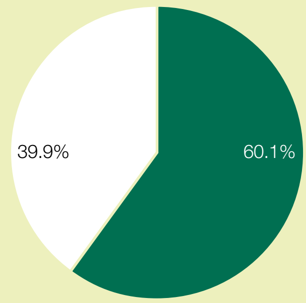
Innovation

- R&D has become a key focus for the business and this year more qualified ideas have progressed through the development process. We expect the level of investment in R&D to increase to ensure we have a strong pipeline of new technologies, solutions and security features
- Construction of the new technology centre is well advanced and will be completed on schedule during the summer
- The development of Safeguard™, our polymer banknote substrate, and related security features, has been a priority. Three polymer note orders have been received during the year from both banknote and substrate customers and the first banknote produced on the Safeguard™ substrate, the Fiji $5, entered circulation in 2013
- We have established several promising technical partnerships to accelerate the rate of idea generation and development and to access technologies new to the industry
- Insight™, the next generation of Optiks™, was launched in the year and we were honoured to receive the Queen's Award for Enterprise: Innovation this year for the Optiks™ product. This is the twelfth time De La Rue has received a Queen's Award

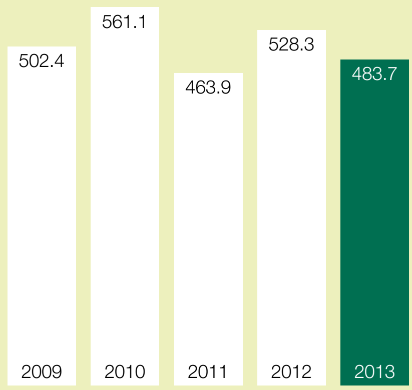
Business revenue
Percentage
Currency 61.2%
Solutions 38.8%
Cash Processing Solutions 12.7%
Security Products 8.7%
Identity Systems 17.4%



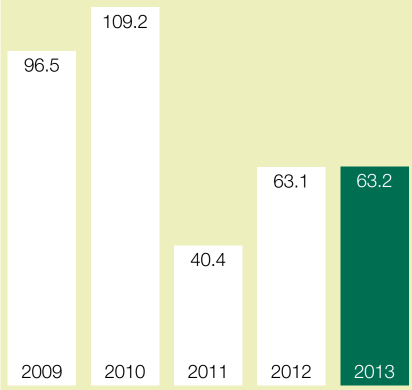
Operating profit before exceptional items
Percentage
Currency 60.1%
Solutions 39.9%
Cash Processing Solutions 0%
Security Products 14.1%
Identity Systems 25.8%



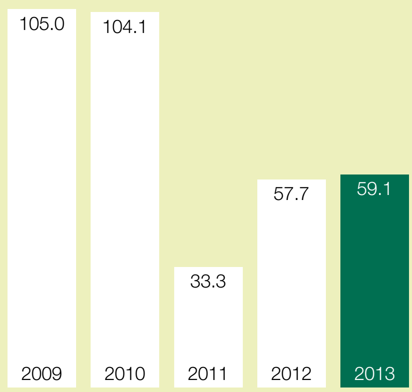
Revenue
£m



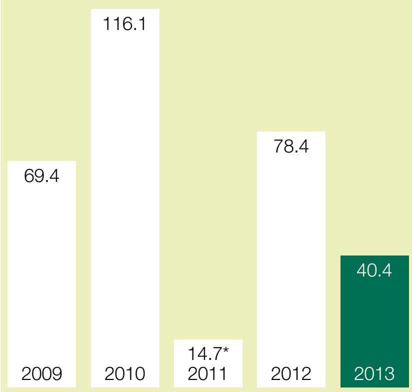
Operating profit before exceptional items
£m



Profit before tax and exceptional items
£m



Operating cash inflow
£m
*adjusted for £35m one off pension contribution



Cost reduction

The Improvement Plan included targeted cost reductions of £30m (excluding movements in cotton comber pricing) from process improvement, procurement and facility optimisation. Excellent progress has been made in all areas, and with the experience gained from these initiatives we have now identified opportunities for further savings primarily in process improvement and procurement. Based on current volume expectations, these opportunities are targeted to generate an additional £10m of annual cost reductions by the end of the Plan.

Facility optimisation

- The relocation of operations from the Stroudley Road and Dunstable factories into the Westhoughton and Gateshead facilities respectively is now complete. This consolidation is generating savings of £6m per annum and we are already benefiting from improvements in the operating performance of the transferred processes in their new locations

Procurement

- A strong procurement team has been established and is proving effective at generating cost reductions in the supply chain by deploying skills and techniques developed outside the industry
- As a result the procurement cost reduction target has been raised by 25 per cent to £15m per annum
- Supplier quality improvement and relationship management programmes have been introduced, we believe for the first time in the industry. These have already been successful in driving quality improvement, accelerating innovation and delivering cost reduction in the supply base

Process improvement

- Significant investment programmes, particularly in Westhoughton and Gateshead, are well underway and proceeding to plan. These, combined with a continued focus on lean manufacturing, are providing enhanced capability and capacity, reduced cost and improved quality as more up to date technologies are introduced
- Excellent progress continues to be made in establishing a continuous improvement culture and in creating an industry leading supply chain with the operational flexibility to meet the variability in demand which is a feature of this 'lumpy' market. A key element of this flexibility has been the negotiation of new labour agreements in some facilities with discussions ongoing in others. These have been complemented by new, flatter management structures where responsibilities and accountabilities are much clearer
- The strengthened quality team remains focused on implementing world class systems and processes, introducing proven tools and techniques from other industries. This has already delivered a significant improvement in all quality measures, both external and internal. These initiatives have been supported with investment in new, industry leading environmentally controlled quality laboratories and equipment
- The Improvement Plan anticipated an investment programme of c£100m over the three year period to facilitate quality and productivity improvements. The investment programme is proceeding well with capital expenditure of £37m in the year and tangible benefits already being delivered

People

De La Rue is proud of the quality of its employees who are relied upon by customers around the world for their knowledge, dedication and expertise. In a period of ongoing change they have continued to meet the needs of our customers and embrace the necessary changes in the business and I thank them for their contribution and support.

Conclusion

We enter 2013/14 with increased cost savings identified and a strong pipeline of order opportunities which must of course be secured for delivery in the year. As a consequence, I remain confident of achieving the 2013/14 Improvement Plan target of an operating profit in excess of £100m.

Given the fundamental strengths of the business and real momentum on the Improvement Plan, I believe that the Group has a strong foundation from which to achieve sustainable growth over the long term.

Improvement Plan

Our three year Improvement Plan was launched in May 2011 to deliver revenue growth and cost reduction. The Plan leverages De La Rue's fundamental strengths of brand, reputation, customer relationships and innovation.

We have made good progress during the first two years of the Plan and enter the third year with considerable momentum.

The Improvement Plan will provide a strong foundation on which to build the Group's future strategy.

Target 2013/14 operating profit
(excluding the impact of IAS 19)

>£100m

	Revenue growth		**Cost reduction**	
	Customer focus	**Innovation**	**Professionalism**	**Operational excellence**
Vision	To be a valued partner to our customers by understanding and delivering their increasingly complex needs and requirements	Market leading innovators developing and adopting technology to provide differentiation and competitive advantage	Continued improvement of the processes and systems deployed in the business	Creation of industry leading manufacturing, quality, design and procurement functions to maximise efficiency, reduce costs and provide a competitive advantage
Initiatives	• Integrated customer relationship management across Currency and Solutions **Implemented** • Shared marketing and pipeline management processes **Adopted** • Bespoke country plans identifying customer needs **Established**	• Group wide R&D function to drive innovation **Established** • Investment in industry leading technology centre **Ongoing** • Relationships with academic institutions to access early stage technologies **Established**	• Programme to standardise best practice across the business **Well advanced** • Goals and objectives communicated to all employees **Ongoing** • Process definition review prior to upgrading IT systems **Completed**	• Upgrading of our manufacturing methodology and facilities **Well advanced** • Centralised procurement and quality assurance teams **Established** • Consolidation of manufacturing footprint **Completed**
Outcomes	• Reinforce existing and establish new long term customer partnerships • Meet and exceed customer expectations • Maximise market development opportunities	• Product differentiation delivering competitive advantage • At the forefront of developments in technology to meet customer needs	• Integrated systems to ensure greater efficiency • Best practice processes deployed across the Group	• Greater operational and cost efficiencies • Improved quality and lower waste

Operational review

Currency

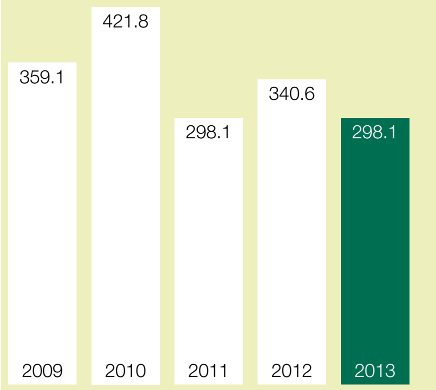
Provides market leading printed banknotes, banknote paper and a comprehensive portfolio of banknote security features. Working in partnership with its customers to provide effective currency solutions, the business also advises on critical issues of currency strategy such as design, demand forecasting,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

Performance in 2012/13
Banknote print volume at 6.3bn notes was similar to the prior year (2011/12: 6.4bn) notwithstanding delayed orders and lower overspill volumes in the market. Paper output volume was, as expected, down 21 per cent at 8,700 tonnes (2011/12: 11,000 tonnes) primarily reflecting more challenging market conditions as a result of excess market capacity.

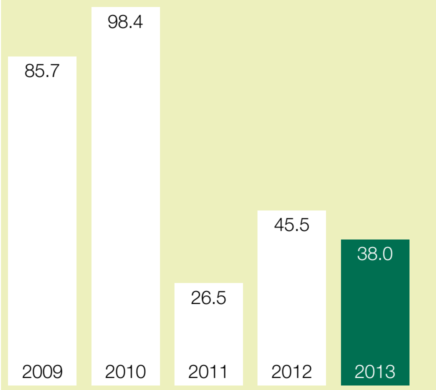
Revenue decreased by 12 per cent to £298.1m (2011/12: £340.6m) with operating profit down 16 per cent at £38.0m (2011/12: £45.5m). These results reflect the reduced paper and component volumes, a less favourable product mix and pricing pressure in the currency market as a whole. These adverse factors have been mitigated in part by the further benefits of the Improvement Plan and lower raw material and component costs, most notably on cotton, which had a favourable impact of £6m compared with 2011/12.

Order intake in the period was lower than originally expected, reflecting delays in a number of important contracts, lower overspill and the challenging currency market. At the year end, the Currency 12 month order book, excluding currently suspended orders, was down 14 per cent at £158m (2011/12: £183m). However, the pipeline of order opportunities is strong, more than 10 per cent higher than the prior year, with an increased level of overspill prospects compared with the low level experienced in 2012/13. We expect that an appropriate proportion of this pipeline will be converted into orders for delivery in 2013/14.

Revenue – Currency*
£m



Operating profit – Currency*
(before exceptional items)
£m



*The Holographics operation, previously part of Security Products, became part of the Currency business, on which it largely depends, from the first day of the 2012/13 financial year and comparatives have been re-presented accordingly.

Libya
Following the revolution in Libya in 2011, one of the first tasks of the Central Bank of Libya was to replace the banknotes to reflect the new regime. In late 2012 De La Rue was awarded the contract following a robust international tender process and work on the new banknotes began in earnest. Libyan designers provided the original design concepts reflecting iconic images of the country. Working in close cooperation with De La Rue's design team these were transformed into the final banknote designs. On 17 February 2013, to mark the second anniversary of the revolution, the first of the new banknotes was introduced into circulation.

Barbados
A new family of banknotes was issued in Barbados on 2 May 2013. This is the first major redesign of Barbados' banknotes since the first series was issued in 1973.

The six denominations – $2, $5, $10, $20, $50 and $100 – have been retained in this new issue. The imaginative design of the new series includes portraits on the front of famous Barbadians who have made a significant contribution to society, with new reverse images celebrating their achievements. De La Rue has worked closely with the Central Bank of Barbados since it was established, and was delighted to be asked to contribute to the design of the new banknote series.

In addition to designing and producing banknotes for Barbados, De La Rue manufactures the Barbados passport.

Market

The key drivers determining the requirement for, and the type of, banknotes used around the world remain the need to provide security in the banknote ahead of the counterfeiter's capabilities, the durability and efficiency of the banknote in circulation and the level of economic activity.

Market demand for banknotes continues to grow on average at about 4 per cent annually although the rate varies around the world reflecting local circumstances. The market available to commercial providers of banknotes and their components is expected to grow at a broadly similar trend rate.

Variability in demand is a feature of the market, with short term fluctuations in the timing and size of orders reflecting the 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.

De La Rue has continued to invest in R&D to ensure that it can offer its customers the very best security features and innovations. The focus has been on durability and printed features including:

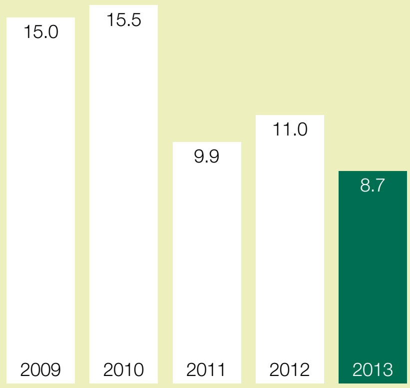
- Safeguard™, De La Rue's polymer substrate product (see page 4 for further information). Our first customer for this product, Fiji, has issued its polymer denomination into circulation (see case study, right) and a number of other customers, one of which has its own printing works, have purchased Safeguard™. Their banknotes will be issued during the course of 2013
- SPARK® Orbital™ (see page 6 for further details). This feature is designed for use on both paper and polymer substrates
- Spectrum™, a new print feature building on proven latent technology (see page 5 for further details)

De La Rue has also improved its capability in thread making, foil application and paper coatings to give more options for customers.

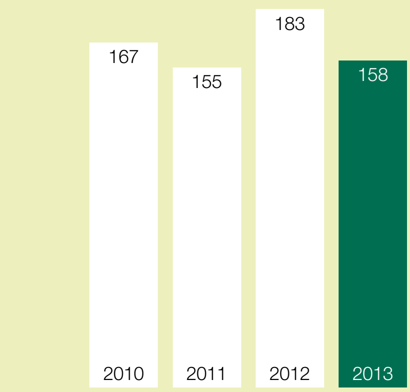
The demand for effective, good value security features remains a strong driver in the market and De La Rue's focus on its R&D portfolio reflects this. During 2012/13 nearly twice as many Currency related patents were filed compared with the previous year.

Banknote print volume
Billion notes

Banknote paper output volume
'000 tonnes



Currency year end 12 month order book
£m



Fiji
In December 2012 the Reserve Bank of Fiji unveiled its new series of banknotes based on flora and fauna designs celebrating Fiji's biodiversity. The entire series, comprising vibrant and elegant images, was designed and printed by De La Rue and incorporates the latest security features. The $5 denomination within this series is the first banknote in circulation using De La Rue's Safeguard™ polymer substrate.

Solutions

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

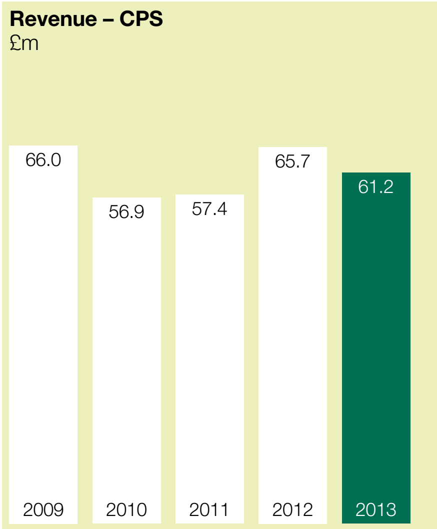
Cash Processing Solutions (CPS)

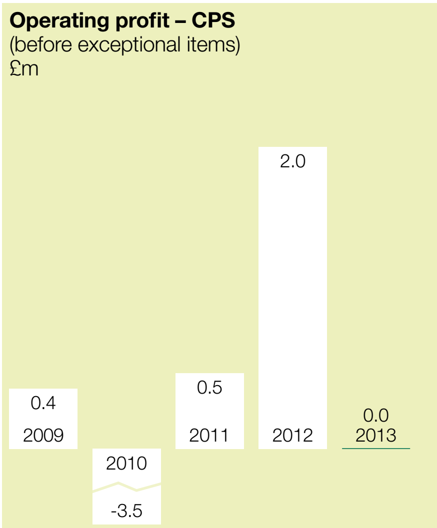
Performance in 2012/13
The decreased revenue and operating profit mainly reflect reduced second half volumes and in particular customer related delays in large sorter installations straddling the period end. Service revenues were slightly lower than the prior year but remain an important source of income. The first two DLR 9000 single note inspection machines are now in operation in the Gateshead Currency print facility, with a further machine planned for 2013/14. The level of customer enquiries for this new product has been encouraging.

Market
Maintaining a currency's integrity and minimising the cost of handling cash is an important element of a central or commercial bank's operation.

With the increasing volumes of cash in circulation, both central and commercial banks are under pressure to provide efficient, secure cash processing solutions. Using sophisticated vault software and hardware solutions, much of the process can be automated while also providing the data and controls needed to minimise cost and ensure the quality and integrity of the notes processed.

De La Rue addresses these needs with both its advanced cash sorting machines and market leading vault management software. De La Rue supports and maintains customer solutions via a global network of engineers, often working at customer sites.





Vaultex reaps benefits of ECM™
Vaultex is one of the largest commercial cash processing operations in the UK and has established a longstanding strategic partnership with De La Rue. This close relationship has enabled us to work together to deliver Vaultex's objectives of reducing operational costs and increasing productivity. De La Rue installed its ECM™ Business Intelligence software to identify production inefficiencies and monitor improvements. This targeted deployment of new technology increased processing capacity by over 15 per cent since implementation 18 months ago. The key partnership benefit is that both Vaultex and De La Rue use the same data to manage both the process and the infrastructure.

Security Products

Performance in 2012/13
Revenues were adversely affected by reduced volumes but this was more than offset by an improved product mix and the benefits of the Improvement Plan. Notably, the project to move the Dunstable operation into the Gateshead factory was successfully completed ahead of schedule.

To meet the customer need for a flexible solution, in a market that we expect to grow strongly, a significantly enhanced tax stamp track and trace solution is being developed. This project is well advanced and the solution is expected to be available to customers during the 2013/14 financial year.

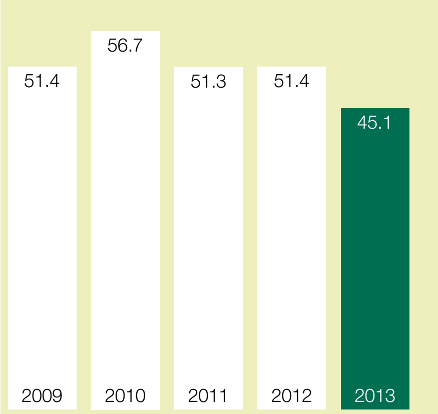
Market
Governments and commercial brand owners continue to come under attack from criminal activity that affects revenue streams and consumer confidence.

Governments continue to work hard to protect indirect tax revenues on products such as alcohol and tobacco by minimising illicit trade. In 2012, 135 countries signed up to the World Health Organization Framework Convention on Tobacco Control, which is committed to eliminating illicit trade in tobacco products. This will require governments to implement unique and secure codes onto cigarette packs and also the ability to track and trace the products through the supply chain. De La Rue is strongly placed to address this market having delivered its flexible track and trace solution for several customers.

Revenue loss from counterfeit goods remains a real threat to global brands. Advanced product technology within labels, linked to digital authentication and tracking solutions, ensures brands are protected and that consumers can be confident of buying genuine products.

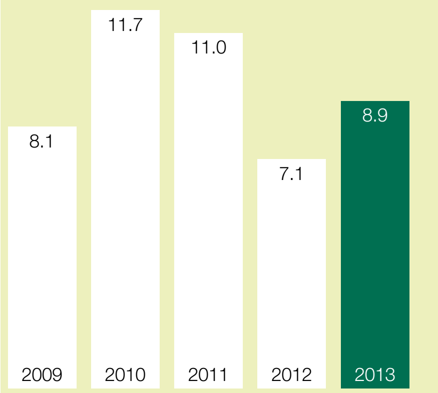
Revenue – Security Products*
£m

*All prior year figures are re-presented to exclude the Holographics business



Operating profit – Security Products*
(before exceptional items)
£m

*All prior year figures are re-presented to exclude the Holographics business



Microsoft Windows 8 launch

Working in partnership in the fight against intellectual property and brand piracy, De La Rue began supplying a new security label in July 2012 to support the launch of Windows 8.

The new brand focused security label was jointly developed to reflect the branding for Windows 8 while also incorporating a number of secure features which, when layered together, provide a visual method of authentication. De La Rue worked under an extremely tight schedule to deliver the new label on time to support the global launch date and to accommodate the pre launch build requirements.

Identity Systems (IDS)

Performance in 2012/13

The Identity Systems operation has performed strongly throughout the year, reflecting increased revenues and operating profit within the international part of the business. Performance on the underlying UK ePassport contract remained strong, benefiting from further process improvements within the Improvement Plan. In addition the roll out of a local print solution to Her Majesty's Passport Office's seven UK regional issuing offices was completed. During the period the business achieved the notable milestone of producing the ten millionth UK ePassport since the contract commenced.

Market

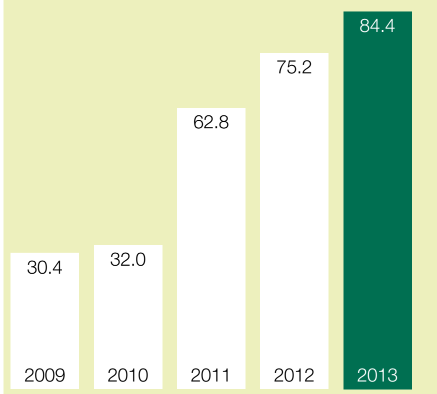
The passport and identity market is increasingly seeking complete integrated solutions, with highly secure passports and ID cards, full and robust integration with other government systems and processes and efficient and reliable personalisation and issuance procedures.

Countries continue to adopt ePassports, which is driving not only the demand for further system integration, but also the need for expertise to take them on the journey and manage the project efficiently and without undue risk.

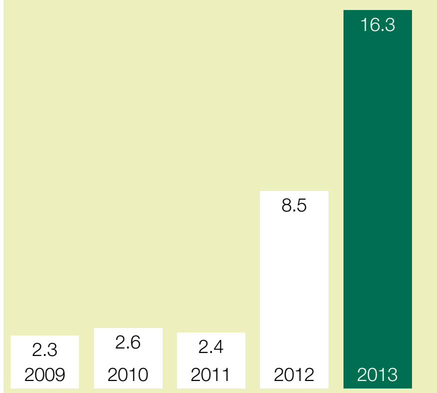
De La Rue is a leading provider of passport and ID solutions and continues to deliver complex projects globally. It is able to offer an in house passport design and production capability as well as issuance and passport personalisation systems. Additionally, De La Rue's experienced project managers are well versed in complex system roll out and integration projects globally.

Identity Systems is a contract based business focused 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.

Revenue – IDS
£m



Operating profit – IDS
(before exceptional items)
£m



UK ePassport – local print solutions

Between March and July 2012 De La Rue rolled out a local passport personalisation solution which is critical to Her Majesty's Passport Office's seven regional issuing offices. This enables HM Passport Office to provide eligible customers with a full passport in as little as four hours, for an additional fee.

Working closely with HM Passport Office, the local print solution was designed, implemented and deployed using core functionality from De La Rue's MIDIS™ software product.

Financial review

The ongoing benefits of the Improvement Plan have helped to mitigate the more challenging market landscape and the Group remains in a strong financial position with good cash flow and a modest level of debt.

Colin Child
Group Finance Director

Key financial summary

	2013	2012	Change
Revenue	**£483.7m**	£528.3m	(8%)
Operating profit before exceptional items[(1)]	**£63.2m**	£63.1m	–
Profit before tax and exceptional items[(1)]	**£59.1m**	£57.7m	2%
Profit before tax	**£51.5m**	£32.9m	57%
Headline earnings per share[(2)]	**44.4p**	43.5p	2%
Basic earnings per share	**43.3p**	31.8p	36%
Operating cash flow	**£40.4m**	£78.4m	
Cash conversion[(3)]	**55%**	97%	
Net debt	**£76.7m**	£24.8m	
Dividends per share[(4)]	**42.3p**	42.3p	

(1) Before an exceptional operating charge of £7.6m (2011/12: £24.8m)

(2) Before exceptional charges per note 1 and exceptional tax credit of £6.5m (2011/12: £13.2m)

(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 fund contributions and movement in advance payments (2012/13: + £2m, 2011/12: - £13m), less capital expenditure, divided by operating profit before exceptional items

(4) Includes proposed final dividend

Introduction

The 2012/13 year has proved a more difficult one than expected, with order delays and a more competitive market place impacting the Group's results. However, good progress has been made on the Improvement Plan which has helped to mitigate the challenging market environment.

Financial results

The Group has reported an 8 per cent reduction in revenue to £483.7m (2011/12: £528.3m). This reduction primarily reflects lower trading volumes in the Currency business unit.

Operating profit before exceptional items was in line with the prior year at £63.2m (2011/12: £63.1m) with lower material costs and Improvement Plan savings offsetting the reduced trading volumes and a less favourable product mix. The Improvement Plan savings of £12m realised in the period bring the annual cost reductions under the Plan to £20m. As a result, the Group operating profit margin (before exceptional items) improved to 13.1 per cent (2011/12: 11.9 per cent). Foreign exchange movements adversely impacted revenue by £3m and operating profit by £2m (2011/12: £1m and £1m respectively).

Profit before tax and exceptional items increased by 2 per cent to £59.1m (2011/12: £57.7m) reflecting lower finance costs of £4.1m (2011/12: £5.4m). Headline earnings per share, before exceptional items, also increased by 2 per cent to 44.4p (2011/12: 43.5p).

Exceptional charges in the year totalled £7.6m (2011/12: £24.8m) predominantly in relation to the ongoing implementation of the Improvement Plan. Basic earnings per share was 43.3p (2011/12: 31.8p).

De La Rue has continued its track record of good cash generation with net cash of £40.4m generated from operations. At the year end, the Group had a modest level of net debt of £76.7m (2011/12: £24.8m).

Exceptional items

Exceptional costs of £7.6m were incurred in 2012/13 in connection with the ongoing costs of implementing the Improvement Plan (2011/12: £24.8m). This brings the cumulative exceptional charges taken in respect of the Improvement Plan to a total of £31.7m. The cash cost of exceptional items in the period was £17.3m (2011/12: £3.7m) bringing the cumulative cash cost under the Improvement Plan to date to £21.0m.

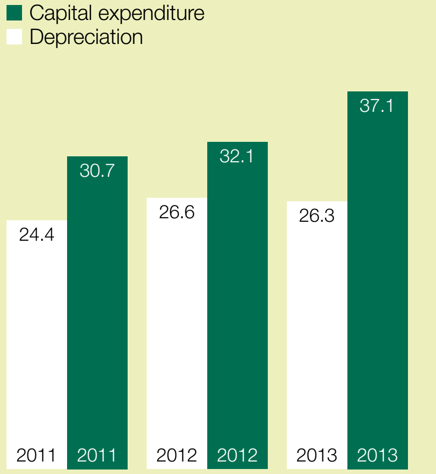
The £7.6m exceptional operating charge reported in 2012/13 (2011/12: £24.8m) comprised £0.8m (2011/12: £11.3m) in staff compensation, £0.2m (2011/12: £1.1m) of fixed asset impairment charges, £4.3m (2011/12: £8.8m) for site exit costs and £2.3m (2011/12: £2.9m) in other associated reorganisation costs. The exceptional charge in 2011/12 also included additional costs of £0.7m associated with the paper quality issue that arose in 2010/11.

Dividend

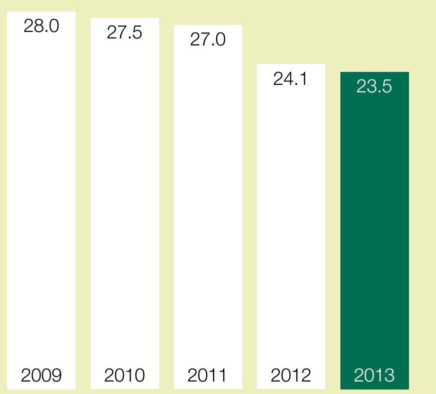
The Board is recommending a final dividend of 28.2p per share which, together with the interim dividend paid in January 2013, will give a total dividend for the year of 42.3p per share (2011/12: 42.3p per share).

The Board's normal dividend policy is to maintain a cover of 1.75 times on underlying earnings. The proposed total dividend for the year is covered 1.05 times which, although below the policy level, reflects the Board's confidence in delivering the Improvement Plan.

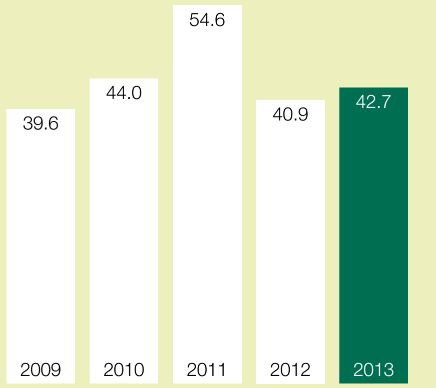
Capital expenditure relative to depreciation
£m



Underlying effective tax rate before exceptional items
Percentage

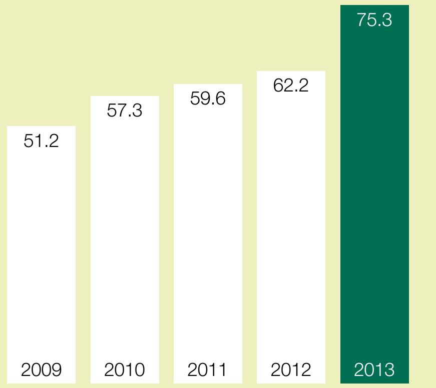


Group working capital – advance payments
£m



Group working capital – trade working capital
£m

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



Taxation

The net tax charge for the year was £7.4m (2011/12: £0.7m). The effective tax rate, before exceptional items, was 23.5 per cent (2011/12: 24.1 per cent), predominantly reflecting the reduction in the UK statutory tax rates.

A credit of £2.1m (2011/12: £6.2m) arises on the exceptional items noted above. In addition there was an exceptional credit of £4.4m (2011/12: £7.0m) in respect of the determination of the tax treatment of prior year exceptional items.

Cash flow and borrowings

Cash inflow from operations was £40.4m (2011/12: £78.4m) primarily reflecting the high level of cash spend on exceptional items and an increase in year end working capital. The movement in working capital predominantly reflects an increase in trade debtors resulting from the timing of shipments around the year end. Advance payments increased to £42.7m (2011/12: £40.9m). Capital expenditure of £37.1m (2011/12: £32.1m) was higher than depreciation, reflecting expenditure on Improvement Plan projects.

The Group ended the year with modest net debt of £76.7m (2011/12: £24.8m).

During the period the Group renewed and increased its revolving credit facility from £175m to £200m. As the draw downs on this facility are typically rolled over on terms of between one and three months the borrowings are disclosed as a current liability. This is notwithstanding the long term nature of this facility which expires in December 2016.

The key financial covenants on this facility remain unchanged and require that the ratio of EBIT to net interest payable be greater than four times and the net debt to EBITDA ratio be less than three times. At the year end the specific bank covenant tests were as follows:

EBIT/Net interest payable: 16.1 times

Net debt/EBITDA: 0.97 times

Capital structure

At 30 March 2013 the Group had net liabilities of £66.6m (31 March 2012: £45.6m), predominantly reflecting the increase in retirement benefit obligations and dividends paid.

The Company had shareholders' funds of £273.0m (2011/12: £204.8m) and had 99.7m fully paid ordinary shares in issue (2011/12: 99.5m) at the year end.

Interest charge

The Group's net interest charge was £3.6m, down on the prior year (2011/12: £4.1m). 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 £0.5m (2011/12: £1.3m) as a result of the lower discount rate used to calculate the interest charge.

Principal exchange rates used in translating the Group's results

	2012/13 Average	2013 Year end
US dollar	**1.58**	**1.52**
Euro	**1.22**	**1.18**

	2011/12 Average	2012 Year end
US dollar	1.60	1.60
Euro	1.16	1.20

Pension deficit and funding

During 2012/13, special funding payments of £16.2m were made to the Group's defined benefit pension fund (closed to new members in 2010 and future accrual from April 2013). The Group's latest formal (triennial) funding valuation of the UK defined benefit pension scheme took place on 5 April 2012 and identified the scheme had a deficit of £180m (5 April 2009: £204m deficit). The arrangements in respect of the special funding payments remain unchanged and are expected to eliminate the deficit in line with the original timetable by 2022.

IAS 19 – Employee Benefits

The valuation of the UK pension scheme under IAS 19 principles indicates a scheme deficit pre tax at 30 March 2013 of £166.7m (31 March 2012: £143.3m), an increase of £23.4m. This change primarily reflects increased scheme liabilities resulting from increased longevity assumptions and reduced discount rates applied to the scheme valuation being partly offset by asset growth. The charge to operating profit in respect of the UK pension scheme for 2012/13 was £7.8m (2011/12: £7.8m). In addition, under IAS 19 there was a finance charge of £0.5m arising from the difference between the expected return on assets and the interest on liabilities (2011/12: £1.3m).

Amendments to the IAS 19 accounting standard will be effective for the 2013/14 financial year. This requires the replacement of the expected return on assets and interest charge on pension scheme liabilities with a net financing cost based on the discount rate. IAS 19 requires retrospective adoption and therefore prior periods will be restated.

The Group estimates the impact of the change, had it been effective in 2012/13, would have been to increase operating costs by £1.4m, increase the net interest expense by £6.2m, with compensating adjustments in other comprehensive income leaving equity unchanged. This would therefore reduce profit after tax by £7.6m and reduce headline and basic EPS by 7.6p.

The estimated impact for the 2013/14 year is to reduce operating profits by £1.7m (the Improvement Plan operating profit target will be impacted by the same amount) and increase the net interest expense by £6.7m and hence reduce headline and basic EPS by 8.4p.

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%	+£12m
	-0.1%	-£12m

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

	2013 Group assets/ (liabilities) £m	2013 Group cash/ (debt) £m	2013 Net assets/ (liabilities)† £m	2012 Net assets/ (liabilities)† £m
Sterling	**(85.8)**	**(66.1)**	**(151.9)**	(112.4)
US dollar	**20.6**	**(16.7)**	**3.9**	3.6
Euro	**63.7**	**(0.1)**	**63.6**	52.8
All other	**6.9**	**6.2**	**13.1**	6.5
	5.4	**(76.7)**	**(71.3)**	(49.5)

†Excluding non controlling interest.

Risk and risk management

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 control.

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. The Board also received information about the Group's operations throughout the year enabling it to evaluate regularly the nature and extent of the risks to which the Group is exposed. An Ethics Committee was established by the Board, further details of which can be found on page 45.

Committed to effective risk management

Effective risk management requires collective responsibility and engagement across the entire business.

In addition to risk management being a Board level responsibility, members of De La Rue's senior management team, operating through the Risk Committee, are accountable for identifying, mitigating and managing risk in their areas of responsibility.

The Risk Committee assists management in conducting risk reviews, analysing risk information and reviewing De La Rue's risk management. The internal audit function plays an important role in advising and producing guidance on risk related matters and integrating risk management into business processes.

Risk management processes

With the appointment of a Group Director of Risk and Internal Audit in April 2012, the Group's risk management framework has been enhanced to provide greater clarity on key risks, the effectiveness of key controls and accountability for actions.

De La Rue management conducted a number of risk reviews throughout the year in preparation for the Board's annual internal controls and risk management assessment. In 2012/13 risk review activities included the following:

- Business unit risk workshops focused on operational risks and uncertainties which could affect the achievement of business objectives
- Functional risk workshops with various centralised departments, including central finance, security, legal, human resources and information services
- Updating the consolidated risk register, discussed and approved by the Risk Committee, which paid particular attention to ensuring that additional mitigating actions were determined and agreed as appropriate

Risk management framework

Assurance provision

Board
- Responsible for risk management and internal control
- Defines De La Rue's risk appetite and tolerance
- Approves the business risk profile

Audit Committee
- Reviews the effectiveness of internal control
- Approves the annual internal and external audit plans
- Reviews findings from selected assurance providers

Ethics Committee
- Reviews ethical policies and standards
- Oversees the development and adoption of, and compliance with, the Company's ethical due diligence policies and procedures

Executive Committee
- Accountable for the design and implementation of the risk management process and the operation of the control environment

Risk Committee
- Reviews and proposes the business risk profile
- Monitors the management of key risks
- Tracks implementation of actions to mitigate risks

Supported by:

Security Steering Committee

Functional experts

Business unit leadership

Health, Safety & Environment Committee

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. Details of these Committees are set out in the corporate governance statement on page 45 and 46.

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.

System of internal control
The principal elements of the Group's system of internal control are:

- An organisation and management structure which operates across the business to enable both the delivery of products and services to our customers and operational control of business activities
- Management reporting including monthly finance, operational and development reports
- Group wide policies and procedures which define expected standards and behaviours and which have been redefined and updated. Our policy framework includes policies on finance, operations, people, regulatory and IT business controls
- The Board and its various Committees, which define financial authorities and operational responsibilities, designed to enable effective decision making and organisational control
- Group central functions: finance, human resources, company secretariat and legal, health, safety and environment, security and information services, which have responsibility to manage and improve standards in their respective areas of responsibility across all our operations

A formal risk identification process takes place to evaluate and manage the significant risks faced by the Group in accordance with the requirements of the UK corporate governance codes. A Group risk register identifies the risks the business faces, their potential impact and likelihood of occurrence. The key controls and management processes established to mitigate these risks include:

- The Risk Committee, which meets twice each year to review the management of risk arising out of the Group's activities and to monitor the status of key risks and actions
- Risk registers maintained by each of the Group's business units and central functions. The management team together with the Group Director of Risk and Internal Audit meet to consider the status of risks and progress against implementing actions on a quarterly basis
- Annual compliance statements in the form of self audit questionnaires and management certification, which are completed for each of De La Rue's main sites on the operation of financial control
- Reviews by the Audit Committee, which assist the Board in discharging its responsibility to review the system of internal control (see page 46 for further details)
- An internal audit function, which is subject to the controlling direction of the Audit Committee, and which provides the Audit Committee with an assessment of the Group's system of internal control, through reviewing how effectively key risks are being managed, and assists management in the effective discharge of their responsibilities by carrying out appraisals and making recommendations for improvement (see page 46 for further details)

The overall system of internal control is supplemented by an operating financial control framework which 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 regular updating of full year forecasts
- Monthly reporting of performance to the Board
- Audited annual financial statements
- Interim financial statements reviewed by the auditors
- Capital management (see note 12 to the accounts for further information)
- Treasury, foreign exchange and borrowing facilities (see note 12 to the accounts for further information)

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

Principal risks and uncertainties

The following pages set out the principal risks affecting the Group, which are not listed in any order of materiality. In addition there may be other risks which are currently believed to be immaterial, which could turn out to be material to the Group. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results. Due to the very nature of risks, mitigating factors stated should not be viewed as assurances that actions taken or planned will be wholly effective.

Risk	Exposure	Mitigation/Comment
Strategic risks		
Failure to maintain competitive and technologically advanced products and services	The Group operates in competitive markets and our products and services are characterised by continually evolving industry standards and changing technology, driven by the demands of our customers Failure to maintain technical innovation may result in loss of market share and lower margins	The Group invests in R&D to create new technologies, products and services to sustain or improve its competitive position The Group has made a number of improvements to the organisation of R&D including: centralising innovation expertise, developing a product roadmap, investing £4m in a new R&D technology centre and formalising a new technology management process The Group regularly reviews its R&D portfolio as part of the strategic planning process
Financial risks		
The timing and frequency of substantial contract awards can be uneven	The timing of contract awards can be uncertain and delays in awards may result in volatility in the order book and our operating performance Political factors can also delay government procurement decisions for sensitive products like banknotes and passports	Close and regular contact is maintained with customers so that any changes in requirements are recognised promptly The Group monitors its sales activity, order pipeline and forward order book in order to ensure that our production planning is optimised to deliver on time and in full to our customers Any delays in order confirmation are monitored on a weekly basis to ensure that supply chain remains flexible and is able to accommodate required production planning changes
Failure to win or renew a material contract	Failure to win or renew a material contract could restrict growth opportunities and/or have an adverse impact on the Group's financial performance and reputation	Our relationship with issuers, many of whom are currently or have been customers, together with our detailed country plans, ensures we are aware of opportunities as they arise. Our sales and commercial management teams focus on tender responses which are governed through a stage gate process which includes financial, technical, production, commercial and contractual reviews Our track record of delivering product innovation and our commitment to quality, when combined with a commercial approach to tendering, places us in a good position to win or renew strategic or significant contract opportunities
Operational risks		
Financial loss and/or damage to reputation as a result of failing to deliver product to customer specification	Each of our contracts requires a unique product to be specified and delivered. Some of these contracts demand a high degree of technical specification. On a contract by contract basis we will be required to deliver to exacting quality standards and any shortfall in quality management may expose us to additional cost to remake and/or warranty costs	The Group has an established quality management system operating across all of our supply chain manufacturing sites which are all certified to ISO9001 quality management standards
Supplier failure	The Group has close trading relationships with a number of key suppliers Loss or failure of a key supplier, the inability to source critical materials or poor supplier performance in terms of quality or delivery could disrupt the Group's supply and ability to deliver on time and in full	Our exposure is reduced by the fact that the Group can source many of its components from within the De La Rue supply chain Where external supply is required, either at the request of the customer or where the Group does not have the required manufacturing capability, the Group has established procedures for identifying possible risks for each supplier. Key suppliers are managed through a supplier relationship management programme that includes checks on their creditworthiness, ability to deliver to our quality standards and security and business continuity arrangements. Suppliers are audited on a rotational basis As a contingency, alternative suppliers are pre qualified wherever possible and where necessary we retain higher levels of stocks

Principal risks and uncertainties continued

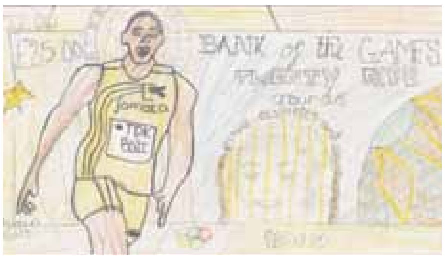
Risk	Exposure	Mitigation/Comment
Operational risks continued		
Product security	There is the potential for reputational and financial damage in the event of the loss of materials from a manufacturing site as a result of negligence or theft. Loss of product while in transit, particularly during transhipment, 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. Under its contracts with its customers, the Group may be liable for those losses	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 Group 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. The Group maintains a comprehensive global insurance programme
Health, safety or environmental failure	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 or fatal injury or an environmental breach	The Group operates a robust HSE management system which is internally audited and certified to the OHSAS18001 and ISO14001 standards in all major facilities. The Group HSE Committee regularly reviews HSE performance which is also monitored monthly by the supply chain leadership and reported to the Board monthly. Each manufacturing facility has clear HSE action plans which are prioritised, monitored and subject to review by local senior management to ensure that health and safety standards are maintained
Loss of a key site	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	The business has a high degree of interoperability between sites for banknote production and security printing. We aim to minimise risk by adopting the highest standards of risk engineering in our production processes, particularly to reduce risks from fire hazards and the use of flammable solvents In anticipation of increasing customer requirements we continue to enhance our business continuity resilience to a consistent good practice standard across all of our major facilities
Legal and regulatory risks		
Breach of legal and regulatory requirements	It is possible that employees acting either individually or in collusion with others could act in contravention of the Group's stringent requirements in relation to bribery and corruption, competition and third party partners (TPPs), resulting in major reputational and financial damage to the business	The ethical tone of the business is articulated in the Code of Business Principles which is supported by underlying policies, regularly reviewed and enforced robustly. Non compliances are dealt with through disciplinary procedures where necessary The Group's whistleblowing policy and procedure forms an integral part of the compliance framework. Particular focus is given to the operation and development of our anti bribery and corruption and competition law control frameworks The Group has a process for the appointment, management and remuneration of TPPs which operates independently of the sales function. The behaviours of TPPs are strictly monitored and the TPP process is overseen by the General Counsel and Company Secretary who reports directly to the Board on these matters Competition law compliance is driven through regular training for sales personnel and senior managers together with oversight by the Group legal function
Information risks		
Breach of data security or confidentiality	The confidentiality and integrity of our customer, employee and business data could be affected by factors that include human error, ineffective design or operation of key data security controls or through breakdown of IT control processes. Any compromise of the confidentiality of information could impact our reputation with current and potential customers	The Group keeps all aspects of information 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
Loss of core IT systems availability	Outages and interruptions could affect the Group's ability to conduct day to day operations. These could be caused by physical damage to the main data centres or malicious cyber activities	Our data centres are resilient and secure. Disaster recovery plans are in place to assist in prompt recovery from any 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

Corporate responsibility

We recognise that good corporate responsibility practices are key to our business success. We work within a robust ethical framework and strive to ensure the health and safety of our employees, minimise our impact on the environment and play a positive role in the communities in which we operate.

FTSE4Good

ibe
Institute of Business Ethics



Celebrating 300 years of papermaking
As part of our celebrations of 300 years of papermaking a 'Design a banknote' competition was held in schools local to our Overton mill site (see winning entry pictured above). The winners visited our design team and were presented with a professionally produced version of their design. Other activities to mark the tercentenary included a customer seminar covering a wide range of banknote related topics and employee events.

Our approach to corporate responsibility
We take seriously our responsibility to manage the business in an ethical and sustainable way for the benefit of the business and all our stakeholders.

We have:

- Maintained our membership of the FTSE4Good Index which identifies companies that meet recognised standards of corporate responsibility
- Supported the Institute of Business Ethics (IBE) which was founded to encourage high standards in ethical behaviour and is supported by donations from companies and individuals. Through our donation we help to promote ethical business practice and add to the work of the IBE through the sharing of good practice and their experience of ethical issues
- Continued to report our greenhouse gas emissions to the Carbon Disclosure Project

We are always keen to improve our practices and during the year an independent third party was commissioned to conduct a corporate responsibility audit to review how we compare to current best practice. We will be using the results as a gap analysis to inform our corporate responsibility focus during 2013/14; our initial focus will be on improving internal and external communication of our wide range of corporate responsibility activities to improve awareness and understanding and promote employee engagement.

Accountability and management processes
The Board is ultimately responsible for assessing the impact of corporate responsibility issues on the Group's business and for setting appropriate policies. During the year a new Ethics Committee was formed made up entirely of Non-executive Directors. This Committee is responsible for advising the Board on the development of strategy and policy on ethical matters. Further details about the Ethics Committee can be found on page 45.

The Chief Executive is the Board member with designated responsibility for corporate responsibility supported by:

- The Executive Committee
- 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

Ethical framework
Code of Business Principles
All employees are required to follow the Code of Business Principles (CBP) approved by the Board when performing their duties as employees. Employees and business partners worldwide must follow this CBP when they are representing the Group.

Areas covered by the CBP, which is available on our website, are shown in the ethical framework diagram on page 32. The CBP is a key part of the new employee induction process worldwide and refresher training was given at a number of internal conferences and departmental meetings during 2012/13. This will be extended during 2013/14 to ensure that the messages are being delivered consistently across the business. Ethics champions will also be appointed across the Group to provide a point of contact and focus in the sites.

Whistleblowing
The Group's whistleblowing procedures enable employees who have concerns about the application of the CBP 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.

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.

All TPPs:

- Are subject to an appropriate level of due diligence
- Receive training on the CBP and the standards of ethical behaviour expected by De La Rue
- Receive training covering anti bribery and corruption, competition law and TPP policy. More than 75 per cent of partners receive this training online, with the remainder receiving one to one training

Relevant employees also participate in online training which covers working with TPPs.

Corporate responsibility
Continued

De La Rue's ethical framework

Code of Business Principles – nine topics

Bribery & corruption	Conflicts of interest	Gifts & hospitality	Health, safety & environment	Employment principles	Records & reports	Personal information	Insider trading	Competition & anti trust

Backed up by policies

Anti bribery & corruption Gifts & entertainment Charitable giving	Conflicts of interest Gifts & entertainment	Gifts & entertainment Expenses Anti bribery & corruption Conflicts of interest	Health & safety Environmental Fire safety	Equal opportunities Anti harassment	Group finance manual	Data protection	Share dealing, market abuse & insider trading	Competition & anti trust

Supported by processes

Third party partners Gifts register Expenses vetting	Gifts register	Gifts register Expenses vetting	Monthly reporting Global HSE standards ISO management systems	Grievance procedure Disciplinary process	Compliance declarations External monitoring Separation of duties	Data protection officer Annual data protection returns	Procedure for controlling inside information Dealing approvals	Legal department guidelines

Underpinned by oversight, controls and communication

CodeLine	Employee survey	External audit	Ethics Committee	Internal audits	Specialist audits	Benchmarking	Training/ induction	Intranet	Risk reviews

Liverpool Football Club Community Coaching Team visit Malta
In April 2012 the Liverpool Football Club Community Coaching Team visited Malta to deliver a variety of community activities. A De La Rue Malta employee helped to facilitate the visit and the site supported this initiative by providing footballs and all the equipment required to hold a training session for children with additional needs. We also supported school visits in Rabat and Birżebbuġa which included disability awareness sessions and 'Truth for Youth' assemblies, promoting hard hitting social messages. All children participating in these events were presented with gifts to commemorate the event, funded by De La Rue.

Health and safety

We have a responsibility to safeguard the health and safety of all stakeholders affected by our operations and keeping employees safe and secure when they are at work and travelling on business is a priority. Clearly defined responsibilities, good communication and training, hazard spotting, risk assessments and implementing appropriate controls at all facilities help us to achieve this.

All of our supply chain manufacturing sites have maintained OHSAS18001:2007 certification for their health and safety management systems, which is externally audited by accredited providers.

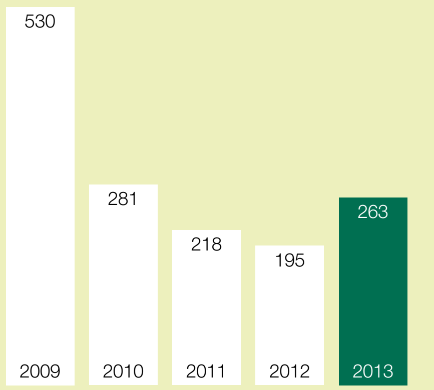
During the year no De La Rue operation has been prosecuted for infringing any health and safety laws or regulations.

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.

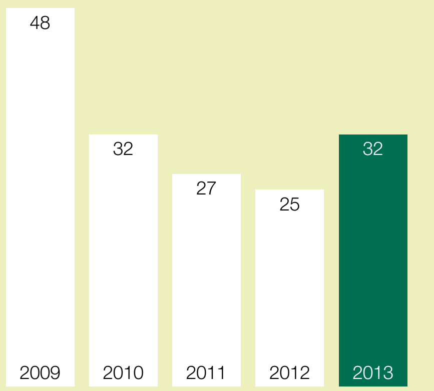
De La Rue works with its main suppliers and contractors to ensure their health and safety processes are robust. This year, in response to the many changes and upgrades at our sites, including the relocation of holographic and security printing operations and the installation of many new machines, we have continued to put a strong focus on our machinery safety standards and on managing our contractors. We have continued to improve our fire risk management controls with several sites upgrading sprinkler systems.

Our health and safety KPIs are shown opposite. Disappointingly, the number of lost time accidents and the total days lost due to accidental injuries have both increased slightly this year with lost days exceeding our target by 17 per cent and injuries by 12 per cent. These results are attributable in large part to structural and organisational changes in our business. With more organisational changes in the short term, we expect that the coming year will be challenging as we drive to retain our strong safety culture, excellent internal reporting processes and engage employees in our safety programmes. We will continue to set robust health and safety targets.

Total days lost due to accidental injuries



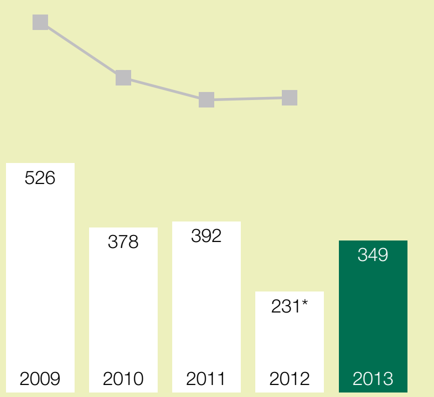
Total lost time accidents



Annualised reportable injury rate per 100,000 employees

UK manufacturing industry average

*2012 figure restated due to a delay in the reporting of absence details



Other objectives for 2012/13 related to legal compliance audits and occupational health provision. Our health, safety and environment legal compliance audit programme was completed earlier than planned and we continued to raise the standards of occupational health provision at our main sites.

Our health and safety objectives for 2013/14 are:

- To align our HSE internal audit programme with the new combined assurance audits for security and quality
- To maintain a reportable injury rate per 100,000 employees of 325 or lower
- To ensure that all new machinery installed meets the latest EU safety standards
- To maintain our OSHAS18001 certification at all supply chain manufacturing sites

Employees

Employee survey

With the recent organisational changes it has been important to focus on staff engagement and an employee survey was launched in June 2012. All employees were invited to participate, responding to questions designed to test opinions and engagement across the organisation in four key areas:

- Do employees understand the direction and objectives of the organisation?
- Do they believe in it?
- Are they able to contribute to it?
- Do those around them contribute to it?

The results were encouraging, with 70 per cent of all employees across the organisation responding to the survey.

Training and development

Aligned to the feedback from the employee survey, training has been focused on the areas of leadership capability, involving people in the business and improving our listening and communication skills, improving the interfaces between the businesses and aligning vision, behaviours and objectives across the Group.

Across our manufacturing operations a structured line management training programme was launched. The programme's initial focus includes coaching, team performance and quality training. Individual units of the programme are aligned to the National Occupational Standards for Leadership and Management. With over 100 managers worldwide participating in the programme, the aim is to raise leadership capability, engage employees in our process improvement initiatives and embed and maintain a high performance culture.

In our non manufacturing operations we have initiated a programme to develop leadership capability. Starting with the Executive Committee, the programme will be cascaded through the senior management team during 2013/14. This will provide a useful tool for performance development and support our talent review succession programme.

Communication

As well as regular briefings for employees based at our supply chain sites, the Solutions business unit runs "all hands" calls every two or three months and Solutions and Currency produce newsletters to keep colleagues informed of business developments. These activities are supplemented by internal conferences and team briefings across the business. The Chief Executive hosts regular conference calls in which all employees have the opportunity to participate and ask questions.

Improving communication at our manufacturing sites was identified as an area requiring focus following feedback from the 2012 employee survey. Initiatives successfully implemented include questions being raised and answered through question boxes and meetings with site management teams so employees can ask questions about, and comment on, the business in an informal setting.

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.

A joint UK and European Forum meeting was held during the year. The meeting received a detailed briefing on the Improvement Plan from the Chief Executive and included information on how we are developing our front line managers. 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.

Equality and diversity

De La Rue's policy is to treat all employees fairly and equally, regardless of their sex, transgender status, sexual orientation, religion or belief, marital status, civil partnership status, age or perceived age, race, colour, nationality, national origins, ethnic origin, disability, trade union membership or affiliation.

Equal opportunity is about good employment practices and efficient use of our most valuable asset, our employees. Every manager and employee has personal responsibility for the implementation of our equal opportunity policy.

De La Rue provides training to employees and newly appointed line managers in equal opportunities and associated policies and procedures, such as stress management, grievance and anti harassment. Through these policies and our CBP, De La Rue encourages a culture of openness whereby concerns related to equal opportunities can be raised in a non threatening and supportive environment.

To the extent permitted by relevant local laws, the Group collects certain data on staff diversity.

For information about Board diversity, see page 43.

Gender diversity

De La Rue currently has two female Non-executive Directors (25 per cent of the Board), and one female Executive Committee member (12 per cent). Approximately 26 per cent of the workforce and 22 per cent of managerial grade employees are female.

Environment

The Group endeavours to operate in a manner that minimises the environmental impact of our activities, products and services. None of the Group's operations has been prosecuted for infringing any environmental laws or regulations during 2012/13.

The organisation has a mature environmental management system and all of our supply chain manufacturing sites have achieved ISO14001:2004 certification.

The Group continues to measure greenhouse gas emissions and has now adopted methods contained in DEFRA guidance in advance of mandatory reporting. This year the organisation has included all six main greenhouse gases covered by the Kyoto Protocol and improved the way in which significant scope 3 emissions are calculated. This, combined with a change in fuel mix affecting scope 1 and 2 emissions, resulted in an increase in calculated greenhouse gas emissions of 2.3 per cent. The emissions intensity, which is now reported relative to Group revenue, therefore increased by 11.7 per cent. However, energy consumption across the Group was unchanged from 2011/12.

Water used per gross tonne of banknote paper produced is dependent on volume and detailed specifications. Water usage increased by 4.3 per cent compared with the prior year reflecting lower production volumes, which impacted efficiency, and changes in the mix of paper manufactured.

Supply chain manufacturing sites continued the 'War on Waste' initiative to improve resource efficiency and reduced the total amount of solid waste by 3.3 per cent while continuing to evaluate alternative waste management options. The percentage of solid waste recycled or recovered dropped slightly to 71 per cent primarily due to product mix and anti counterfeiting features which reduced the amount of waste that could be composted.

Examples of environmental achievements over the past year include:

- Successful trials of a new effluent treatment process in Gateshead
- Process improvements enabling the permanent closure of a thermal oxidizer used for the abatement of solvent from printing activities, reducing both energy consumption and scope 1 greenhouse gas emissions
- Introduction of an energy management programme to reduce energy consumption and costs across the Group, and promote ongoing improvements in operating efficiencies

Environmental objectives for 2013/14 are to:

- Maintain ISO14001 certification for all supply chain manufacturing sites
- Reduce waste sent to landfill by 3 per cent each year during the three year period ending in 2013/14
- Reduce energy consumption related to Group revenue by 3 per cent each year during the three year period ending in 2013/14. In absolute terms energy consumption across the Group has decreased by 6.0 per cent to date, and energy intensity has decreased by 9.9 per cent over the past two years

Greenhouse gas emissions

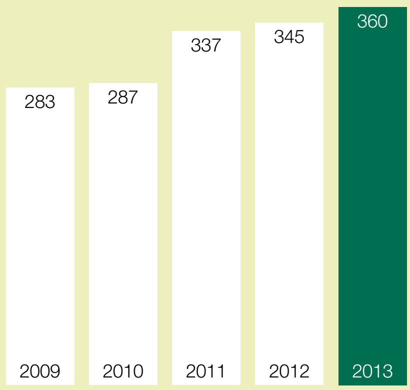
Tonnes of CO_{2e} (x 1000)	2012/13
Scope 1	
– Gas consumption	34,599
– Other fuels	1,305
– Process emissions	551
– Fugitive emissions (ODS)	93
– Owned road transport	–
Total scope 1	36,548
Scope 2	
– Electricity purchased	53,065
Total scope 2	53,065
Significant scope 3	
– Non owned road transport	477
– Rail	7
– Air transport	3,281
Total significant scope 3	3,765
Total gross emissions	**93,378**
– Carbon offsets	–
– Green tariff	(18)
– Total exported to grid from self owned renewables	–
– Total exported to grid from non renewables	(670)
Total annual net emissions	**92,690**
Emissions intensity (tonnes of net CO_2 per £m revenue)	191.6

Geographic breakdown for 2012/13

Tonnes of CO_{2e} (x 1000)	Scope 1	Scope 2	Scope 3
Europe	35,876	47,047	3,211
North America	44	1,381	359
South America	–	17	4
Asia, Middle East and Australasia	177	1,864	92
Africa	451	2,756	99
Total global	**36,548**	**53,065**	**3,765**

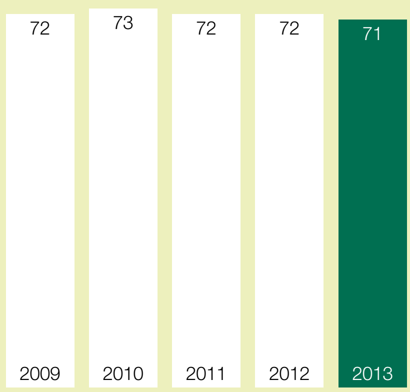
Note: Prior year data is not available due to adoption of new reporting standards.

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.

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



Community and charitable donations

De La Rue supports a variety of charitable causes. In 2012/13 Group donations for charitable and community purposes amounted to £66,000 (2011/12: £93,000) and donations from the De La Rue Charitable Trust totalled £66,000 (2011/12: £59,000).

The De La Rue Charitable Trust aims to direct funds to appropriate causes worldwide emphasising educational projects promoting relevant skills, self help initiatives or relieving suffering. The Trust also matches funds raised by employees for charitable causes. In the past year over 90 employees in the UK took part in sponsored activities and received donations for their chosen charity from the Charitable Trust.

Our employees, facilities and factories continue to engage widely with local communities. Examples of activities during 2012/13 include making donations of warm clothing and sleeping bags to a local homeless centre, a relay run in the UK from our Debden site to our head office and providing footballs and training equipment for an initiative run in Malta by Liverpool Football Club Community Coaching for children with additional needs (see case study on page 32).

As part of our 200 year celebrations all sites are being encouraged to support local community and charitable causes. These initiatives will be reported in the 2014 annual report.

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.

Customers

Customer focus is a key commitment of our Improvement Plan.

During the year Currency and Cash Processing Solutions conducted a survey of their central bank and state print work customers. Preliminary results of the survey show an increase in customer satisfaction, with the majority of customers who responded being very likely to recommend De La Rue to a colleague or associate with similar needs. We were recognised as being particularly strong in our customer service and responsiveness. The final results of our analysis will be used to inform detailed action plans to improve our offering.

In November 2012 the Solutions business unit opened a new training centre at our Dublin facility. As well as being a key investment for our employees' development it also offers new operator training products to help customers in their drive for productivity and efficiency.

Regional conferences and user group meetings are held on a regular basis and we run an annual 'Advanced Banknote Manager' course which is available to our central bank and state print work customers.

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 commitment to best practice standards in health and safety, environmental protection, quality, product security and business continuity management.

Suppliers are obliged to abide by the CBP and the United Nations Convention on the Rights of the Child and International Labour Organisation Conventions 138 and 182.

During 2012/13 on a sample of key suppliers of cotton comber, we carried out audits to ensure that labour and working conditions are suitable and comply with the Group's policies relating to child labour. As part of our ongoing procurement programme we will continue to monitor our key cotton comber and linter suppliers.

Directors and Secretary

Philip Rogerson (68)
Non-executive Chairman [2, 3, 4]
was appointed to the Board on 1 March 2012, becoming Chairman on 26 July 2012. Philip is Chairman of both the Nomination Committee and the Ethics Committee. 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.

Tim Cobbold (50)
Chief Executive [3, 5]
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 (55)
Group Finance Director [5]
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.

Warren East (51)
Non-executive [1, 2, 3, 4]
was appointed to the Board on 9 January 2007. Warren has been Chairman of the Audit Committee since 1 April 2009. On 1 July 2013 Warren will retire from his position as 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. He will succeed Sir Jeremy Greenstock as the Senior Independent Director on his retirement at the conclusion of the 2013 AGM.

Sir Jeremy Greenstock GCMG (69)
Non-executive [1, 2, 3, 4]
was appointed to the Board on 1 March 2005 and is the Senior Independent Director. 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 special adviser to the NGO Forward Thinking and a member of Chatham House Council. He will retire from the Board at the conclusion of the 2013 AGM.

Victoria Jarman (40)
Non-executive [1, 2, 3, 4]
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 (58)
Non-executive [1, 2, 3, 4]
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, and was a global executive committee member from 1999 to 2006. Gill spent five years, until May 2011, 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, chair of the University of Southampton Council and a non-executive director of Charles Taylor Consulting plc and Pennon Group plc.

Andrew Stevens (56)
Non-executive [1, 2, 3, 4]
was appointed to the Board on 2 January 2013. Andrew has extensive international experience in the technology and engineering sectors, having spent over thirty years operating across the globe, including in North America, Europe, the Middle East and Asia. He was a director of Cobham plc between 2003 and 2012, where he held a range of positions, becoming chief executive in 2010 until stepping down from that role in June 2012. Before that he held senior positions in Rolls Royce, Messier Dowty International and Spirent plc. Andrew is a non-executive director of CAE Inc.

Edward Peppiatt (46)
General Counsel and Company Secretary [5]
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
[2] Member of the Ethics Committee
[3] Member of the Nomination Committee
[4] Member of the Remuneration Committee
[5] Member of the Risk Committee

Ages stated are those on 30 March 2013

Shareholders and share capital

Share capital

As at 30 March 2013, there were 99,743,705 ordinary shares and 111,673,300 deferred shares in issue.

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

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 87.

Pre emption 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 2012. Authorities to renew for one year the power of Directors to allot shares pursuant to section 551 of the Companies Act 2006 will be sought from shareholders at the AGM. The Company was granted authority by its shareholders at the 2012 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.

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 of association, 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 the 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.

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 30 March 2013, the Company had been notified in accordance with the Financial Services Authority's Disclosure and Transparency Rules of the following interests in the voting rights of the Company:

Persons notifying	Date last TR1 notification made	Nature of interest	Per cent of issued ordinary share capital held
Prudential plc group of companies	18.02.2013	Direct	14.80
Kames Capital[1]	14.12.2012	Direct	4.54
		Indirect	1.49
		Contracts for difference	0.14
		Total	6.17
Mondrian Investment Partners Limited	26.01.2011	Indirect	5.80
Jupiter Asset Management Limited	04.01.2013	Indirect	5.09
Ameriprise Financial, Inc	05.08.2011	Direct	0.05
		Indirect	5.01
		Total	5.06
BlackRock Inc	19.03.2012	Indirect	3.79
		Contracts for difference	1.14
		Total	4.93
Schroders plc	19.06.2012	Indirect	4.90

Notes

1 On 24 April 2013 Kames Capital notified the Company that their holding had fallen to 5.96%

2 On 29 April 2013 Nordea 1 SICAV notified the Company that they have an interest of 3.07%

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 the 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, if they are corporations, 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, the results of which will be made available to shareholders on the Group's website. At the meeting, the Chairman will provide a trading update and the Chairmen of the Board Committees will also be present to answer questions on any 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 June 2012. 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 report on pages 42 to 47.

Annual General Meeting

The AGM will be held at 10:30 on Thursday 25 July 2013 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 30 March 2013, which includes the business review, corporate governance report and audited financial statements for the period. Pages 1 to 58 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 4.1.5R 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
As the Company is a holding company and does not trade, it owed no amounts to trade creditors at 30 March 2013 and therefore the number of creditor days required to be shown in this report to comply with the provisions of the Companies Act 2006 is nil.

The Group subscribes to the policies in the UK Government's Prompt Payment Scheme and undertakes to pay suppliers on time, give clear guidance and encourage good practice. More details can be found on the Group's website.

Change of control
Contracts
There are a number of contracts which allow the counterparties to alter or terminate those arrangements in the event of a change of control of the Company. These arrangements are commercially sensitive and confidential and their disclosure could be seriously prejudicial to the Group.

Banking facilities
The £200m credit facility between the Company and 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.

Employee share plans
In the event of a change of control, automatic vesting would occur in accordance with the relevant scheme or plan rules.

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 2012 AGM, pursuant to the Companies Act 2006, be renewed and details are included in the notice of meeting.

Essential contracts or other arrangements
The Group has a number of suppliers of key components, the loss of which could disrupt the Group's ability to deliver on time and in full. However, none of these arrangements are so vital that their loss would affect the viability 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

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

Our auditors, KPMG Audit Plc have instigated an orderly transfer of its business to its parent company, KPMG LLP. The Board has decided to put KPMG LLP forward to be appointed as auditors and a resolution concerning their appointment will be put to the forthcoming AGM of the Company.

By order of the Board

Edward Peppiatt
Company Secretary
29 May 2013

Corporate governance statement

Compliance with the UK Corporate Governance Code

In the period to 30 March 2013, as detailed below and in the risk and risk management report and the remuneration report on pages 27 to 30 and 48 to 58 respectively, the Company complied fully with the requirements of the UK Corporate Governance Code (June 2010) (the Code). We explain in the report below and in the risk and risk management report and remuneration report how we have applied the provisions of the FSA Listing Rules, the Disclosure and Transparency Rules and 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 and good practice.

Business ethics

The Group 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 the Group, by demonstrating complete integrity in the way the Group and its business partners behave.

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

Regular external audits are undertaken of the Group's anti bribery and corruption policies and processes. These audits have confirmed that the Group is following best practice and compares well with similar companies, reflecting the work undertaken in this area in recent years.

An Ethics Committee has been established, consisting of the Non-executive Directors of the Company. Further information on this Committee is set out on page 45 and the terms of reference of the Ethics Committee are on the Group's website.

Further information on the Group's ethical framework can be found on pages 31 to 32.

The Board

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 Group is run in order to achieve its objectives while complying with the required standards of accountability and probity.

The core objectives of the Board are:

- Delivering value to shareholders and other stakeholders
- Maintaining the Company's reputation for integrity as the Company's foundation of its relationship with stakeholders, shareholders, customers, staff and suppliers
- Building long term success through innovation, quality and sound management

Board composition and responsibilities

The Board comprises five 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 making. 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 and he provides continuity, experience and governance to the Board process. In particular the Chairman will act in such a way as to ensure that:

- The Board takes balanced and objective decisions in the performance of its agreed role and functions
- The Board sets a strategy for the future of the business and recruits and retains the people in the Group it needs to implement that strategy
- High standards of probity throughout the Group are established
- Shareholders are kept properly informed on all important matters

The Chief Executive is responsible for running the business and implementing Board strategy and policy. In particular the Chief Executive has operational responsibility to:

- Maintain a senior management team with the appropriate knowledge, experience, skills, attitude and motivation to achieve the Company's objectives
- Exercise personal leadership and develop, on an ongoing basis, a management style which encourages excellent and open working relationships at all levels within the Group
- Ensure through the Group Finance Director, the implementation, control and coordination of the Group's financial and funding policies approved by the Board
- In conjunction with the Executive Committee, comprising business unit managing directors and other senior executives, present strategic options for growth in shareholder value
- Set 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.

Board changes

Nicholas Brookes retired as Chairman and as a Non-executive Director on 26 July 2012. He was succeeded by Philip Rogerson, who joined the Board as Chairman designate on 1 March 2012. Sir Julian Horn-Smith resigned from the Board on 31 December 2012.

Andrew Stevens joined the Board as a Non-executive Director on 2 January 2013. As he was appointed a Director since the last AGM he will, being eligible, offer himself for election at the AGM.

Sir Jeremy Greenstock will retire from the Board following the AGM in July 2013.

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.

Role and operation of the Board

The Board has a programme of 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 and include the control of risk.

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

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

Role of Non-executive Directors

The Non-executive Directors, all of whom are considered by the Board to be independent as at 30 March 2013, 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, Philip Rogerson ceased to be independent after his appointment as Chairman on 26 July 2012 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 until his retirement from the Board at the conclusion of the 2013 AGM when he will be succeeded by Warren East. Shareholders may contact the Senior Independent Director if they consider that 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.

Non-executive Directors are expected to participate actively in Board discussions involving the following key elements:

- Strategy: constructively challenge and contribute to the development of strategy
- Performance: review the performance of management in meeting agreed goals and objectives
- Risk: ensure that the financial and other information is accurate and appropriate to enable the Non-executive Directors to fulfil their roles and that financial controls and systems of risk management are robust and defensible
- People: contribute to the development of appropriate levels of senior management (including Executive Directors) and succession planning

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 2013 involved the use of an external independent facilitator, Linstock Limited.

The 2013 effectiveness review 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 and presented to the Board and each relevant Committee as a basis for discussing and agreeing appropriate actions for the forthcoming year. The Risk Committee was evaluated by the Board.

The Chairman and each Committee Chairman has discussions with each Director or Committee member based on the responses. 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 2013 and concluded that the performance of the Board, its Committees and individual directors were effective. Any areas for improvement are agreed by the Board.

Commitment

The Directors' biographies and other appointments appear on pages 36 and 37. 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. 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. The Board is satisfied that these commitments do not conflict with their ability to carry out effectively their duties as Directors of the Company.

Board diversity

The Board recognises and understands the importance and benefits of gender diversity and currently has two female Non-executive Directors (25 per cent of the Board). The Board expects to maintain the proportion of women Directors 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 34.

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. The Board also reviews the Group's internal talent review process in planning Executive Director and senior management succession.

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 Group'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 external advisers and functional management on changes to legislation, regulation or market practice. Briefings from individual businesses are also received throughout the year. The Directors have the opportunity of attending appropriate training sessions.

The Board visits at least one operational site each year (Malta and Overton in 2012/13). 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.

Board protocol

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.

Appointments and annual election

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 three years with the expectation of two such three 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.

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 2012/13	Board	Audit Committee	Ethics Committee	Nomination Committee	Remuneration Committee
Number of meetings held	10	4	1	1	3
Nicholas Brookes (resigned 26 July 2012)	4 (5)	–	–	–	–
Colin Child	10 (10)	–	–	–	–
Tim Cobbold	10 (10)	–	–	1 (1)	–
Warren East	9 (10)	4 (4)	1 (1)	1 (1)	2 (2)
Sir Jeremy Greenstock	8 (10)	2 (2)	1 (1)	1 (1)	2 (3)
Sir Julian Horn-Smith (resigned 31 December 2012)	6 (8)	1 (4)	–	0 (1)	1 (2)
Victoria Jarman	10 (10)	4 (4)	1 (1)	1 (1)	2 (2)
Gill Rider	10 (10)	4 (4)	1 (1)	1 (1)	3 (3)
Philip Rogerson	9 (10)	–	1 (1)	1 (1)	3 (3)
Andrew Stevens (appointed 2 January 2013)	2 (2)	–	0 (1)	–	0 (1)

Note

Figures in brackets denote the maximum numbers of meetings that could have been attended

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.

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 FSA 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.

Corporate responsibility

Information on the Group's initiatives and commitment to corporate responsibility can be found in the corporate responsibility report on pages 31 to 35.

Committees of the Board

The Board has established Audit, Remuneration, Nomination, General Business, Ethics and Risk Committees with appointed Chairmen and fixed terms of reference which are reviewed annually. The terms of reference and duties of the Board and its 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 and independence and that they discharged their responsibilities satisfactorily. Membership of these Committees is given in the Directors' biographies on pages 36 and 37. Further details of Committees and key activities performed during the year are given elsewhere in this annual report.

Ethics Committee

The Board established the Ethics Committee in September 2012 comprising all Non-executive Directors and chaired by the Chairman with the Chief Executive Officer in attendance. The General Counsel and Company Secretary is secretary to the Committee and advises on governance.

The main responsibilities of the Ethics Committee are to:

- Advise the Board on the development of strategy and policy on ethical matters
- Advise the Board on steps to be taken to embed a culture of integrity and honesty in all of the Group's business dealings
- Oversee the Group's policies and procedures for the identification, assessment, management and reporting of ethical risk
- Oversee the development and adoption of, and compliance with, the Group's ethical due diligence policies and procedures covering business relationships, including third party partners and mergers, acquisitions and major new projects
- Oversee the investigation of any material irregularities of an ethical nature and review subsequent findings and recommendations

The Ethics Committee will bring an impartial viewpoint and best practice from other industries and underlines the Group's commitment to ensuring that business ethics are a fundamental and enduring part of the Group's culture.

Nomination Committee

The Committee consists of five independent Non-executive Directors at the date of this report together with the Chairman (who chairs the Committee) 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 other changes to the composition of the Board 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 during the year was succession planning and the recruitment of Andrew Stevens, our new Non-executive Director, 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 48 to 58.

Risk Committee

Core responsibilities of the Risk Committee are to:

- Assist the Board by assessing and reporting on the effectiveness, and promoting awareness of, the Group'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
- 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 divisional managing directors, the 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 27 to 30.

Internal controls

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 and risk management systems. Further details are contained in the risk and risk management report on pages 27 to 30.

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 May 2013.

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

Report of the Audit Committee of the Board

I am pleased to present the report of the Audit Committee for the period.

The role of the Audit Committee is to review and report to the Board on the Group's financial reporting, internal control and risk management processes and the independence and effectiveness of the external auditor KPMG Audit Plc (KPMG).

The terms of reference of the Audit Committee are available on the Group's website.

The following report details the Committee's responsibilities and key tasks during the period.

Warren East
Chairman of the Audit Committee
29 May 2013

Composition of the Audit Committee

Warren East was appointed Chairman of the Audit Committee on 1 April 2009. He has been the chief executive of a listed company and therefore has strong financial experience. In addition, Victoria Jarman is a chartered accountant and is chair of the audit committee at Hays plc and has relevant financial experience. All members of the Audit Committee are independent Non-executive Directors. At the invitation of the Committee Chairman, meetings are attended by the Chairman, Chief Executive, Group Finance Director, General Counsel and Company Secretary, Group Director of Risk and Internal Audit and the external and internal auditors. The internal and external auditors 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 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 page 31

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

- A review of the Group's business continuity arrangements
- Plans to further develop the Group's internal control framework
- Appointment of a new internal audit service provider

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 has been outsourced to Ernst & Young LLP since 2009. As part of the regular review process, during 2012/13, it was decided to put the contract for the provision of internal audit services out to tender. Following the tender exercise, PricewaterhouseCoopers LLP was appointed as our outsourced internal audit provider with effect from the start of 2013/14.

Internal audit continued to ensure that efforts were better aligned to the operational risks that the Group 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, there is a system of self assessment internal control reviews by which management are required to detail and certify that controls are 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 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.

Following completion of the 2011/12 audit KPMG's audit engagement partner was rotated. The new audit engagement partner undertook a thorough introduction programme to ensure he was fully familiar with the Group's business.

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 Chairman prior to any commencement of work. During 2012/13 the amount of non audit fees paid to KPMG was £0.1m.

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 2013

Remuneration report

Remuneration Committee Chairman's letter

Dear Shareholder,

On behalf of the Board I am pleased to present our Directors' remuneration report for 2013, which sets out the remuneration policy for the Directors of De La Rue plc and the amounts earned in respect of the year ended 30 March 2013.

The approach and structure for executive remuneration for the 2013/14 financial year is similar to that adopted for 2012/13. The Remuneration Committee aims to keep executive reward simple, proportionate and aligned directly with business performance and this principle runs through the decisions outlined below.

Context for decisions

In its decision making for 2013/14 the Remuneration Committee took account of the following business context for the Group:

- The Group's operating performance in 2012/13 was similar to that reported in 2011/12
- As a consequence of the 2012/13 performance:
  - No annual cash or share based bonus will be paid in respect of 2012/13 as the performance targets were not achieved
  - Executive Directors and other members of the Executive Committee have decided not to take an increase in salary for 2013/14
- 2013/14 is the third and final year of the Group's Improvement Plan which has a well publicised target of delivering a 2013/14 operating profit in excess of £100m. The priority for the business is to deliver this target

Executive remuneration changes 2012/13

Last year I consulted with De La Rue's largest shareholders and we also spoke to the Association of British Insurers, National Association of Pension Fund Managers and RREV-ISS Governance Services.

Following this consultation process, the Remuneration Committee reflected the consensus views of shareholders in the 2012/13 awards under the Performance Share Plan (PSP) and decided to:

- Set the maximum level of awards at 100 per cent of salary
- Implement a claw back policy to allow the Company to reclaim payments where there has been a misstatement of the accounts or misconduct
- Select two performance metrics of EPS and cash conversion to determine vesting of awards

The Remuneration Committee believes that the performance metrics and targets are demanding and are entirely consistent with the Group's current objectives. This also reflects the Remuneration Committee's commitment to simple and transparent measures designed to reward exceptional performance and align the interests of Executive Directors and other members of the Executive Committee with those of shareholders.

We recognise the need for transparency in relation to remuneration reporting. Therefore, we have, as far as practicable, changed the format of this report to provide increased clarity on past pay and future policy.

Our main aims in the year have been to ensure simplicity and transparency of design in our pay arrangements and to continue the focus on achieving the Improvement Plan.

Gill Rider
Chairman of the Remuneration Committee
29 May 2013

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. An advisory shareholder vote and ordinary resolution to approve the Directors' remuneration report will be proposed at the AGM on 25 July 2013.

Remuneration Committee members

The Remuneration Committee comprises: Gill Rider (Chairman), Philip Rogerson, Warren East, Sir Jeremy Greenstock, Victoria Jarman and Andrew Stevens. The Remuneration Committee consists exclusively of Non-executive Directors, all of whom are regarded as independent, and the Chairman of the Board, who was regarded as independent on his appointment as Chairman.

The Remuneration Committee is responsible for making recommendations to the Board on the Group's policy regarding executive remuneration and determines, on the Board's behalf, the specific remuneration packages of the Chairman, the Executive Directors and senior executives who report to the Chief Executive. A copy of the Remuneration Committee's terms of reference is available on the Group's website.

The Remuneration Committee met three times during the period and details of attendance can be found on page 44. The Chief Executive and the Group HR Director also attended meetings. The General Counsel and Company Secretary, who is also secretary to the Committee, advised on governance issues.

No Executive Director or employee is present or takes part in discussions in respect of matters relating directly to their own responsibilities.

Remuneration advice

During 2012/13 the Remuneration Committee received advice from:

- Towers Watson UK Limited (Towers Watson)
- New Bridge Street (an Aon Hewitt company)

Both advisers have been formally appointed by the Remuneration Committee.

Towers Watson advised on executive remuneration during the year. New Bridge Street advised on whether the performance targets which determine vesting of share based awards 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.

Remuneration Policy

In determining appropriate remuneration, the Remuneration Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of both the Group and its shareholders.

The Group operates in a competitive market and is focused on achieving sustained improvements in performance. This depends on the contributions of each of the executive team and of employees at all levels.

The Remuneration Committee believes that performance related pay and incentives should account for a significant proportion of the overall remuneration package of Executive Directors so that their remuneration is aligned with shareholder interests and the Group's performance, without encouraging excessive risk taking.

New appointments

When appointing new Executive Directors and senior executives, the Remuneration Committee will typically align the remuneration package with the above remuneration policy. However, the Remuneration Committee retains the discretion to make remuneration decisions which are outside the policy to facilitate the recruitment of candidates of the appropriate calibre and where, appropriate, retention of existing employees. Such decisions will be taken with due consideration to business requirements and shareholder interests.

Performance related elements of remuneration form a significant proportion of the total remuneration packages and are based on the following key principles:

Key principles	Remuneration policy
Competitive rewards to attract, retain and develop high calibre employees	Employees are rewarded according to their skills, experience, responsibilities and ability to drive the performance of the Group
Variable performance related pay	Annual and longer term incentive arrangements are designed to be fair, competitive, simple, proportionate and transparent and are subject to challenging performance targets. Incentive schemes are designed to provide maximum rewards for exceptional performance
Alignment with shareholder interests	A significant proportion of the senior executives' remuneration is share based to ensure that their interests and those of shareholders are aligned. The Remuneration Committee reviews regularly the Group's remuneration structure to incentivise executives to deliver and sustain value over the medium to longer term
Pay conditions elsewhere	Prudent use is made of survey data on companies of a similar size and complexity in the FTSE 250. The Remuneration Committee tracks the five year history of executive rewards to ensure they are proportionate and in line with the Group's performance

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 awards.

The Remuneration Committee aims to keep executive reward simple and proportionate. We are also committed to transparent measures designed to reward exceptional performance and align the interests of Executive Directors with those of shareholders.

Key elements of remuneration 2012/13

The table below summarises how the Remuneration Committee sets remuneration for the Executive Directors, the key elements of their remuneration and principal pension arrangements:

Element	Purpose and link to strategy	Operation
Base salary	Fixed competitive remuneration set at levels to recruit and retain talent with reference to the market place for companies of similar size and complexity Reflects individual skills, experience and responsibility Rewards individual performance	Reviewed annually and fixed for 12 months
Annual Bonus Plan (ABP)	Annual cash award – growth in earnings per share	Measures set by the Remuneration Committee to align with Group strategy and business targets
	Deferred award delivered in shares – supports alignment with shareholder interests	Shares vest after three years subject to continued employment
Performance Share Plan (PSP)	Share based long term incentive aligned closely with interests of shareholders and business targets Growth in earnings per share Cash generation	PSP approved by shareholders in 2010 Annual awards of nil cost options Shares vest after three years provided performance criteria are met
Benefits	Recruit and retain employees	Provision of car allowance, private medical scheme and life assurance to Executive Directors. Executive Directors are also provided with permanent health insurance
Pension	Recruit and retain employees	Defined contribution pension plan contribution rates offered to Executive Directors are reflective of market practice Executive Directors may choose to receive a cash allowance in lieu of a pension contribution

Opportunity	Performance metrics	Changes in year
Increases will be based on prudent use of survey data supplied by Towers Watson focusing on companies of similar size and complexity Managed with due regard to employees' pay and conditions elsewhere in the Group	N/A	2012/13 base salaries for Executive Directors increased by 3% consistent with increases for the majority of the Group's UK employees
100% of salary for Chief Executive 80% of salary for Group Finance Director	Annual EPS growth remained the sole performance criterion for 2012/13	None
Maximum 35% of salary payable in shares	Linked to ABP cash award	None
Maximum award 100% of salary	For 2012/13 awards: Up to 75% of awards will vest subject to annual growth in EPS Up to 25% of award will vest subject to cash conversion performance	Performance conditions for awards in 2012/13 reflected the views of majority of institutional shareholders following consultation namely: • Two performance metrics (EPS and cash conversion as described on page 53) • Claw back policy introduced • Maximum level of award of 100% of salary • Targets appropriately stretching against expectations, particularly at the higher end of vesting scale
N/A	N/A	None
Executive Directors have chosen to receive a cash allowance in lieu of contributions: • 30% of base salary for the Chief Executive • 25% of base salary for the Group Finance Director	N/A	None

Total remuneration 2012/13

The table below shows the single figure for the total of salary, benefits, annual bonus, pension and cash supplement in lieu of pension and long term incentives for each Executive Director. The figure represents the received, earned and vested remuneration in the financial year and is in line with recent consultation papers issued by the UK Government's Department for Business, Innovation and Skills.

	Tim Cobbold £'000	Colin Child £'000
Base salary	464	325
Benefits	28	21
Pension and cash supplement in lieu of pension	139	81
Annual bonus	–	–
PSP	–	–
Total	631	427

See also Directors' emoluments table on page 56

Annual Bonus Plan and Performance Share Plan

The intention continues that both plans will be used to make annual, performance linked awards to executives.

Annual Bonus Plan (ABP)

Under the ABP the annual bonus is paid as a combination of cash, and share based elements deferred for 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 is 135 per cent of salary for the Chief Executive (being 100 per cent cash and 35 per cent shares) and 115 per cent for the Group Finance Director (being 80 per cent cash and 35 per cent shares).

In 2012/13, the ABP had a single performance criterion of EPS.

No annual cash or share bonus will be made in respect of performance in 2012/13 because the performance targets were not achieved.

ABP performance 2013/14

The Remuneration Committee has decided that operating profit will be used as the performance measure for the ABP. The rationale for using operating profit as the performance measure, and not EPS (as has been used in the previous two years) is that the Improvement Plan operating profit target for 2013/14 of £100m is a longstanding, visible, well communicated and understood measure for investors and participants alike. The Remuneration Committee believes that use of operating profit provides alignment between investors and participants.

The maximum opportunity will remain at 135 per cent of salary for the Chief Executive and 115 per cent for the Group Finance Director.

Subject to the scheme rules, which provide for Remuneration Committee discretion, a cash bonus will become payable if the Group achieves an operating profit in excess of £90m with payments increasing on a straight line basis from £90m to a maximum at £100m. Deferred shares will be awarded on a similar basis for achievement of operating profit between £100m and £105m.

An operating profit of £90m would represent a 42 per cent increase, and £100m a 58 per cent increase, on the operating profit of £63.2m reported for 2012/13.

Performance Share Plan (PSP)

The purpose of the PSP is to provide Executive Directors and selected senior managers with a long term incentive that promotes annual and long term performance and reinforces alignment between the participants and shareholders.

The Remuneration Committee has decided that PSP awards for 2013/14 will be made once the Group's strategy for the period following the Improvement Plan has been more clearly defined and communicated to shareholders.

PSP performance

For awards in 2013/14, the Remuneration Committee is planning to continue using the performance measures agreed with major shareholders after consultation, namely EPS (75 per cent of award) and cash conversion (25 per cent of award). The Remuneration Committee may consider excluding capital expenditure in the cash conversion calculation, which would be more consistent with the definition used by many other listed companies.

The performance conditions applicable to existing awards under the PSP are as follows:

Date of award	Performance measures	Performance thresholds	Proportion of award vesting	% of salary
January 2011	60% of award based on annual growth in EPS[1]	EPS >RPI +3%	50% of maximum	30
		EPS >RPI +5%	100% of maximum	60
	40% of award based on relative TSR[2]	TSR at median	50% of maximum	20
		TSR in upper quartile	100% of maximum	40
June 2011	2013/14 operating profit target[3] in excess of £100m	Operating profit £85m	Nil	Nil
		Operating profit £100m	66.67% of award	100
		Operating profit £115m	100% of award	150
July 2012	75% of award based on annual growth in EPS[1]	EPS >RPI +12%	25% of maximum	19
		EPS >RPI +15%	100% of maximum	75
	25% of award based on average cash conversion[4]	Cash conversion of 80% over three years	25% of maximum	6
		Cash conversion of 100% over three years	100% of maximum	25

Notes

1 EPS is defined as the fully diluted (undiluted for 2012 awards) post tax earnings per share adjusted for exceptional items (although exceptional items which are attributable to management may be taken into account). EPS was chosen because it is a key performance indicator for shareholders

2 Total Shareholder Return (TSR) is measured relative to the TSR of the companies in the FTSE 250 index excluding investment trusts. TSR was chosen because it is a widely accepted measure that is recognised by our institutional shareholders

3 Threshold target operating profit is linked to the 2013/14 Improvement Plan target of an operating profit in excess of £100m

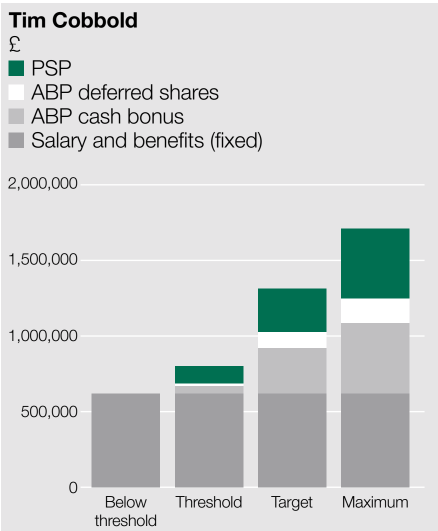
4 Cash conversion is defined as the operating cash flow (as per the cash flow statement) excluding exceptional items, special pension contributions and movement in advanced payments, less cash capital expenditure, divided by operating profit (before exceptional items). To avoid distortion from one year to the next, cash conversion will be measured as an average over a three year performance period

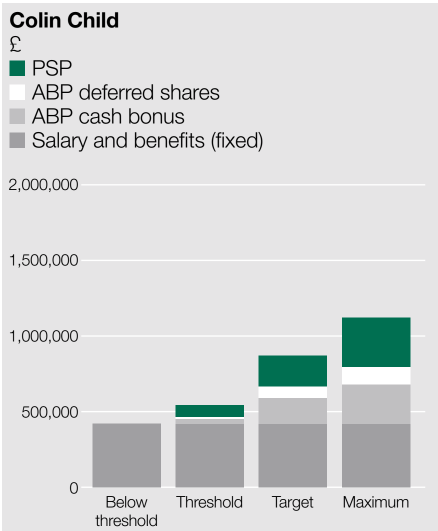
Looking ahead to 2013/14

The following charts illustrate the value of the Executive Directors' remuneration packages in various scenarios in a typical year.

Performance scenarios for the ABP and PSP assume the following:

Below threshold	Threshold	Target	Maximum
There is no ABP (cash bonus, deferred shares) or vesting under the PSP	Threshold ABP (cash bonus and deferred shares); threshold vesting under PSP	Target ABP (cash bonus and deferred shares); target vesting under PSP	Maximum ABP (cash bonus, deferred shares); maximum vesting under the PSP





Executive Director remuneration mix 2013/14

Based on the above performance scenarios the table below illustrates the proportion of Executive Directors' remuneration that is fixed and variable:

		Below threshold %	Threshold %	Target %	Maximum %
Tim Cobbold	Fixed	100	78	47	36
	Variable	0	22	53	64
Colin Child	Fixed	100	77	48	38
	Variable	0	23	52	62

Share retention policy

The Remuneration Committee believes it is important that the interests of Executive Directors should be closely aligned with those of shareholders. The Committee adopted a policy that Executive Directors, and other members of the Executive Committee, should be encouraged to build up a shareholding over five years, equivalent to one times salary. This may be achieved either through market share purchases or retention of vested share awards. The Directors' share interests table is shown below.

Directors' share interests (audited information)

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

	30 March 2013 Total number of shares	31 March 2012 Total number of shares
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
Victoria Jarman	1,481	1,481
Gill Rider	454	454
Philip Rogerson	5,000	–
Andrew Stevens (appointed 2 January 2013)	–	–

There have been no changes in Directors' interests in ordinary shares since 30 March 2013. All interests of the Directors and their families are beneficial.

Remuneration and share schemes for employees

When determining the remuneration arrangements for Executive Directors, the Remuneration Committee takes into consideration the pay and conditions of employees throughout the Group. In particular, the Remuneration Committee is kept informed of:

- Salary increases for the general employee population
- Overall spend on annual bonus
- Participation levels in the ABP

The Remuneration Committee consults with the Chief Executive on the remuneration of executives directly reporting to him and other senior executives and seeks to ensure a consistent approach across the Group taking account of seniority and market practice and the key remuneration policies outlined above. Employees in De La Rue (excluding Executive Directors and members of the Executive Committee who decided not to take an increase) received pay rises of up to 2 per cent for 2013/14.

Employees have the opportunity to benefit from the Group's success and share price growth. All UK employees may join the Company's HM Revenue & Customs approved Sharesave scheme. Options are granted over De La Rue plc shares, at an exercise price equal to 80 per cent of the prevailing market share price at the time of grant. Eligible US employees may participate in the US Employee Share Purchase Plan. The purchase price is 85 per cent of the lower of the market value of a De La Rue plc share either at the beginning or end of the offering period.

All UK employees are entitled to participate in the defined contribution pension scheme.

The work of the Remuneration Committee during 2012/13

The Remuneration Committee follows a clear cycle of activities during the year and in 2012/13 this covered amongst other things the following matters:

- Approved ABP bonus awards in respect of 2011/12 performance
- Agreed pay awards for Executive Directors and Executive Committee
- Consulted with major shareholders on the performance measures for PSP awards in 2012/13
- Approved a draft of the remuneration report
- Carried out an effectiveness review of the Committee
- Reviewed and agreed the remuneration policy statement
- Agreed renewal of Sharesave and US employee share schemes

Service contracts and termination payments

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. The table below outlines the framework for contracts for Executive Directors:

Policy	
Notice period on termination by the Company	12 calendar months
Termination payment at the Company's sole discretion	Payment not exceeding 12 months' basic salary, excluding bonus but including benefits
Change of control	One year's salary (excluding bonus) plus contractual benefits on the executive giving no less than one month's notice (applies to Tim Cobbold only) Under the ABP, awards will vest in full on change of control. Under the PSP, performance conditions and apportionment for the time that the award has been held will be applied
Vesting of incentives for leavers	The Remuneration Committee has the discretion to determine appropriate bonus amounts taking into consideration the circumstances in which an Executive Director leaves The vesting of share awards is governed by the rules of the appropriate incentive plan approved by shareholders. Typically for 'good leavers': • Under the ABP the provisions allow awards to vest in full at the normal vesting date or earlier at the discretion of the Remuneration Committee • Under the PSP, awards, pro rated to the date of departure, will vest at the normal vesting date if the relevant performance targets have been met unless the Remuneration Committee decides to test the performance targets early and accelerate vesting

The following table sets out the details of the Executive Directors' service contracts:

Name	Date of contract	Notice period by Executive	Term
Tim Cobbold	12 December 2010	Six months	Rolling
Colin Child	20 May 2010	Six months	Rolling

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	40,000

Non-executive Directors
Non-executive Directors do not have service contracts but are appointed for fixed terms of three years renewable for a further three years, if both parties agree. The Board may invite Non-executive Directors to serve a further term after a six year term following a detailed review.

The Board determines the fees paid to Non-executive Directors and the remuneration of the Chairman is set by the Remuneration Committee in all cases taking into account market norms, comparator companies and the duties required of Non-executive Directors.

All reasonable expenses for attending Board meetings are reimbursed. The annual fee of £41,200 to Non-executive Directors (excluding the Chairman) was increased with effect from 1 October 2012 to £45,000. The Chairmen of the Audit and Remuneration Committees and the Senior Independent Director receive an additional fee of £7,200 per annum to reflect their additional responsibilities.

Details of fees to the Chairman and other Non-executive Directors are set out in the Directors' emoluments table below.

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 Directors if the appointment is terminated.

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 2016	9 January 2007
Sir Jeremy Greenstock	28 February 2014	1 March 2005
Victoria Jarman	21 April 2014	22 April 2010
Gill Rider	21 June 2014	22 June 2006
Philip Rogerson (Chairman with effect from 26 July 2012)	28 February 2014	1 March 2012
Andrew Stevens	1 January 2016	2 January 2013

Philip Rogerson was initially appointed as a Non-executive Director and Chairman designate on 1 March 2012.

Directors' emoluments (audited information)

		2013 Annual Bonus Plan					
	2013 Salary and fees £'000	Cash £'000	Shares deferred 3 years £'000	2013 Pension allowance £'000	2013 Other benefits (excluding pensions) £'000	Total to 30 March 2013 £'000	2012 Total £'000
Executive Directors							
Tim Cobbold	464	–	–	139	28	631	1,049
Colin Child	325	–	–	81	21	427	626
	789	–	–	220	49	1,058	1,675
Non-executive Chairman							
Philip Rogerson (Chairman with effect from 26 July 2012)	132	–	–	–	–	132	3
Nicholas Brookes (resigned 26 July 2012)	53	–	–	–	–	53	165
	185	–	–	–	–	185	168
Non-executive Directors							
Warren East	50	–	–	–	–	50	47
Sir Jeremy Greenstock	47	–	–	–	–	47	40
Sir Julian Horn-Smith (resigned 31 December 2012)	32	–	–	–	–	32	40
Victoria Jarman	43	–	–	–	–	43	40
Gill Rider	50	–	–	–	–	50	47
Andrew Stevens (appointed 2 January 2013)	11	–	–	–	–	11	-
Aggregate emoluments	1,207	–	–	220	49	1,476	2,057

Note
The pension allowance shown in the table above relates to cash in lieu of pension contributions

Directors' share awards (audited information)

The awards over De La Rue plc shares held by Executive Directors under the ABP, PSP, Recruitment Share Award, Retention Share Award and Sharesave scheme during the period are detailed below:

	Date of award	Total award as at 31 March 2012	Exercised during year	Awarded during year	Lapsed during year	**Awards held at 30 March 2013**	Mid market share price preceding date of award (pence)	Market price at exercise date (pence)	Performance target	Date from which exercisable	Expiry date	Average fair value per share (pence)
Tim Cobbold												
Recruitment Share Award	Jan 11	65,549	–	–	–	**65,549**	686.50	–	(a)	Jan 14	Jan 21	687
Performance Share Plan	Jan 11	65,549	–	–	–	**65,549**	686.50	–	(b)	Jan 14	Jan 21	597
	Jun 11	88,839	–	–	–	**88,839**	759.80[1]	–	(b)	Jun 14	Jun 21	734
	Jul 12	–	–	46,766	–	**46,766**	991.10[1]	–	(b)	Jul 15	Jul 22	991
Annual Bonus Plan	May 12	–	–	12,798	–	**12,798**	984.50	–	(a)	May 15	May 22	985
						279,501						
Sharesave options	Dec 11	1,245	–	–	–	**1,245**	722.66[2]	–	(a)	Mar 15	Aug 15	210
Colin Child												
Retention Share Award	Jan 11	45,884	–	–	–	**45,884**	686.50	–	(a)	Jan 14	Jan 21	687
Performance Share Plan	Jan 11	45,884	–	–	–	**45,884**	686.50	–	(b)	Jan 14	Jan 21	597
	Jun 11	62,187	–	–	–	**62,187**	759.80[1]	–	(b)	Jun 14	Jun 21	734
	Jul 12	–	–	32,741	–	**32,741**	991.10[1]	–	(b)	Jul 15	Jul 22	991
Annual Bonus Plan	May 12	–	–	8,958	–	**8,958**	984.50	–	(a)	May 15	May 22	985
						195,654						
Sharesave options	Dec 11	1,245	–	–	–	**1,245**	722.66[2]	–	(a)	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 award date

Notes

(a) No performance conditions are attached to the awards under the Recruitment Share Award, Retention Share Award, ABP (share element) and the Sharesave scheme

(b) Details of the performance conditions attached to the PSP are set out on pages 52 and 53

Recruitment Share Award/Retention Share Award

- The value of awards on grant was 100 per cent of salary
- Shares will vest three years after award date and in Colin Child's case provided he remains with the Company
- The shares will vest in the event of a change of control
- The awards are not pensionable
- The award under the Recruitment Share Award will vest after termination of service, provided that the termination was not for cause. The Remuneration Committee has the discretion to accelerate vesting after termination
- Awards may be satisfied with either new or existing shares. 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 pre emptive basis would be that conferred by shareholders on 25 July 2012

Dividend shares

An additional award of shares may be released on the vesting date in respect of awards under the ABP, 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 30 March 2013 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: 22,784 ordinary shares

Colin Child: 15,946 ordinary shares

The closing mid market price of De La Rue plc shares at 30 March 2013 was 976p and the highest and lowest mid market prices during the year were 1075p and 885.5p respectively.

Other information

Superseded scheme

Deferred Bonus and Matching Share Plan

The Deferred Bonus and Matching Share Plan (DBMSP) was replaced with the ABP and PSP in 2010. Awards were last made under the DBMSP in 2009.

On 5 June 2012, 52,009 deferred shares including 5,745 dividend shares accrued were released to selected senior executives. No matching shares were released as the EPS and TSR performance targets were not met.

Executive Directors do not have any awards under the DBMSP.

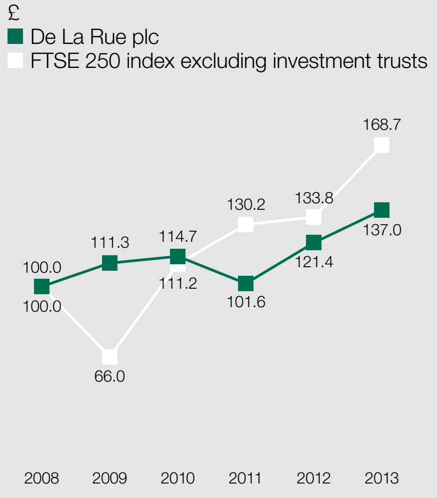
Dilution limits

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, at 30 March 2013, of £100 invested in De La Rue plc on 29 March 2008 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



Gill Rider

Chairman of the Remuneration Committee

29 May 2013

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 52 week period ended 30 March 2013 set out on pages 60 to 100. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international financial reporting standards (IFRSs) 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 auditor

As explained more fully in the Directors' responsibilities statement set out on page 41, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

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 Company's affairs as at 30 March 2013 and of the Group's profit for the 52 week period then ended
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU
- The Company financial statements have been properly prepared in accordance with UK generally accepted accounting practice and
- 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 42 to 47 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 Company, or returns adequate for our audit have not been received from branches not visited by us or
- The 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 65, in relation to going concern
- The part of the corporate governance statement on pages 42 to 47 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

Ian Bone
Senior statutory auditor
for and on behalf of KPMG Audit Plc,
Statutory auditor
Chartered accountants
15 Canada Square
London E14 5GL

29 May 2013

Group income statement

For the period ended 30 March 2013

	Notes	2013 £m	2012 £m
Revenue	1	**483.7**	528.3
Operating expenses – ordinary	2	**(420.5)**	(465.2)
Operating expenses – exceptional	3	**(7.6)**	(24.8)
Total operating expenses		**(428.1)**	(490.0)
Operating profit		**55.6**	38.3
Comprising:			
Operating profit before exceptional items		**63.2**	63.1
Exceptional items	3	**(7.6)**	(24.8)
Profit before interest and taxation		**55.6**	38.3
Interest income	4	**0.2**	0.3
Interest expense	4	**(3.8)**	(4.4)
Retirement benefit obligation finance income	22	**39.3**	39.4
Retirement benefit obligation finance expense	22	**(39.8)**	(40.7)
Net finance expense		**(4.1)**	(5.4)
Profit before taxation		**51.5**	32.9
Comprising:			
Profit before tax and exceptional items		**59.1**	57.7
Exceptional items	3	**(7.6)**	(24.8)
Taxation	5	**(7.4)**	(0.7)
Profit for the year		**44.1**	32.2
Comprising:			
Profit for the year before exceptional items		**45.2**	43.8
Loss for the year on exceptional items	3	**(1.1)**	(11.6)
Profit attributable to equity shareholders of the Company		**43.1**	31.6
Profit attributable to non controlling interests		**1.0**	0.6
		44.1	32.2

	Notes	2013	2012
Profit for the year attributable to the Company's equity holders			
Earnings per share			
Basic	6	**43.3p**	31.8p
Diluted	6	**42.8p**	31.5p

Group statement of comprehensive income

For the period ended 30 March 2013

	Notes	2013 £m	2012 £m
Profit for the financial year		**44.1**	32.2
Other comprehensive income			
Foreign currency translation differences for foreign operations		**1.0**	(3.9)
Net actuarial losses on retirement benefit obligations	22	**(37.3)**	(63.6)
Change in fair value of cash flow hedges		**(0.9)**	(0.8)
Change in fair value of cash flow hedges transferred to the income statement		**2.1**	(2.5)
Ineffective portion of change in fair value of cash flow hedges transferred to the income statement	12	**–**	0.3
Income tax relating to components of other comprehensive income	5	**7.4**	13.5
Other comprehensive income for the year, net of tax		**(27.7)**	(57.0)
Comprehensive income for the year		**16.4**	(24.8)
Comprehensive income for the year attributable to:			
Equity shareholders of the Company		**15.4**	(25.4)
Non controlling interests		**1.0**	0.6
		16.4	(24.8)

Group balance sheet

At 30 March 2013

	Notes	2013 £m	2012 £m
ASSETS			
Non current assets			
Property, plant and equipment	8	**179.7**	160.9
Intangible assets	9	**26.0**	24.2
Investments in associates and joint ventures		**0.1**	0.1
Deferred tax assets	14	**45.5**	40.4
		251.3	225.6
Current assets			
Inventories	10	**73.4**	68.6
Trade and other receivables	11	**89.2**	83.6
Current tax assets		**0.3**	0.6
Derivative financial instruments	12	**4.9**	5.9
Cash and cash equivalents	13	**24.8**	24.0
		192.6	182.7
Total assets		**443.9**	408.3
LIABILITIES			
Current liabilities			
Borrowings	16	**(101.5)**	(48.8)
Trade and other payables	15	**(167.4)**	(170.2)
Current tax liabilities		**(29.1)**	(33.6)
Derivative financial instruments	12	**(3.9)**	(5.6)
Provisions for liabilities and charges	17	**(26.0)**	(40.2)
		(327.9)	(298.4)
Non current liabilities			
Retirement benefit obligations	22	**(169.1)**	(145.6)
Deferred tax liabilities	14	**(2.8)**	(1.3)
Derivative financial instruments	12	**(1.2)**	(0.9)
Provisions for liabilities and charges	17	**(4.5)**	(6.9)
Other non current liabilities	15	**(5.0)**	(0.8)
		(182.6)	(155.5)
Total liabilities		**(510.5)**	(453.9)
Net liabilities		**(66.6)**	(45.6)
EQUITY			
Share capital	18	**45.8**	45.7
Share premium account		**31.9**	30.7
Capital redemption reserve		**5.9**	5.9
Hedge reserve		**(0.3)**	(1.2)
Cumulative translation adjustment		**(0.4)**	(1.4)
Other reserve		**(83.8)**	(83.8)
Retained earnings		**(70.4)**	(45.4)
Total equity attributable to shareholders of the Company		**(71.3)**	(49.5)
Non controlling interests		**4.7**	3.9
Total equity		**(66.6)**	(45.6)

Approved by the Board on 29 May 2013

Philip Rogerson
Chairman

Colin Child
Group Finance Director

Group statement of changes in equity

For the period ended 30 March 2013

	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 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)
Comprehensive income for the year	–	–	–	0.9	1.0	–	13.5	1.0	16.4
Share capital issued	0.1	1.2	–	–	–	–	–	–	1.3
Employee share scheme:									
– value of services provided	–	–	–	–	–	–	3.0	–	3.0
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	0.6	–	0.6
Dividends paid	–	–	–	–	–	–	(42.1)	(0.2)	(42.3)
Balance at 30 March 2013	**45.8**	**31.9**	**5.9**	**(0.3)**	**(0.4)**	**(83.8)**	**(70.4)**	**4.7**	**(66.6)**

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 30 March 2013

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Profit before tax		**51.5**	32.9
Adjustments for:			
Finance income and expense		**4.1**	5.4
Depreciation and amortisation		**26.3**	26.6
Increase in inventory		**(4.1)**	(2.1)
(Increase)/decrease in trade and other receivables		**(6.9)**	6.6
(Decrease)/increase in trade and other payables		**(3.8)**	11.6
(Decrease)/increase in reorganisation provisions		**(10.4)**	17.3
Special pension fund contributions		**(16.2)**	(23.1)
Loss on disposal of property, plant and equipment and software intangibles		**0.3**	3.0
Other non cash movements		**(0.4)**	0.2
Cash generated from operating activities		**40.4**	78.4
Tax (paid)/received		**(7.5)**	7.1
Net cash flows from operating activities		**32.9**	85.5
Cash flows from investing activities			
Purchases of property, plant, equipment and software intangibles		**(37.1)**	(32.1)
Development assets capitalised		**(3.7)**	(3.7)
Proceeds from sale of property, plant and equipment		**0.2**	0.4
Net cash flows from investing activities		**(40.6)**	(35.4)
Net cash (outflow)/inflow before financing activities		**(7.7)**	50.1
Cash flows from financing activities			
Proceeds from issue of share capital		**1.3**	1.7
Proceeds from/(repayments of) borrowings		**50.9**	(7.3)
Interest received		**0.2**	0.3
Interest paid		**(3.5)**	(3.5)
Dividends paid to shareholders		**(42.1)**	(42.0)
Dividends paid to non controlling interests		**(0.2)**	(0.2)
Net cash flows from financing activities		**6.6**	(51.0)
Net decrease in cash and cash equivalents in the year		**(1.1)**	(0.9)
Cash and cash equivalents at the beginning of the year		**22.5**	23.4
Exchange rate effects		**0.3**	–
Cash and cash equivalents at the end of the year		**21.7**	22.5
Cash and cash equivalents consist of:			
Cash at bank and in hand	13	**24.8**	24.0
Bank overdrafts		**(3.1)**	(1.5)
	20	**21.7**	22.5

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 102 of this annual report. The consolidated financial statements of the Company for the period ended 30 March 2013 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates. The 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 30 March 2013, 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 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 30 March 2013, other than revisions to IAS 19 'Employee Benefits', none of these are likely to have a material impact on the Group for the 2013/14 year.

Note 22 to the consolidated financial statements describes in greater detail how the revised IAS 19 would have impacted 2012/13 had the amendments been applied and also estimates the impact on the 2013/14 year.

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 30 March 2013, being the last Saturday in March. The comparatives for the 2011/12 financial year are for the period ended 31 March 2012.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 20 to 23 and 27 to 30 of the business review. The accounting policies used in the preparation of the financial position are described in pages 65 to 70. In addition, pages 79 to 84 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 24 to 26 of the business review.

As described on page 26, the Group meets its funding requirements through cash generated from operations and a revolving credit facility which expires in December 2016. The Group's forecasts and projections, which cover a period of more than 12 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 primarily arisen due to 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 15, 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 30 March 2013. 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 30 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 2012, results for the period to 30 March 2013 and the balance sheet as at 30 March 2013 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.

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, 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 re-measured 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 re-measuring 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 or 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, which vary between five and ten years, 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 8 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.

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 30 March and the balance sheet as at 30 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 number 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 re-measured 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 (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 and unpaid at the year end are not recognised in the financial statements until they have been approved by the shareholders at the AGM. Interim dividends are recognised in the period that they are paid.

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 set out below.

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 ongoing 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 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 26 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 consists 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 Holographics operation, previously part of Security Products, became part of the Currency business, on which it largely depends, from the first day of the 2012/13 financial year and comparatives have been re-presented accordingly.

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 passport, ePassport, national ID and eID, driving licence and voter registration schemes

2013	Currency £m	Solutions: Cash Processing Solutions £m	Solutions: Security Products £m	Solutions: Identity Systems £m	Exceptional items £m	Total £m
Total revenue	298.1	61.2	45.1	84.4	–	488.8
Less: inter segment revenue	(1.9)	–	(3.2)	–	–	(5.1)
Revenue	296.2	61.2	41.9	84.4	–	483.7
Operating profit before exceptional items	38.0	–	8.9	16.3	–	63.2
Exceptional items – operating (note 3)	(1.8)	–	(2.1)	–	(3.7)	(7.6)
Operating profit/(loss)	36.2	–	6.8	16.3	(3.7)	55.6
Net interest expense						(3.6)
Retirement benefit obligations net finance expense						(0.5)
Profit before taxation						51.5
Segment assets	220.8	21.8	45.5	49.3	–	337.4
Unallocated assets						106.5
Total assets						443.9
Segment liabilities	(112.2)	(8.9)	(23.8)	(21.9)	–	(166.8)
Unallocated liabilities						(343.7)
Total liabilities						(510.5)
Capital expenditure on property, plant and equipment	33.3	1.7	6.8	0.4	–	42.2
Capital expenditure on intangible assets	3.1	1.0	–	0.1	–	4.2
Depreciation of property, plant and equipment	17.6	1.8	0.9	3.1	–	23.4
Amortisation of intangible assets	1.3	1.0	–	0.6	–	2.9

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

Unallocated assets principally comprise deferred tax assets of £45.5m (2011/12: £40.4m), cash and cash equivalents of £24.8m (2011/12: £24.0m) which are used as part of the Group's financing offset arrangements and derivative financial instrument assets of £4.9m (2011/12: £5.9m) as well as current tax assets, associates and centrally managed property, plant and equipment.

Unallocated liabilities principally comprise retirement benefit obligations of £169.1m (2011/12: £145.6m), borrowings of £101.5m (2011/12: £48.8m), current tax liabilities of £29.1m (2011/12: £33.6m) and derivative financial instrument liabilities of £5.1m (2011/12: £6.5m) as well as deferred tax liabilities and centrally held accruals and provisions.

1 Segmental analysis continued

2012	Currency (re-presented) £m	Solutions: Cash Processing Solutions £m	Solutions: Security Products (re-presented) £m	Solutions: Identity Systems £m	Exceptional items £m	Total £m
Total revenue	340.6	65.7	51.4	75.2	–	532.9
Less: inter segment revenue	(1.6)	–	(3.0)	–	–	(4.6)
Revenue	339.0	65.7	48.4	75.2	–	528.3
Operating profit before exceptional items	45.5	2.0	7.1	8.5	–	63.1
Exceptional items – operating (note 3)	(11.8)	–	(9.0)	–	(4.0)	(24.8)
Operating profit/(loss)	33.7	2.0	(1.9)	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	200.2	40.7	17.3	48.6	–	306.8
Unallocated assets						101.5
Total assets						408.3
Segment liabilities	(103.3)	(25.4)	(11.0)	(27.0)	–	(166.7)
Unallocated liabilities						(287.2)
Total liabilities						(453.9)
Capital expenditure on property, plant and equipment	25.8	0.9	1.6	2.8	–	31.1
Capital expenditure on intangible assets	1.6	2.1	–	0.4	–	4.1
Depreciation of property, plant and equipment	17.3	1.9	1.9	3.0	–	24.1
Amortisation of intangible assets	0.9	0.5	–	1.1	–	2.5

Geographic analysis of revenue by origin

	2013 £m	2012 £m
UK	**386.3**	444.0
Other countries	**97.4**	84.3
	483.7	528.3

Geographic analysis of non current assets

	2013 £m	2012 £m
UK	**132.5**	110.5
Malta	**31.0**	33.7
Sri Lanka	**20.2**	20.0
Other countries	**22.1**	21.0
	205.8	185.2

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

Major customers

The Group has a major customer from which it derived revenues of £52.1m (2011/12: £43.4m) in the Identity Systems operating unit.

2 Expenses by nature (excluding exceptional items)

	2013 £m	2012 £m
Cost of inventories recognised as an expense	**112.0**	132.8
Net (decrease)/increase in impairment of inventories	**(1.1)**	0.3
Depreciation of property, plant and equipment	**23.4**	24.1
Amortisation of intangibles	**2.9**	2.5
Operating leases:		
– Hire of plant and equipment	**1.0**	1.4
– Hire of property	**3.8**	3.6
Amounts payable to KPMG Audit Plc and its associates:		
– Audit of these consolidated financial statements	**0.1**	0.2
– Audit of the financial statements of subsidiaries pursuant to legislation	**0.4**	0.4
– Taxation services	**0.1**	0.2
– Other	**–**	0.1
Research and non capitalised development expense	**10.4**	10.6
Loss on disposal of property, plant and equipment	**0.3**	3.0
Employee costs (including Directors' emoluments) (note 23)	**158.7**	159.0
Foreign exchange losses/(gains)	**1.9**	(1.0)

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

3 Exceptional items

	2013 £m	2012 £m
Site relocation and restructuring	**(7.6)**	(24.1)
Costs relating to paper production quality issues	**–**	(0.7)
Exceptional items in operating profit	**(7.6)**	(24.8)
Tax credit on exceptional items	**6.5**	13.2

Exceptional costs of £7.6m have been incurred in 2012/13 mainly in connection with the ongoing costs of implementing the Improvement Plan (2011/12: £24.8m). This brings the cumulative exceptional charges taken in respect of the Improvement Plan to a total of £31.7m.

The £7.6m exceptional operating charge reported in 2012/13 (2011/12: £24.8m) comprised £0.8m (2011/12: £11.3m) in staff compensation, £0.2m (2011/12: £1.1m) of fixed asset impairment charges, £4.3m (2011/12: £8.8m) for site exit costs and £2.3m (2011/12: £2.9m) in other associated reorganisation costs. The exceptional charge in 2011/12 also included additional costs (reported under the Currency business unit) of £0.7m associated with the paper quality issue that arose in 2010/11.

Tax credits relating to exceptional items arising in the period were £2.1m (2011/12: £6.2m). In addition there was an exceptional credit of £4.4m (2011/12: £7.0m) in respect of the determination of the tax treatment of prior year exceptional items.

4 Interest income and expense

	2013 £m	2012 £m
Recognised in the income statement		
Interest income:		
– Cash and cash equivalents	**0.2**	0.3
Interest expense:		
– Bank overdrafts	**(0.4)**	(0.3)
– Bank loans	**(2.6)**	(2.7)
– Other, including amortisation of finance arrangement fees	**(0.8)**	(1.4)
Total interest expense calculated using the effective interest method	**(3.8)**	(4.4)
Retirement benefit obligation net finance expense (note 22)	**(0.5)**	(1.3)

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 (2011/12: £nil).

5 Taxation

	2013 £m	2012 £m
Consolidated income statement		
Current tax		
UK corporation tax:		
– Current tax	**8.2**	7.6
– Adjustment in respect of prior years	**(3.8)**	(6.8)
	4.4	0.8
Overseas tax charges:		
– Current year	**3.9**	3.7
– Adjustment in respect of prior years	**(1.0)**	1.0
	2.9	4.7
Total current income tax expense	**7.3**	5.5
Deferred tax:		
– Origination and reversal of temporary differences, UK	**(1.2)**	(6.3)
– Origination and reversal of temporary differences, overseas	**1.3**	1.5
Total deferred tax expense/(credit)	**0.1**	(4.8)
Total income tax expense in the consolidated income statement	**7.4**	0.7
Attributable to:		
– Ordinary activities	**13.9**	13.9
– Exceptional items	**(6.5)**	(13.2)
Consolidated statement of comprehensive income		
– On pension actuarial adjustments	**(7.5)**	(12.7)
– On cash flow hedges	**0.3**	(0.8)
– On foreign exchange on quasi equity balances	**(0.2)**	–
Income tax credit reported within comprehensive income	**(7.4)**	(13.5)
Consolidated statement of changes in equity		
– On share options	**(0.6)**	(0.4)
Income tax credit reported within equity	**(0.6)**	(0.4)

5 Taxation continued

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 24 per cent as follows:

	2013			2012		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Profit before tax	**59.1**	**(7.6)**	**51.5**	57.7	(24.8)	32.9
Tax calculated at UK tax rate of 24 per cent (2011/12: 26 per cent)	**14.2**	**(1.8)**	**12.4**	15.0	(6.4)	8.6
Effects of overseas taxation	**(0.7)**	**–**	**(0.7)**	(1.3)	–	(1.3)
Expenses/(credits) not allowable for tax purposes	**1.3**	**(0.3)**	**1.0**	1.2	0.5	1.7
Increase in/(usage of) unutilised tax losses	**0.3**	**–**	**0.3**	0.1	(0.3)	(0.2)
Adjustments in respect of prior years	**(1.1)**	**(4.4)**	**(5.5)**	(0.7)	(7.0)	(7.7)
Change in UK tax rate	**(0.1)**	**–**	**(0.1)**	(0.4)	–	(0.4)
Tax charge/(credit)	**13.9**	**(6.5)**	**7.4**	13.9	(13.2)	0.7

The underlying effective tax rate excluding exceptional items was 23.5 per cent (2011/12: 24.1 per cent).

6 Earnings per share

	2013 pence per share	2012 pence per share
Earnings per share		
Basic earnings per share	**43.3**	31.8
Diluted earnings per share	**42.8**	31.5
Headline earnings per share		
Basic earnings per share	**44.4**	43.5
Diluted earnings per share	**43.9**	43.1

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

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

The Directors are of the opinion that the publication of the 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

	2013 £m	2012 £m
Earnings for basic and diluted earnings per share	**43.1**	31.6
Exceptional items	**7.6**	24.8
Less: tax on exceptional items	**(6.5)**	(13.2)
Earnings for headline earnings per share	**44.2**	43.2

Weighted average number of ordinary shares

	2013 Number m	2012 Number m
For basic earnings per share	**99.6**	99.3
Dilutive effect of share options	**1.1**	0.9
For diluted earnings per share	**100.7**	100.2

7 Equity dividends

	2013 £m	2012 £m
Final dividend for the period ended 31 March 2012 of 28.2p paid on 2 August 2012	**28.1**	–
Interim dividend for the period ended 29 September 2012 of 14.1p paid on 9 January 2013	**14.0**	–
Final dividend for the period 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
	42.1	42.0

A final dividend per equity share of 28.2p has been proposed for the period ended 30 March 2013, payable on 1 August 2013. 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 1 August 2013 to ordinary shareholders on the register at 5 July 2013.

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 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
Exchange differences	0.2	1.2	0.1	–	1.5
Additions	0.4	6.5	1.4	33.9	42.2
Transfers from assets in the course of construction	0.4	25.7	3.8	(29.9)	–
Disposals	(1.3)	(15.8)	(2.9)	(0.3)	(20.3)
At 30 March 2013	**59.9**	**337.8**	**26.3**	**19.5**	**443.5**
Accumulated depreciation					
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
Exchange differences	0.1	0.8	0.1	–	1.0
Depreciation charge for the year	1.6	19.9	1.9	–	23.4
Disposals	(1.3)	(15.7)	(2.8)	–	(19.8)
At 30 March 2013	**24.3**	**222.2**	**17.3**	**–**	**263.8**
Net book value at 30 March 2013	**35.6**	**115.6**	**9.0**	**19.5**	**179.7**
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

9 Intangible assets

	Goodwill £m	Development costs £m	Software assets £m	Distribution rights £m	Total £m
Cost					
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
Exchange differences	0.2	0.5	–	–	0.7
Additions	–	3.4	0.8	–	4.2
Disposals	–	–	–	–	–
At 30 March 2013	**8.4**	**23.1**	**9.5**	**0.4**	**41.4**
Accumulated amortisation					
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
Exchange differences	0.1	0.1	–	–	0.2
Amortisation for the year	–	1.9	1.0	–	2.9
Disposals	–	–	–	–	–
At 30 March 2013	**0.6**	**6.3**	**8.1**	**0.4**	**15.4**
Carrying value at 30 March 2013	**7.8**	**16.8**	**1.4**	**–**	**26.0**
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

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:

	2013 £m	2012 £m
Currency	**4.3**	4.3
Cash Processing Solutions	**3.5**	3.4
	7.8	7.7

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 amounts are based on value in use calculations which utilise cash flow projections covering a five year period using the latest projections approved by management plus a terminal value. 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 the banknote circulation policies of central banks

(ii) The Group's knowledge of its customer base, gained through its longstanding 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 13.0 per cent (2011/12: 13.2 per cent). The discount rates applied take into account the Group's weighted average cost of capital (WACC) and the relative risks associated with the CGUs' operations. The post tax discount rate used is unchanged compared to the prior year, reflecting the fact that the Group's WACC has not changed and the risks associated with the CGUs in question have not materially changed. Cash flows beyond the period covered by the projections have been held constant.

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

10 Inventories

	2013 £m	2012 £m
Raw materials	**27.3**	24.3
Work in progress	**25.7**	26.8
Finished goods	**20.4**	17.5
	73.4	68.6

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

Provisions of £1.4m recognised in pre exceptional operating expenses were made against inventories in 2012/13 (2011/12: £3.1m). The Group also reversed provisions of £2.5m (2011/12: £2.8m), being part of an inventory write down that was not subsequently required.

11 Trade and other receivables

	2013 £m	2012 £m
Trade receivables	**82.6**	69.1
Provision for impairment	**(4.5)**	(4.7)
Net trade receivables	**78.1**	64.4
Other receivables	**6.5**	10.6
Prepayments	**4.6**	8.6
	89.2	83.6

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 2013 £m	Impairment 2013 £m	Gross 2012 £m	Impairment 2012 £m
Not past due	**62.2**	**–**	49.6	–
Past due 0 - 30 days	**13.9**	**–**	17.2	–
Past due 31-120 days	**8.2**	**(0.9)**	7.1	(0.9)
Past due more than 120 days	**4.8**	**(3.6)**	5.8	(3.8)
	89.1	**(4.5)**	79.7	(4.7)

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

	2013 £m	2012 £m
Balance at beginning of year	**(4.7)**	(4.7)
Impairment losses recognised	**(1.9)**	(1.1)
Impairment losses reversed	**2.1**	1.1
Balance at end of year	**(4.5)**	(4.7)

The provision for impairment in respect of trade receivables are used to record 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 30 March 2013, the Group does not have any collective impairment on its trade receivables (2011/12: £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 below 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 and between 60 per cent and 100 per cent of forecast exposures in each major currency for the subsequent 12 months to the extent that forecast transactions are highly probable.

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

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

(b) Interest rate risk

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

Credit risk

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

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

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

12 Financial risk continued

Reporting of financial risks

Fair values

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

	Fair value measurement basis	Total fair value 2013 £m	Carrying amount 2013 £m	Total fair value 2012 £m	Carrying amount 2012 £m
Financial assets					
Trade and other receivables*		**84.6**	**84.6**	75.0	75.0
Cash and cash equivalents		**24.8**	**24.8**	24.0	24.0
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**3.3**	**3.3**	2.1	2.1
– 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	**0.6**	**0.6**	3.2	3.2
– Embedded derivatives	Level 2	**0.9**	**0.9**	0.5	0.5
Total financial assets		**114.3**	**114.3**	104.9	104.9
Financial liabilities					
Unsecured bank loans and overdrafts		**(101.5)**	**(101.5)**	(48.8)	(48.8)
Trade and other payables**		**(59.6)**	**(59.6)**	(50.0)	(50.0)
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**(3.5)**	**(3.5)**	(3.8)	(3.8)
– 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	**(1.3)**	**(1.3)**	(1.6)	(1.6)
– Embedded derivatives	Level 2	**(0.2)**	**(0.2)**	(1.0)	(1.0)
– Interest rate swaps	Level 2	**–**	**–**	–	–
Total financial liabilities		**(166.2)**	**(166.2)**	(105.3)	(105.3)

*excluding prepayments

**excluding accrued expenses, deferred income and payments received on account

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 to 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 30 March 2013 the discount rate used was 1.0 per cent (31 March 2012: 1.0 per cent).

Hedge reserves

Net movements in the hedge reserve are shown in the Group statement of changes in equity.

Comprehensive income after tax was £0.9m comprising a gain of £0.9m of fair value movements on new and continuing cash flow hedges, and a £2.1m charge to the income statement on maturing cash flow hedges. Deferred tax on the net charge of £1.2m amounted to £0.3m.

The hedge reserve balance on 30 March 2013 was (£0.3m) (31 March 2012: (£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
30 March 2013					
– Maturing cash flow hedges	**0.5**	**(2.6)**	**–**	**–**	**(2.1)**
– Ineffectiveness on derecognition of cash flow hedges	**–**	**–**	**–**	**–**	**–**
	0.5	**(2.6)**	**–**	**–**	**(2.1)**
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

The ineffective portion of fair value hedges that was recognised in the income statement amounted to £nil (2011/12: £0.5m loss). The ineffective portion of cash flow hedges that was recognised in the income statement was £nil (2011/12: £0.3m loss).

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.

30 March 2013	**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	**101.5**	**–**	**–**	**101.5**	**–**	**101.5**
Derivative financial liabilities						
Gross amount payable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	**(9.1)**	**(4.3)**	**(2.5)**	**(15.9)**	**19.4**	**3.5**
– Short duration swap contracts designated as fair value hedges	**8.2**	**–**	**–**	**8.2**	**(8.1)**	**0.1**
– Fair value hedges – other economic hedges	**59.3**	**–**	**–**	**59.3**	**(58.0)**	**1.3**
Interest rate swaps	**–**	**–**	**–**	**–**	**–**	**–**
	159.9	**(4.3)**	**(2.5)**	**153.1**	**(46.7)**	**106.4**

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

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 30 March 2013, the Group has a total of undrawn committed borrowing facilities, all maturing in more than one year, of £93.0m (31 March 2012: £127.7m in more than one year). The amount of loans drawn on the £200m facility is £98.4m. Guarantees of £8.9m have also been drawn using the facility.

12 Financial risk continued

Forward foreign exchange contracts

The net principal amounts of the outstanding forward foreign exchange contracts at 30 March 2013 are US dollar 40.5m, euro (41.3m), Swiss franc (20.4m), Japanese yen (1.3bn), Chinese renminbi 0.8m, Sri Lankan rupee 94.0m, and Singapore dollar 10.0m.

The net principal amounts outstanding under forward contracts with maturities greater than 12 months are euro (1.0m) and Japanese yen (0.8bn). 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 30 March 2013 will be released to the income statement at various dates between one month and 30 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 30 March 2013 was £nil (2011/12: £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 30 March 2013 are US dollar 2.8m, euro 9.9m, Canadian dollar 0.8m, Swiss franc (1.9m), South African rand 14.4m, Australian dollar (1.3m), Singapore dollar 7.6m, and Japanese yen (44.2m).

(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 30 March 2013 was £nil (2011/12: £nil). Gains and losses on balance sheet swaps are included in the consolidated income statement.

The principal amounts outstanding under balance sheet swaps at 30 March 2013 are US dollar 21.7m, euro (24.7m), Swiss franc (7.1m), 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 30 March 2013 was £0.7m (2011/12: (£0.5m)).

Gains and losses on fair value hedges

The gains and losses recognised in the year on the Group's fair value hedges were £nil relating to balance sheet hedges (2011/12: (£0.2m)), (£0.3m) relating to other fair value hedges (2011/12: (£0.8m)), and £nil relating to cash management hedges (2011/12: £nil).

Market risk: Currency risk

Exposure to currency risk

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	**2013**	2012
US dollar	**1.58**	1.60	**1.52**	1.60
Euro	**1.22**	1.16	**1.18**	1.20

Sensitivity analysis

A 10 per cent strengthening of sterling against the following currencies at 30 March 2013 and 31 March 2012 would have increased/(decreased) profit or loss by the amounts shown below, based on the Group's external monetary assets and liabilities.

	2013 £m	2012 £m
US dollar	**(0.4)**	(0.8)
Euro	**(1.4)**	(0.5)

A 10 per cent weakening of sterling against the above currencies at 30 March 2013 and 31 March 2012 would have had the following effect:

	2013 £m	2012 £m
US dollar	**0.4**	1.0
Euro	**1.7**	0.6

The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011/12.

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 2013 £m	Carrying amount 2012 £m
Variable rate instruments		
Financial assets	**24.8**	24.0
Financial liabilities	**(101.5)**	(48.8)
	(76.7)	(24.8)

As at 30 March 2013 the Group does not hold any fixed rate instruments. Since the year end, floating to fixed interest rate swaps have been put in place in accordance with the interest rate risk policy.

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)				
30 March 2013	**(0.5)**	**0.6**	**–**	**–**
31 March 2012	(0.2)	0.3	–	–

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 2013 £m	Carrying amount 2012 £m
Trade and other receivables (excluding prepayments)	11	**84.6**	75.0
Cash and cash equivalents	13	**24.8**	24.0
Forward exchange contracts used for hedging		**4.0**	5.4
Embedded derivatives		**0.9**	0.5
		114.3	104.9

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

	Carrying amount 2013 £m	Carrying amount 2012 £m
UK and Ireland	**19.5**	17.1
Rest of Europe	**9.6**	14.1
The Americas	**6.5**	8.0
Rest of world	**49.0**	35.8
	84.6	75.0

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

	Carrying amount 2013 £m	Carrying amount 2012 £m
Banks and financial institutions	**44.0**	29.5
Government institutions	**23.4**	21.0
Distributors	**2.6**	2.5
Retail customers	**0.2**	1.1
End user customers	**6.0**	9.0
Other	**8.4**	11.9
	84.6	75.0

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:

	Note	2013 £m	2012 £m
Total equity attributable to shareholders of the Company		**(71.3)**	(49.5)
Net debt	20	**(76.7)**	(24.8)
Group capital		**(148.0)**	(74.3)

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

Included within the Group's net debt are cash and cash equivalent balances that are not readily available for use by the Group. These balances are not significant, and are not readily available due to restrictions within some of the countries in which we operate.

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 proposed total dividend for the year is covered 1.05 times, which although below the policy level, as in the previous year, reflects the Board's confidence in delivering the Improvement Plan.

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

	2013 £m	2012 £m
Cash at bank and in hand	**24.8**	24.0
	24.8	24.0

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 London Interbank Bid Rate 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:

	2013 £m	2012 £m
Deferred tax assets	**45.5**	40.4
Deferred tax liabilities	**(2.8)**	(1.3)
	42.7	39.1

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

	2013 £m	2012 £m
Beginning of the year	**39.1**	26.8
Exchange differences	**(0.1)**	(0.2)
Income statement (charge)/credit	**(0.1)**	4.8
Tax credited to equity	**3.8**	7.7
End of the year	**42.7**	39.1

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 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
Recognised in the income statement	(0.1)	–	0.9	–	0.8
Recognised in equity	–	–	–	–	–
At 30 March 2013	**8.9**	**0.4**	**2.6**	**0.2**	**12.1**

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
Assets					
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)
Recognised in the income statement	(0.7)	(0.4)	0.6	(0.2)	(0.7)
Recognised in equity	(0.5)	(3.6)	–	0.3	(3.8)
Exchange differences	–	–	–	0.1	0.1
At 30 March 2013	**(3.7)**	**(39.0)**	**(0.8)**	**(11.3)**	**(54.8)**

Other deferred assets and liabilities predominantly relate to tax associated with provisions (£4.7m) and overseas tax credits (£3.9m).

Deferred 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 tax assets of £1.7m (2011/12: £1.7m) in respect of losses amounting to £6.6m (2011/12: £7.0m) that can be carried forward against future taxable income. Similarly, the Group has not recognised deferred tax assets of £15.7m (2011/12: £16.3m) in respect of overseas tax credits that are carried forward for utilisation in future periods.

Unremitted earnings totalled £483m at 30 March 2013 (2011/12: £444m). Deferred 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 30 March 2013 (2011/12: £330.2m). No deferred tax asset has been recognised in respect of these losses.

14 Deferred taxation continued

UK tax rate

A reduction in the UK tax rate from 24 per cent to 23 per cent (effective from 1 April 2013) was substantively enacted on 3 July 2012.

This will reduce the UK Group's future current tax charge accordingly. The UK deferred tax assets and liabilities at 30 March 2013 have been calculated based on the rate of 23 per cent substantively enacted at the balance sheet date.

It was announced at the 2012 Autumn Statement and 2013 Budget that the main rate of UK corporation tax shall be reduced to 21 per cent from April 2014 and 20 per cent from April 2015. These amendments were not substantively enacted at 30 March 2013 and therefore have not been reflected in the deferred tax figures on the balance sheet.

15 Trade and other payables

	2013 £m	2012 £m
Current liabilities		
Payments received on account	**42.7**	40.9
Trade payables	**33.5**	30.0
Amounts owed to associated companies	**0.4**	0.1
Social security and other taxation	**2.1**	1.9
Deferred income	**4.8**	5.1
Accrued expenses	**65.3**	75.0
Other payables	**18.6**	17.2
	167.4	170.2
Non current liabilities		
Other payables	**5.0**	0.8
	5.0	0.8

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

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 2013 £m	Carrying amount 2013 £m	Face value 2012 £m	Carrying amount 2012 £m
Current liabilities							
Unsecured bank loans and overdrafts	CNY	5.00%	2013	**1.1**	**1.1**	–	–
Unsecured bank loans and overdrafts	EUR	4.00%	2013	**0.6**	**0.6**	0.3	0.3
Unsecured bank loans and overdrafts	LKR	20.47%	2013	**0.2**	**0.2**	0.1	0.1
Unsecured bank loans and overdrafts	INR	17.75%	2013	**0.6**	**0.6**	0.9	0.9
Unsecured bank loans and overdrafts	GBP	2.26%	2013	**80.2**	**80.2**	26.2	26.2
Unsecured bank loans and overdrafts	USD	2.02%	2013	**18.4**	**18.4**	21.3	21.3
Unsecured bank loans and overdrafts	BRL	11.40%	2013	**0.4**	**0.4**	–	–
Total interest bearing liabilities				**101.5**	**101.5**	48.8	48.8

In 2012/13, bank overdrafts of £97.3m (2011/12: £57.8m) were pooled for interest purposes against credit balances.

As at 30 March 2013, the Group has committed borrowing facilities, all maturing in more than one year, of £200m. Up to £80m of the £200m facility can be utilised for either loans or guarantees.

17 Provisions for liabilities and charges

	Restructuring £m	Business disposals £m	Warranty £m	Other £m	Total £m
At 31 March 2012	21.3	1.1	20.3	4.4	47.1
Exchange differences	–	–	0.2	–	0.2
Charge for the year	0.9	–	5.1	0.1	6.1
Utilised in year	(8.8)	–	(3.3)	(0.4)	(14.1)
Released in year	(2.0)	(0.5)	(7.5)	(0.4)	(8.8)
At 30 March 2013	**11.4**	**0.6**	**14.8**	**3.7**	**30.5**
Expected to be utilised within 1 year	6.9	0.6	14.8	3.7	26.0
Expected to be utilised after 1 year	4.5	–	–	–	4.5

Restructuring provisions represent amounts principally provided in 2011/12 for various reorganisations, in Currency and Security Products, involving the closure of three sites and the relocation of manufacturing activity to our facilities in 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 one year. Warranty provisions include £4.8m in respect of the 2010 paper production quality issues described in note 25, which are expected to be utilised within one year.

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

18 Share capital

	2013 £m	2012 £m
Issued and fully paid		
99,743,705 ordinary shares of 44 152/175p each (2011/12: 99,498,423 ordinary shares of 44 152/175p each)	**44.7**	44.6
111,673,300 deferred shares of 1p each (2011/12: 111,673,300 deferred shares of 1p each)	**1.1**	1.1
	45.8	45.7

	2013		2012	
	Ordinary shares '000	**Deferred shares '000**	Ordinary shares '000	Deferred shares '000
Allotments during the year				
Shares in issue at 31 March 2012 / 26 March 2011	**99,498**	**111,673**	99,203	111,673
Issued under Executive Share Option plans	**2**	**–**	8	–
Issued under Savings Related Share Option Scheme	**159**	**–**	241	–
Issued under US Employee Share Purchase Plan	**14**	**–**	13	–
Issued under Deferred Bonus and Matching Share Plan	**53**	**–**	33	–
Issued under Annual Bonus Plan	**3**	**–**	–	–
Issued under Performance Share Plan	**15**	**–**	–	–
Shares in issue at 30 March 2013 / 31 March 2012	**99,744**	**111,673**	99,498	111,673

The deferred shares carry limited economic rights and no voting rights. They are unlisted and are not transferable except in accordance with the articles of association.

19 Share based payments
At 30 March 2013, the Group 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 the Group's share based plans are set out in the table below:

	Expense recognised for the year		Liability at end of year	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Annual Bonus Plan	**0.7**	0.2	**–**	–
Deferred Bonus and Matching Share Plan	**(1.0)**	(0.1)	**–**	–
Performance Share Plan	**3.6**	2.2	**–**	–
Recruitment Share Award	**0.1**	0.1	**–**	–
Retention Share Award	**0.1**	0.1	**–**	–
Savings related share option scheme	**0.3**	0.3	**–**	–
US Employee Share Purchase Plan	**–**	–	**–**	–
	3.8	2.8	**–**	–

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	Annual Bonus Plan	Performance Share Plan	Savings related share option scheme	US Employee Share Purchase Plan
Dates of current year grants	31 May 2012	10 July 2012	21 Dec 2012	01 Jan 2013
Number of options granted	170,170	452,053	229,023	14,800 (estimated)
Exercise price	n/a	n/a	775.34p	See below
Contractual life (years)	3	3	3 or 5	1
Settlement	Shares	Shares	Shares	Shares
Vesting period (years)	3	3	3 or 5	1
Dividend yield	n/a	n/a	5.0%	n/a
Fair value per option at grant date	985p	991p	180p for 3 year plan 187p for 5 year plan	n/a

An expected volatility rate of 30 per cent (2011/12: 35 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 1.0 per cent depending on the vesting period.

Reconciliations of option movements over the period to 30 March 2013 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 48 to 58.

	2013 Number of options '000	2012 Number of options '000
Options outstanding at start of year	**81**	93
Granted	**170**	–
Forfeited	**(8)**	(12)
Exercised	**(3)**	–
Expired	**–**	–
Outstanding at end of year	**240**	81
Exercisable at year end	**–**	–

The awards granted in the year were based on a share price of 984.5p.

19 Share based payments continued

Deferred Bonus and Matching Share Plan

The plan was open to eligible senior executives throughout the Group until it was superseded. 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 TSR performance condition has been incorporated into the Monte Carlo simulation model used to estimate the fair value of these options.

	2013 Number of options '000	2012 Number of options '000
Options outstanding at start of year	104	234
Granted – deferred shares	–	–
Granted – matching shares	–	–
Forfeited	–	(101)
Exercised	(46)	(29)
Expired	(58)	–
Outstanding at end of year	–	104
Exercisable at year end	–	–

Executive Share Option Plan

The Executive Share Option Plan was open to eligible senior executives throughout 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 Prices 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.

	2013		2012	
	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	407.42	10	388.05
Granted	–	–	–	–
Forfeited	–	–	–	–
Exercised	(2)	407.42	(8)	382.03
Expired	–	–	–	–
Outstanding at end of year	–	–	2	407.42
Exercisable at year end	–	–	2	407.42

The 2,454 options remaining outstanding and exercisable as at 31 March 2012 were exercised during the year. There are no outstanding options at 30 March 2013.

Performance Share Plan

For details of the Performance Share Plan, refer to the remuneration report on pages 48 to 58.

	2013		2012	
	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	1,096	729.61	249	616.40
Granted	452	759.80	871	759.80
Forfeited	(82)	740.95	(24)	652.10
Exercised	(13)	683.45	–	–
Expired	–	–	–	–
Outstanding at end of year	1,453	738.80	1,096	729.61
Exercisable at year end	–		–	

The awards 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, 759.8p for the 23 June 2011 grants, and 991.1p for the 10 July 2012 grants.

19 Share based payments continued

Retention and Recruitment Share Award

For details of the Recruitment Share Award and Retention Share Award, refer to the remuneration report on pages 48 to 58.

	Retention Share Award		Recruitment Share Award	
	2013 Number of options '000	2012 Number of options '000	**2013 Number of options '000**	2012 Number of options '000
Options outstanding at start of year	**46**	46	**66**	66
Granted	**–**	–	**–**	–
Forfeited	**–**	–	**–**	–
Exercised	**–**	–	**–**	–
Expired	**–**	–	**–**	–
Outstanding at end of year	**46**	46	**66**	66
Exercisable at year end	**–**	–	**–**	–

The awards have been granted 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.

		2013		2012
	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	**1,765**	**510.22**	2,050	519.01
Granted	**229**	**775.34**	215	722.66
Forfeited	**(90)**	**523.65**	(146)	520.15
Exercised	**(159)**	**713.79**	(242)	659.49
Expired	**(9)**	**623.02**	(112)	743.09
Outstanding at end of year	**1,736**	**525.22**	1,765	510.22
Exercisable at year end	**80**	**522.30**	32	554.66

The range of exercise prices for the share options outstanding at the end of the year is 444.14p – 819.55p (2011/12: 444.14 – 819.55p). The weighted average remaining contractual life of the outstanding share options is 1 September 2015 (2011/12: 1 September 2015).

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 2012/13, 14,198 shares (2011/12: 12,745 shares) were allotted pursuant to the plan. It is estimated that 14,800 shares will be required to satisfy the Company's 2013/14 obligations in respect of employees' savings under the plan as at 30 March 2013.

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 30 March 2013.

20 Analysis of net debt

	2013 £m	2012 £m
Cash at bank and in hand	**24.8**	24.0
Bank overdrafts	**(3.1)**	(1.5)
Total cash and cash equivalents	**21.7**	22.5
Borrowings due within one year	**(98.4)**	(47.3)
Net debt	**(76.7)**	(24.8)

21 Group operating leases

	2013 Property £m	2013 Plant and equipment £m	2012 Property £m	2012 Plant and equipment £m
Total commitments due:				
– Within one year	**2.9**	**0.2**	2.8	0.1
– Between one and five years	**2.4**	**0.2**	2.6	0.2
– Over five years	**25.3**	**–**	25.4	–
	30.6	**0.4**	30.8	0.3

22 Retirement benefit obligations

The Group operates retirement benefit schemes 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 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)
Exchange differences	–	–	–	–	–
Current service cost included in operating profit	(7.8)	(0.3)	(8.1)	1.9	(6.2)
Net finance expense	(0.5)	–	(0.5)	0.1	(0.4)
Actuarial gains and losses arising over the year	(37.5)	0.2	(37.3)	9.0	(28.3)
Cash contributions and benefits paid	22.4	–	22.4	(5.4)	17.0
Change in tax rate	–	–	–	(1.6)	(1.6)
At 30 March 2013	**(166.7)**	**(2.4)**	**(169.1)**	**39.0**	**(130.1)**

Amounts recognised in the consolidated balance sheet:

	2013 UK £m	2013 Overseas £m	2013 Total £m	2012 UK £m	2012 Overseas £m	2012 Total £m
Fair value of plan assets	**761.1**	**–**	**761.1**	697.6	–	697.6
Present value of funded obligations	**(920.2)**	**–**	**(920.2)**	(833.8)	–	(833.8)
Funded defined benefit pension plans	**(159.1)**	**–**	**(159.1)**	(136.2)	–	(136.2)
Present value of unfunded obligations	**(7.6)**	**(2.4)**	**(10.0)**	(7.1)	(2.3)	(9.4)
Net liability	**(166.7)**	**(2.4)**	**(169.1)**	(143.3)	(2.3)	(145.6)

Amounts recognised in the consolidated income statement:

	2013 UK £m	2013 Overseas £m	2013 Total £m	2012 UK £m	2012 Overseas £m	2012 Total £m
Included in employee benefits expense:						
– Current service cost	**(7.8)**	**(0.3)**	**(8.1)**	(7.8)	(0.2)	(8.0)
Included in net finance expense:						
– Expected return on plan assets	**39.3**	**–**	**39.3**	39.4	–	39.4
– Interest expense	**(39.8)**	**–**	**(39.8)**	(40.7)	–	(40.7)
Net finance expense	**(0.5)**	**–**	**(0.5)**	(1.3)	–	(1.3)
Total recognised in the consolidated income statement	**(8.3)**	**(0.3)**	**(8.6)**	(9.1)	(0.2)	(9.3)
Actual return on plan assets	**74.3**	**–**	**74.3**	60.8	–	60.8

22 Retirement benefit obligations continued

Amounts recognised in the statement of comprehensive income:

	2013 UK £m	2013 Overseas £m	2013 Total £m	2012 UK £m	2012 Overseas £m	2012 Total £m
Actuarial gain on plan assets	**35.0**	**–**	**35.0**	21.4	–	21.4
Actuarial (losses)/gains on defined benefit pension obligations	**(72.5)**	**0.2**	**(72.3)**	(85.0)	–	(85.0)
Amounts recognised in the statement of comprehensive income	**(37.5)**	**0.2**	**(37.3)**	(63.6)	–	(63.6)

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

	2013 UK %	2013 Overseas %	2013 Total %	2012 UK %	2012 Overseas %	2012 Total %
Equities	**40.6**	**–**	**40.6**	51.4	–	51.4
Bonds	**22.2**	**–**	**22.2**	19.6	–	19.6
Gilts	**22.3**	**–**	**22.3**	21.3	–	21.3
Other	**14.9**	**–**	**14.9**	7.7	–	7.7

Other UK assets comprise cash, the remaining elements of the plan's diversified growth funds not categorised elsewhere, and swaps.

Principal actuarial assumptions:

	2013 UK %	2013 Overseas %	2012 UK %	2012 Overseas %
Future salary increases	**–**	**–**	–	–
Future pension increases – past service	**3.70**	**–**	3.70	–
Future pension increases – future service	**3.30**	**–**	3.20	–
Discount rate	**4.50**	**–**	4.80	–
Inflation rate	**3.40**	**–**	3.30	–
Expected return on plan assets:				
– Equities	**8.00**	**–**	8.50	–
– Bonds	**4.50**	**–**	4.80	–
– Gilts	**2.80**	**–**	2.90	–
– Other	**–**	**–**	–	–

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 30 March 2013 mortality assumptions were based on the SAPS All lives tables, with future improvements in line with the CMI model, CMI_2011 and a long term rate of 1.0 per cent per annum. At 31 March 2012 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 22.1 years (2011/12: 20.6 years).

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:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of plan assets	**761.1**	697.6	638.8	569.5	428.1
Present value of defined benefit pension obligations	**(930.2)**	(843.2)	(741.7)	(696.6)	(497.8)
Net liability	**(169.1)**	(145.6)	(102.9)	(127.1)	(69.7)
Cumulative actuarial losses recognised in the statement of comprehensive income	**(222.0)**	(184.7)	(121.1)	(90.1)	(17.8)
Experience gains/(losses) on defined benefit pension obligations:					
– Amount	**0.6**	(1.6)	(7.7)	(38.3)	(0.1)
– Percentage of present value of defined benefit pension obligations	**(0.1%)**	0.2%	1.0%	5.5%	–
Experience gains/(losses) arising on plan assets:					
– Amount	**35.0**	21.4	10.7	117.4	(123.7)
– Percentage of plan assets	**4.6%**	3.1%	1.7%	20.6%	(28.9%)

22 Retirement benefit obligations continued

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 2012 and updated to 30 March 2013. The plan is valued formally every three years, the next valuation being as at April 2015.

Changes in the fair value of UK plan assets:

	2013 £m	2012 £m
At 31 March 2012 / 26 March 2011	**697.6**	638.5
Expected return on plan assets (before expenses)	**42.1**	41.8
Plan administration and investment management expenses	**(2.8)**	(2.4)
Actuarial gains	**35.0**	21.4
Employer contributions	**22.4**	29.9
Plan participant contributions	**2.5**	2.8
Claims from insurance policy	**0.2**	0.9
Benefits paid	**(34.3)**	(33.9)
Life assurance premiums	**(0.5)**	(0.9)
Transfers	**(1.1)**	(0.5)
At 30 March 2013 / 31 March 2012	**761.1**	697.6

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

	2013 £m	2012 £m
At 31 March 2012 / 26 March 2011	**(840.9)**	(739.0)
Current service cost	**(7.8)**	(7.8)
Curtailments	**–**	–
Interest cost	**(39.8)**	(40.7)
Actuarial losses	**(72.5)**	(85.0)
Plan participant contributions	**(2.5)**	(2.8)
Benefits paid	**34.1**	33.0
Plan administration and investment management expenses	**–**	–
Life assurance premiums	**0.5**	0.9
Transfers	**1.1**	0.5
At 30 March 2013 / 31 March 2012	**(927.8)**	(840.9)

The Group expects to contribute c£10m to its UK pension fund in 2013/14 in respect of the special funding payments designed to eliminate the scheme deficit.

(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 £4.1m (2011/12: £2.2m).

(c) IAS 19 'Employee Benefits' (revised)

Amendments to IAS 19 will be effective for the 2013/14 financial year and require the replacement of the expected return on assets and interest charge on pension scheme liabilities with a net financing cost based on the discount rate. IAS 19 requires retrospective adoption and therefore prior periods will be restated.

The Group estimates the impact of the change, had it been effective in 2012/13, would have been to increase operating costs by £1.4m, increase the net interest expense by £6.2m, with compensating adjustments in other comprehensive income leaving equity unchanged. This would therefore reduce profit after tax by £7.6m, and reduce headline and basic EPS by 7.6p.

The estimated impact for the 2013/14 year is to reduce operating profits by £1.7m (the Improvement Plan operating profit target will be impacted by the same amount) and increase the net interest expense by £6.7m and hence reduce headline and basic EPS by 8.4p.

23 Employees

	2013 number	2012 number
Average number of employees		
UK and Ireland	**2,117**	2,092
Rest of Europe	**735**	749
The Americas	**246**	262
Rest of world	**855**	836
	3,953	3,939

Average number of employees		
Currency	**2,563**	*2,506
Cash Processing Solutions	**697**	681
Security Products	**343**	*427
Identity Systems	**350**	325
	3,953	3,939

*The Holographics operation, previously part of Security Products, became part of the Currency business on which it largely depends from the first day of this financial year and comparatives have been re-presented accordingly.

	2013 £m	2012 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	**131.2**	135.4
Social security costs	**11.5**	10.6
Share incentive schemes	**3.5**	2.5
Sharesave schemes	**0.3**	0.3
Pension costs	**12.2**	10.2
	158.7	159.0

24 Capital commitments

	2013 £m	2012 £m
The following commitments existed at the balance sheet date:		
– Contracted but not provided for in the accounts	**19.9**	22.0

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 has been made in prior years 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 £17.4m (2011/12: £16.3m) for the purchase of security ink and other consumables. At the balance sheet date there were creditor balances of £1.7m (2011/12: £0.3m) 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

	2013 £m	2012 £m
Salaries and other short term employee benefits	**2,968.2**	3,612.3
Termination benefits	**549.2**	–
Retirement benefits:		
– Defined contribution	**149.6**	276.1
– Defined benefit	**33.2**	57.2
Share based payments	**1,959.8**	1,290.6
	5,660.0	5,236.2

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

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Company balance sheet

At 30 March 2013

	Notes	2013 £m	2012 £m
Fixed assets			
Investments in subsidiaries	4a	**152.4**	152.4
		152.4	152.4
Current assets			
Debtors receivable within one year	5a	**161.3**	87.0
Cash at bank and in hand		**0.9**	1.8
		162.2	88.8
Creditors: amounts falling due within one year			
Borrowings	6a	**(32.3)**	(21.3)
Other creditors	7a	**(9.3)**	(15.1)
		(41.6)	(36.4)
Net current assets		**120.6**	52.4
Total assets less current liabilities		**273.0**	204.8
Net assets		**273.0**	204.8
Capital and reserves			
Share capital	8a	**45.8**	45.7
Share premium account	9a	**31.9**	30.7
Capital redemption reserve	9a	**5.9**	5.9
Retained earnings	9a	**189.4**	122.5
Total shareholders' funds		**273.0**	204.8

Approved by the Board on 29 May 2013

Philip Rogerson
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 FRS 1, Cash Flow Statements.

The accounts have been prepared as at 30 March 2013, being the last Saturday in March. The comparatives for the 2011/12 financial year are for the period ended 31 March 2012.

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, the Company 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 remuneration report on pages 48 to 58.

	2013 Number	2012 Number
Average employee numbers	**4**	4

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

	2013 £m	2012 £m
Investments comprise:		
Investments in subsidiaries	**152.4**	152.4

	£m	£m
Cost		
At 30 March 2013 and 31 March 2012	**152.4**	152.4

For details of investments in Group companies, refer to principal subsidiaries and associated companies on page 100.

5a Debtors

	2013 £m	2012 £m
Amounts due within one year		
Amounts owed by Group undertakings	**161.3**	87.0

6a Borrowings

	2013 £m	2012 £m
Short term borrowings		
Bank loans and overdrafts	**32.3**	21.3

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2013 £m	2012 £m
US dollar	**18.5**	21.3
Euro	**–**	–
Sterling	**13.8**	–
Other currencies	**–**	–
	32.3	21.3

7a Other creditors

	2013 £m	2012 £m
Amounts falling due within one year		
Amounts due to Group undertakings	**8.2**	14.0
Accruals and deferred income	**1.1**	1.1
Other creditors	**9.3**	15.1

8a Share capital

For details of share capital, see note 18 to the consolidated financial statements.

9a Other reserves

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
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
Share capital issued	0.1	1.2	–	–	1.3
Profit for the financial year	–	–	–	106.0	106.0
Dividends paid	–	–	–	(42.1)	(42.1)
Employee share scheme:					
– value of services provided	–	–	–	3.0	3.0
At 30 March 2013	**45.8**	**31.9**	**5.9**	**189.4**	**273.0**

10a Share based payments

For details of share based payments, see note 19 to the consolidated financial statements and the remuneration report on pages 48 to 58.

11a 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 compensation, see note 26 to the consolidated financial statements.

Principal subsidiaries and associated companies

As at 30 March 2013

The trading companies 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			
UK	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
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

Income statement

	Notes	2009 £m	2010 £m	2011 £m	2012 £m	**2013 £m**
Revenue						
– Continuing operations		502.4	561.1	463.9	528.3	**483.7**
– Discontinued operations	(a)	121.6	–	–	–	**–**
Total		624.0	561.1	463.9	528.3	**483.7**
Operating profit						
– Continuing operations		96.5	109.2	40.4	63.1	**63.2**
– Exceptional items – operating		(8.9)	(7.5)	(15.6)	(24.8)	**(7.6)**
Total		87.6	101.7	24.8	38.3	**55.6**
Share of profits of associated companies		8.9	6.3	–	–	**–**
Exceptional items – non operating		–	–	55.1	–	**–**
Profit on continuing operations before interest		96.5	108.0	79.9	38.3	**55.6**
Net interest income/(expense)		1.4	(5.1)	(3.8)	(4.1)	**(3.6)**
Retirement benefit obligation net finance expense		(1.8)	(6.3)	(3.3)	(1.3)	**(0.5)**
Profit on continuing operations before taxation		96.1	96.6	72.8	32.9	**51.5**
Taxation		(28.5)	(26.2)	(5.4)	(0.7)	**(7.4)**
Profit on continuing operations after taxation		67.6	70.4	67.4	32.2	**44.1**
Discontinued operations		296.5	–	–	–	**–**
Equity non controlling interests		(1.1)	(0.5)	(0.5)	(0.6)	**(1.0)**
Profit for the financial year		363.0	69.9	66.9	31.6	**43.1**
Dividends		(376.7)	(40.9)	(41.9)	(42.0)	**(42.1)**
Retained (loss)/profit for the period		(13.7)	29.0	25.0	(10.4)	**1.0**
Earnings per ordinary share from continuing operations		50.9p	71.0p	67.6p	31.8p	**43.3p**
Diluted earnings per share from continuing operations		50.4p	70.5p	67.2p	31.5p	**42.8p**
Headline earnings per ordinary share (before exceptional items)		57.0p	76.2p	24.0p	43.5p	**44.4p**
Dividends per ordinary share	(b)	41.1p	42.3p	42.3p	42.3p	**42.3p**
Profit on continuing operations before taxation and exceptional items		105.0	104.1	33.3	57.7	**59.1**

Balance sheet

	£m	£m	£m	£m	**£m**
Non current assets	228.6	222.3	213.5	225.6	**251.3**
Net current liabilities	(87.6)	(67.2)	(58.6)	(90.9)	**(58.6)**
Net debt	(33.1)	(11.0)	(31.2)	(24.8)	**(76.7)**
Other liabilities	(87.3)	(134.6)	(106.9)	(155.5)	**(182.6)**
Equity non controlling interests	(2.9)	(3.2)	(3.5)	(3.9)	**(4.7)**
Equity shareholders' funds	17.7	6.3	13.3	(49.5)	**(71.3)**

Notes

(a) Discontinued operations include all businesses discontinued between 2009 and 2013. Thus continuing operations are those businesses continuing as at 30 March 2013

(b) Includes proposed final dividend which, in accordance with IFRS accounting requirements, has not been accrued

Shareholders' information

Registered office
De La Rue House
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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 AGM will be held at 10:30 on Thursday 25 July 2013 at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS. Each shareholder is entitled to attend and vote at the AGM, the arrangements for which are described in a separate notice to shareholders. The notice of AGM 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. The Company 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:

- Finance information – annual and interim reports, financial news and events
- Share price information
- Shareholder services information
- Press releases both current and historical

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 £30, 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 £35, with no set up or annual management fees. The telephone share dealing service is available from 08:00 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)131 240 0414 and quote reference Low Co103. Please note that these services are not available in the US.

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 2012/13 final dividend	3 July 2013
Record date for 2012/13 final dividend	5 July 2013
Payment of 2012/13 final dividend	1 August 2013

Analysis of shareholders at 30 March 2013

By range of holdings	Shareholders Number	Shareholders %	Shares Number	Shares %
0 – 1,000	5,076	77.05	1,669,576	1.67
1,001 – 5,000	1,107	16.80	2,175,232	2.18
5,001 – 10,000	107	1.62	758,444	0.76
10,001 – 100,000	185	2.81	6,199,760	6.22
100,001 – 500,000	81	1.23	18,561,121	18.61
500,001 and above	32	0.49	70,379,572	70.56
Total	6,588	100.00	99,743,705	100.00

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