Financial review continued

Working capital

Net trade receivables were £89.5m, up from £77.6m in the prior year, due to strong sales in the last quarter of 2017/16.

Inventories were broadly similar to last year, but lower than the level seen at the half year of 2016/17, reflecting strong sales and shipments in the last month of the year.

Advanced payments were £28.5m, down from £45.5m, due to the mix of contracts in the order book.

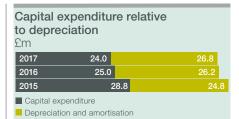
Trade creditors were £46.5m up from £40.1m in 2015/16.

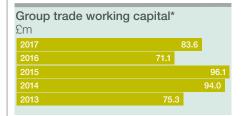
Pension deficit and funding

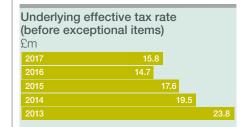
The Group's formal triennial funding valuation of the UK defined benefit pension scheme (the Scheme) was finalised in June 2016. The Group agreed a revised funding plan with the trustees to eliminate the deficit over a period of 12 years from 31 March 2016. The plan will see the existing funding payment schedule extended from 2022 to 2028. In addition, we have created a joint working group with the pension trustees to proactively manage our pension obligations.

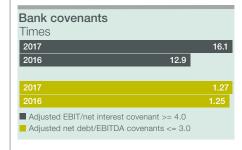
The Group will continue to pay annual fees of £1.6m for managing the Scheme in addition to the cash contributions. In the year ended 25 March 2017, the Group made funding payments and management fees totalling £14.6m. The next triennial funding valuation is due in April 2018.

The valuation of the Scheme under IAS 19 indicates a post-tax deficit at 25 March 2017 of £196.7m (26 March 2016: £178.4m). On a pre-tax basis the net pension deficit was £237.0m (26 March 2016: £217.6m). The increase results from higher liabilities due to the impact of a lower discount rate used to value the Scheme liabilities (2.75% in 2016/17 compared with 3.50% in 2015/16) due to significant falls in corporate bond yields in addition to an increase in the expectation for the longer term inflation rate. The increase in liabilities has been partially offset by an increase in assets which have performed strongly in the year.









^{*} Trade working capital comprises inventories plus trade receivables less trade payables and advance payments. 2013-15 comparatives have not be restated for discontinued operations.

2016/17

2017

In common with other final salary schemes, the Scheme valuation is very sensitive to any movement in the discount rate, with a 0.25% increase in discount rate resulting in a £55m decrease in liabilities or vice versa and hence the deficit would reduce should interest and discount rates increase in the future.

The charge to operating profit in respect of the Scheme in 2016/17 was £1.5m (2015/16: £1.2m). In addition, under IAS 19 there was a finance charge of £7.4m arising from the difference between the interest cost on liabilities and the interest income on scheme assets (2015/16: £7.1m).

Capital structure

At 25 March 2017 the Group had net liabilities of £146.6m (26 March 2016: £145.6m) mainly due to the recognition of the long term retirement benefit obligations of £239.4 (26 March 2016: £219.9m) in accordance with IAS 19 (total pension liabilities of £239.4m also include non UK defined benefit pension schemes).

The Company had shareholders' funds of £230.5m (26 March 2016: £174.4m) and had 101.8m fully paid ordinary shares in issue (26 March 2017: 101.4m) at the year end.

Jitesh Sodha Chief Financial Officer

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

	2017 Group assets/ (liabilities) £m	2017 Group cash/ (debt) £m	2017 Net assets/ (liabilities)* £m	2016 Net assets/ (liabilities)* £m
Sterling	(52.3)	(127.5)	(179.8)	(190.6)
US dollar	(7.2)	1.9	(5.3)	(11.5)
Euro	32.1	0.1	32.2	42.4
All other	(6.2)	4.6	(1.6)	7.5
	(33.6)	(120.9)	(154.5)	(152.2)

^{*} Excluding non-controlling interest.

Principal exchange rates used in translating the Group's results

	Average	Year End	
US dollar	1.32	1.25	
Euro	1.20	1.16	
	2015/16 Average	2016 Year End	
US dollar	1.50	1.41	
Euro	1.36	1.27	

A responsible business

De La Rue in the global context

Sustainability impacts every aspect of our business. We help governments protect their revenue, citizens to participate securely in the global economy and brands to safeguard their intellectual property. Our commitment to sustainability is expressed through our support for the UN Global Compact (UNGC).

Joining the UN Global Compact demonstrates our commitment to being a responsible business. We are aware of the impact that our activities have on the world around us and the responsibilities of being a corporate citizen.

In fact, many of our products and services are closely aligned to the UNGC's broader sustainability objectives, including social inclusion, economic growth, transparency, health and safety, and security.

The UNGC business principles

The UNGC requires that De La Rue acts in accordance with its ten principles covering human rights, labour, environment and anti-corruption. The section below shows how we comply with these principles.

Human rights

- 1. Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2. Make sure that they are not complicit in human rights abuses.

Labour rights

- 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4. The elimination of all forms of forced and compulsory labour;
- 5. The effective abolition of child
- 6. The elimination of discrimination in respect of employment and occupation.

Environment

- 7. Businesses should support a precautionary approach to environmental challenges;
- 8. Undertake initiatives to promote greater environmental responsibility; and
- 9. Encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

Why we have joined the **UN Global Compact**



In April 2017, we were proud to become signatories to the UNGC in recognition of the key role that the UNGC plays in promoting the highest ethical standards. Joining the UNGC is a clear demonstration of the progress we are making in our five year transformation programme, which addresses a number of initiatives, including sustainability.

The UNGC is a voluntary initiative whereby companies align strategies and operations with universal principles on human rights, environment and anti-corruption, and take actions that advance societal goals. It is based on commitments of chief executives to implement universal sustainability principles and to take steps to support UN Sustainability Development Goals (SDGs). These goals aim to encourage individuals, organisations, governments and the international community to communicate and collaborate more effectively and to ensure that everyone has the right to prosper in the future.

We recognise the role that businesses can play in the achievement of the SDGs. As our Chief Executive Officer Martin Sutherland commented at the time of the signing, "Our business fights against counterfeiting every day and we aim to enable legal identity and social inclusion for our customers across the world. As a result, many of the SDGs are at the heart of what we do. We are proud to demonstrate that we are a responsible business – in the services we provide, the way we work and the contributions we make to the communities in which we operate."

The Board is responsible for assessing how corporate responsibility issues could affect the Group and for setting appropriate policies.

UN Sustainable Development Goals (SDGs)

As well as the ten UN principles which guide how we do business, the UNGC also requires that we support the UN SDGs (also known as the UN Global Goals).

We are committed to supporting the SDGs and ensuring that they are embedded into our daily operations.



















14 LIFE BELOW WATER











THE GLOBAL GOALS



The Chief Executive Officer is the Board member with designated responsibility. He is supported by the Executive Leadership Team, the Risk Committee, and the Group Health, Safety and Environment Committee.

Our team carried out an internal audit which identified our alignment to the SDGs, and then grouped the SDGs according to the level of impact of our operations in those particular areas. This is helping us identify where we are best able to make a difference.

This is the first year that we are reporting within the UNGC Communications Framework, and this will be the baseline for future reporting.

Lead

SDGs where our impact is significant and where we will continue to lead





Focus and Improve

SDGs where we have the opportunity to improve and achieve great impact







Maintain Momentum

SDGs where we must maintain our strategies in order to ensure we continue to make an impact









Maintain Foundations

SDGs which we continue to support







Not directly applicable

SDGs where we have no direct impact











A responsible business continued

SDGs

Lead





These SDGs are at the core of our business and a key part of our strategy. We will continue to lead efforts to achieve these SDGs, with the Executive Leadership Team drawing on a range of initiatives to ensure that all employees understand how to play their part.



SDG 16 Peace, justice and strong institutions

We help citizens around the world participate securely in the global economy.

We provide governments and commercial organisations with products and services that underpin the integrity of trade, personal identity and the movement of people and goods. We help them shape their future by:

- Supporting governments in two-thirds of the world's countries to tackle counterfeit cash, identities and goods
- · Recognising the importance of improving business practices in the banknote industry, as a founding member of the Banknote Ethics Initiative (BnEI)
- Maintaining membership of the International Chamber of Commerce's Corporate Responsibility and Anti-Corruption Committee
- Relaunching our Code of Business Principles in 2016, with every member of staff attending a video presentation and receiving an updated Code booklet

- Embedding our values in our daily operations
- Launching an initiative to reduce risk by examining the role of third party partners
- Delivering anti-bribery and corruption training to all relevant staff, sales consultants and suppliers
- Requiring employees to declare all gifts and hospitality given or received in excess of £100
- Encouraging global grievance and whistleblowing processes

Our employee survey

3,000

Employees participated worldwide.

88%

Responded positively to the statement: At this site we are encouraged to always action in an honest and ethical way. This is an increase on the 85% recorded in 2014.



SDG 4 Quality education

- Our Civil Registration and Vital Statistics (CRVS) systems help governments to plan for the educational needs of their population
- We run a range of training courses for central banks and law enforcement agencies on anti-counterfeiting technology and currency programmes
- We work with the UK National Document Fraud Unit to support its advanced training programme
- We provide thought leadership at multiple international technical workshops, sharing best practice
- We continue to run our successful scholarship programme in the Caribbean, which was established

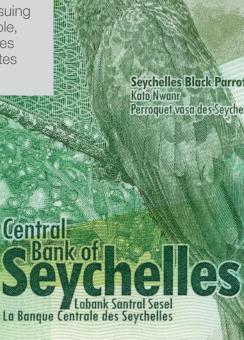
4 16

Central bank public awareness

We help customers communicate currency changes to their own people and beyond. Our currency awareness and education campaigns protect users from counterfeiting by delivering clear, simple messages.

During the year, we assisted a total of 14 issuing authorities with their campaigns. For example, we helped the Central Bank of the Seychelles communicate the details of its new banknotes to the public.

BA123456



Gender diversity as at 25 March 2017	Female	Male	Female	Male
Gender diversity as at 25 March 2017	remale	IVIAIE	remale	IVIAIE
Employees	853	2270	27%	73%
Senior Management	12	55	18%	82%
Executive Management	1	7	13%	87%

Centre for learning

Educating and training our people

Since April 2015, we have delivered training programmes to help our leaders and managers execute our strategy and help us innovate and grow as a business.

From April 2015 to 2017, we held 213 courses covering 23 subjects, attended by over 300 managers. Subjects covered range from understanding leadership impact and strategic choices to using storytelling as a key skill to engage employees.

For 2017/18, our focus is on deepening understanding and skills.



SDGs

Focus and **Improve**







SDGs where we have the opportunity to improve and achieve great impact.



SDG 3 Health and wellbeing

During 2016, we conducted an employee survey to gather views on the benefits offered by De La Rue. Following feedback, we have made a number of improvements:

- Launched a cycle-to-work scheme in the UK, for which we received a 5% uptake
- Extended our annual leave flexibility scheme (whereby employees can gain or forego leave), to a larger population within the UK
- Improved our maternity and paternity leave policies

In addition, we developed a global wellbeing strategy which will be launched in the new financial year. Our initial focus is on the areas of 'mental wellbeing' and 'keeping active'.

The wellbeing strategy will complement the existing occupational health and employee assistance programmes.



SDG 5 Gender equality

Gender equality is a key element of our inclusion strategy. The gender and inclusivity strategy is currently being rolled out, with support from the Executive Leadership Team.

We will be sharing our mission, aims and our interventions with our employees. We plan to report our UK gender pay gap data and narrative externally, in line with the pending regulations. An important aim is that by 2020, 25% of senior and executive management roles should be filled by women.



SDG9 Industry innovation and infrastructure

Innovation is central to our core business strategy. See the Chief Executive Officer's review on page 23 for details.



Read more about our innovations on page 23



New solution

Providing security, building trust



We provide governments with added security and build trust across the whole identity life-cycle. Launched in June 2016, DLR Identify™ CRVS is an extension of our end-to-end identity service solution DLR Identify™. The new service enables governments to record, register and report on vital citizen events including births, deaths, marriages and divorce, as well as helping governments rise to the challenge of citizen identity management.

A responsible business continued

SDGs

Maintain Momentum









SDGs where we must maintain our strategies in order to ensure we continue to make an impact.



Clean water and sanitation



SDG₇ Affordable and clean energy

Making progress

We have set demanding environmental targets and continue to work hard to improve our performance. While we are yet to meet our objectives, during the year we achieved around a 1% reduction in our GHG emissions and around a 5% reduction in solid waste sent to landfill. per metric tonne produced.

Our emissions intensity was 224 net tCO₂e per £m turnover (2015/16: 206 net tCO₂e), an increase of 9% which was largely driven by the 5% decrease in revenue. In real energy terms, natural gas consumption emissions were up 0.8%, while electricity emissions increased by 0.7%, primarily due to increased production.

Environmental objectives 2016/17:

- To continue with our ISO14001 certification alignment for all manufacturing sites so that they are all covered by one central certificate and audit process
- To reduce our greenhouse gas emissions in tCO₂e related to output by 3% per annum over a three year period ending 2017/18
- To reduce solid waste sent to landfill by 2% related to output per cent per annum over a three year period ending 2017/18

New energy efficient water treatment plant in Kenya

Currently being commissioned, a new plant at our Kenya manufacturing facility will improve our control over the effluent treatment process of the intaglio printing presses.



Environmental objectives 2017/18:

To continue with our ISO14001 certification alignment for all manufacturing sites so that they are all covered by the central certificate and one external audit process and to meet the new ISO14001:2015 standard

To reduce our greenhouse gas emissions in tCO2e related to output by 2% per annum over a three year period ending 2017/18

To aim to reduce solid waste sent to landfill by 2% related to output per annum over a three year period ending 2017/18

To develop a wider sustainability programme covering HSE with key performance indicator tracking

Managing water usage

6

During the year, Overton mill was issued with a new Environmental Permit, which tightens many of the parameters to comply with the Industrial Emissions Directive for the pulp and paper industry. In response, we have established seven work packages to achieve Environment Agency compliance.

Across the company, water usage remained at the same level. At Overton mill, the intensity of water used per tonne of banknote paper produced reduced by 7%. The mill depends on abstracted groundwater, which is cleaned and discharged into the River Test. The river is classified as a Site of Special Scientific Interest and protected by UK conservation regulations. We continue to optimise water quality and quantity in line with ecological best practice.

How we gather and report data

We have again reviewed our data collection and reporting processes in line with best practice, with support from independent specialist consultant Carbon Clear.

Using an operational control approach. we collected activity data and reported on all material GHG emissions including Scopes 1 and 2 and a wider range of Scope 3. Data was checked both internally and by Carbon Clear, with the internally assured data being used to calculate GHG emissions. Our external auditor, KPMG, reviewed the process

used for collecting and analysing the data in 2014; this has not changed.

Calculations follow the ISO-14064-1:2006 standard and the results presented in the table on page 49 give absolute and intensity factors for emissions. We operate a Combined Heat and Power (CHP) unit at Overton mill and export some electricity to the grid. These practices have been quantified and accounted for against our gross GHG emissions to show a net reduction.

Following the divestment of the Cash Processing Solutions business, in line with best practice we reviewed our emissions sources and elected to re-baseline our historical emissions in line with our revised company structure.

Bathford paper mill

Sustainable raw materials





Our Bathford paper mill in the UK has achieved the Programme for the **Endorsement of Forest** Certification (PEFC) - Chain of Custody Accreditation, an international benchmark of forest product sustainability. This certification assures our customers that Bathford mill uses raw materials suppliers that operate sustainable and responsibly managed forests.

In addition to a commitment to environmental protection, Chain of Custody holders must also demonstrate that workers' rights and welfare are protected and indigenous peoples' human and land tenure rights are respected.



SDG 8 – Decent work and economic growth

Human rights

We fully support the principles set out in the UN Declaration of Human Rights, in particular with regard to equal opportunity and freedom from discrimination.

Our Code of Business Principles covers human rights issues including employment principles, health and safety, anti-bribery and corruption and the protection of personal information. The Code also embraces whistleblowing we seek to provide an environment where employees can raise concerns via a variety of mechanisms, including a CodeLine which is managed by an external third party.

We have launched an inclusion strategy to support our policy of treating all employees fairly and equally in recruitment, training, development, promotion and in their terms and conditions of employment, irrespective of their gender, transgender status, sexual orientation, religion or belief, marital status, civil partnership status, age, colour, nationality, national origin, disability or trade union affiliation.

Labour rights

We carry out internal and external audits to assure the Executive Leadership Team and the Board that all sites comply with our health, safety and environmental policies and any applicable legislation. We identify and use any necessary corrective actions, together with employee suggestions, to develop effective continuous improvement programmes. Our health, safety and environment standards and audit protocols are reviewed annually and updated where required in order to drive good practice and ensure alignment with the Operational Excellence programme.

During the year, De La Rue had no prosecution for infringing health and safety laws or regulations. All our main manufacturing sites have maintained OHSAS18001 certification for their health and safety management systems, following external audits by accredited providers.

In order to further improve health and safety, we have launched a 'Making Good Safety Decisions' modular training programme for all employees. We are also increasing the number of NEBOSH certified managers across the business.

We continued to focus on machinery safety during the year, with all new machinery checked by an independent consultancy to verify compliance with the latest UK/EU machinery safety requirements. As part of our manufacturing review project, we are relocating several large machines. All of these will be given full safety reviews prior to being refurbished and shipped to their new locations. We also continue to invest in and improve our fire risk management with several sites upgrading their on-machinery fire suppression systems.

We recognise that our responsibilities extend beyond our own organisation, and work with main suppliers and contractors to ensure that their health and safety processes are robust. In addition, we undertake commercial and operational due diligence when approving new suppliers, and also carry out regular audits and reviews of existing suppliers. We risk assess our supplier base by identifying suppliers which, either as a result of geographical location, industry sector or nature of commercial transaction, are considered to be at medium to high risk from a slavery and human trafficking perspective.

We are pleased to report that we achieved all of our health and safety objectives for 2016/17. We reduced our overall number of reportable accidents and lost time days due to accidental injuries. In a climate of continuing organisational changes, we have successfully maintained our positive safety culture and excellent internal reporting processes and continue to engage employees in our safety training programmes, delivering over 2,000 man-days of health, safety and environment related training this year. We will continue to set robust health and safety objectives and targets and verify our compliance/good practice programmes through the internal audit programme.

Our employee survey

87%

of participants think De La Rue is a safe place to work.

A responsible business continued

An inclusive organisation

Our mission is to have an inclusive and diverse workforce. We aim to:

- To employ a diverse workforce which reflects our communities and customers
- To benefit from advantages of a diverse workforce, where inclusion becomes the normal way of working
- To celebrate diversity by recognising that everyone is an individual and has a contribution to make
- To eliminate the gender pay gap

Modern Slavery Act

Implementing the Modern Slavery Act 2015

Our Anti-Slavery & Human Trafficking Policy sets out our zero tolerance approach to modern slavery. It provides guidance to employees on implementing and enforcing effective systems and controls to ensure that modern slavery is not taking place either in our own business or our supply chain.

We have identified that the key area of risk in our supply chain lies with raw materials suppliers of products such as cotton comber used in the manufacture of secure paper. Suppliers which are now identified as being medium or high risk are required to complete corporate social responsibility questionnaires which focus on identifying slavery or human trafficking issues within their organisation and their supply chain. We analyse these questionnaires, assess the associated risks and conduct supplier audits as appropriate.

Our health and safety objectives for 2016/17:

- To maintain a world class lost time injury frequency rate per 200,000 worked hours (<0.62 LTIFR)
- To continue to demonstrate manufacturing site improvements within our internal HSE audit levels programme
- To continue to progress our new Making Good Safety Decisions training by completing three modules at manufacturing sites, with two modules now successfully delivered. The third module - Slips, Trips and Falls – will continue beyond the year end but will delivered by the end of June 2017
- To ensure that all older machinery is upgraded or replaced over the next three years, following independent safety assessments
- To obtain ISO45001 certification at our head office with a view to bringing all manufacturing sites under this scope in two years (ongoing in 2017/18)
- Achieved In progress

Our health and safety objectives for 2017/18:

To maintain a world class lost time injury frequency rate per 200,000 worked hours below 0.62 (LTIFR)

To continue to demonstrate manufacturing site improvements within our internal HSE audit levels programme

To continue driving a good level of health and safety training across all employee levels within our business, including NEBOSH certificates, IOSH Managing Safely and more Making Good Safety Decisions modules

To ensure that all new machinery meets good machinery safety standards prior to use. In addition, ensure that all machines being moved or refurbished as a result of the footprint restructuring project undergo independent safety assessments, with safety upgrades as required

To bring all the manufacturing sites under the central OHSAS18001 certification over two years

8

Type of emissions	Activity	2017 ²	2	2016	3	
		tCO₂e	% of total	tCO₂e	% of total	% change
Direct (Scope 1)	Natural gas	39,240	37.9	38,936	38.3	0.8
	Other fuels	466	0.4	488	0.5	(4.6
	Process emissions	1,197	1.2	1,048	1.0	14.3
	Fugitive emissions	5	-	24	_	(77.8
	Owned vehicles	77	0.1	160	0.2	(52.3
	Subtotal	40,985	39.5	40,656	40.0	0.8
Indirect (Scope 2)	Electricity	36,084	34.8	35,819	35.3	0.7
	Subtotal	36,084	34.8	35,819	35.3	0.7
Indirect other (Scope 3)	Rail travel	5	_	0	_	_
	Air travel	7,425	7.2	6,985	6.9	6.3
	Non-owned vehicles	0	-	0	_	_
	Water	1,900	1.8	2,034	2.0	(6.6)
	WTT all scopes ¹	17,273	16.7	16,066	15.8	7.5
	Subtotal	26,603	25.7	25,085	24.7	6.1
Total gross emissions (tCO ₂ e)		103,672		101,560		2.1
Renewable electricity (tCO ₂ e)		0		0		_
Electricity exported to grid (tCO ₂ e)		88		756		(88.4
Total net emissions (tCO ₂ e)		103,584		100,804		2.8

Intensity metric

	2017	2016	% change
Total gross emissions (tCO ₂ e)	103,672	101,560	2
Total net emissions (tCO ₂ e)	103,584	100,804	3
Revenue ³ (£m)	462	488	(5)
Tonnes of gross CO₂e per £m	224	208	8
Tonnes of net CO₂e per £m	224	206	9

- ¹ Standard 'well to tank' carbon calculation.
- ² Figures for the last period are estimates.
- 3 Pre-disposal.

The numbers have been re-based following best practice.

Groonhouse assemissions year on year comparison

SDGs

Maintain Foundations







SDG1 - No poverty

SDG10 - Reduce inequalities

SDG17 - Partnerships for the Goals

SDGs which we continue to support.

Collectively, these goals underpin our mission and purpose. We work with governments, multilaterals, and nonprofit organisations to provide technical expertise and secure products and services to deliver inclusive societies and strong institutions.

For example, our products and services support key government services that indiscriminately allow for social and financial inclusion, whether through access to cash, an identity document or authentic products/goods. We also provide Civil Registration and Vital Statistics (CRVS) services as well as identity management solutions to ensure that governments can plan for the needs of their population.

We recognise that it is vital that employees are happy and valued at their workplace. We are proud of the fact that our latest employee survey showed that 70% of all participants would recommend De La Rue as a great place to work.

Many of our sites across the world engage with local communities by supporting charitable organisations, often focusing on smaller, locally based charities where our employees' efforts can have the greatest impact. The highlights of the year included De La Rue for Good events at our head office which raised over £10,000 for a local charity. The group-wide Three Peaks Challenge continues to remain popular, and raised more than £22,000 to benefit a number of charities. In addition, the De La Rue Charitable Trust – which offers match-funding to UK employees undertaking their own fundraising activities - donated over £14,000 to charities.