Accounting policies

Reporting entity

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 158 of this Annual Report. The consolidated financial statements of the Company for the period ended 30 March 2019 comprise the Company and its subsidiaries (together referred to as the Group). The principal activities of the Group are described in note 1.

Statement of compliance

European Union (EU) law (IAS Regulation EC 1606/2002) requires that the consolidated financial statements, for the period ended 30 March 2019, be prepared in accordance with international financial reporting standards (IFRS) as adopted by the EU. These consolidated financial statements have been approved by the Directors and prepared in accordance with IFRS including interpretations issued by the International Accounting Standards Board.

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 financial statements have been prepared as at 30 March 2019, being the last Saturday in March. The comparatives for the 2017/18 financial period are for the period ended 31 March 2018.

The Company has elected to prepare its entity only financial statements in accordance with FRS 102 *Financial Reporting Standard applicable in the UK and Republic of Ireland*. They are set out on pages 149 and 150 and the accounting policies in respect of the Company financial statements are set out on page 151.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below or have been incorporated with the relevant notes to the accounts where appropriate. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 2 to 49 of the Strategic report. In addition, pages 36 to 40 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 page 32 of the Strategic report.

The Group meets its funding requirements through cash generated from operations and a revolving credit facility which expires in December 2021. 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, 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.

Adoption of new and amended International Reporting Standards adopted by the Group

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

- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from contracts with customers'
- Annual Improvements to IFRSs 2014-2015 Cycle
- IFRIC 22 'Foreign currency transactions and advance consideration'
- Amendments to IFRS 2, 'Share-based payments', on clarifying how to account for certain types of share-based payment transactions

The impact of the adoption of IFRS 9 and IFRS 15 is set out below. The main effect of applying these standards has been:

- IFRS 15 – earlier recognition of revenue from the currency segment contracts
- IFRS 9 – an increase in impairment losses recognised on financial assets

The other amendments have not had an impact on the amounts recognised in the current or prior periods and are not expected to significantly impact future periods. There are no other standards or amendments in addition to those listed above that are likely to impact the Group on adoption.

Adoption of IFRS 9 'Financial Instruments' during the period

IFRS 9 financial Instruments were issued by the IASB in July 2014. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurements – IFRS 9 includes three measurement basis: Amortised cost, fair value through profit and loss (FVPL) and fair value through other comprehensive income (FVOCI). Under IAS 39 the Group classified certain assets as 'held to maturity'. The 'held to maturity' investments related to Loan Notes, Preference Shares and Ordinary Shares received as part consideration for the disposal of the Portals De La Rue paper business. The Group has reviewed the terms and nature of preference shares and loan note instruments and concluded that the objective is to receive solely principle and interest on specified dates (SPPI). Therefore, as the option is not being taken to designate these as fair value through the profit and loss account, they will be accounted for on an amortised cost basis and presented as 'other financial assets'. Consequently, whilst the category of classification will change, there is no impact on the measurement of amounts recorded on the balance sheet as at 1 April 2018. The Group does not hold assets classified as 'available for sale'. Ordinary shares are fair value through profit and loss and the fair value has not changed in the period.

- **Derivative and hedging** – as permitted by IFRS 9, the Group has continued to apply the requirements of IAS 39 at the current time
- **Impairment of financial assets** – IFRS 9 introduces an 'expected loss' model for the accounting for credit losses. The Group is following the simplified approach in calculating Expected Credit Loss (ECL) as its trade receivables arise from contracts under the scope of IFRS 15 without a significant financing component

The Group has calculated the ECL by segmenting and sub-segmenting its Accounts Receivable balances into different segments. This allows for the segmentation of the total Accounts Receivable balance into groupings with a similar risk of a credit loss being incurred and the ECL is calculated by applying the expected loss rate to each segment. The rate applied is based on the Group's historical experience of credit losses, in addition to available knowledge of potential future credit risk and is based on available data such as country credit ratings, and historic payment experiences with particular customer profiles.

Accounting policies continued

The total accounts receivable balance is segmented as follows:

- Firstly: by Banks and Government Departments (group 1) or Non Bank/Government Departments (group 2); then
- Secondly: For each of the above groups by age of receivables; and
- Thirdly: For government departments (Group 1) by sovereign country credit rating; For non-bank/government departments (group 2) by absence or presence of a defined written payment agreement.

At March 2019 an amount of £1m has been calculated for the ECL (in addition to any specific ECL amounts recorded) with the equivalent number for March 2018 being £0.8m. The Group has chosen to apply the 'modified retrospective' approach to adoption and as such the FY18 amount was adjusted through opening reserves (as a cumulative catch up) such that the P&L impact of IFRS 9 in the FY19 accounts is £0.2m. Comparatives have not been restated.

Adoption of IFRS 15 'Revenue from Contracts with Customers' during the period

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. It also requires identifying the performance obligations in the contract and allocating a transaction price to those obligations. The new standard introduces a five-step model to account for revenue and it provides additional guidance in areas where the previous IFRS did not provide specific guidance.

Step 1 – Identify the contract(s)

Step 2 – Identify the separate performance obligations in the contract

Step 3 – Determine the transaction price

Step 4 – Allocate the transaction price to the performance obligations

Step 5 – Recognise revenue when (or as) each performance obligation is satisfied

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (1 April 2018). Accordingly, the information presented for FY18 has not been restated and is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information. The cumulative impact of adoption of IFRS 15 has been recognised as an increase/decrease to retained earnings with a corresponding decrease/increase in net assets at 1 April 2018 as detailed in the table below:

The impact on the balance sheet as previously reported at 1 April 2018 is shown below:

	As at 1 April 2018 £m	Impact of IFRS 15 £m	As at April 2018 as restated for IFRS 15 £m
Inventory	37.0	(2.9)	34.1
Contract assets	–	3.2	3.2
Total impact on net assets		**0.3**	
Impact on retained earnings:			
Banknote contracts with enforceable right to payment		0.4	
IDS contracts with multiple performance obligations		(0.1)	
Total impact on retained earnings		**0.3**	

The £3.2m of contract assets recognised on the adoption of IFRS 15 has now converted to trade receivables in accordance with the contract terms. All contract liabilities (presented as deferred income in FY18) have been released to revenue in the year. The following summarises the impacts of adopting IFRS 15 on the Group's balance sheet as at 30 March 2019 and its statement of comprehensive income for the period then ended for each of the line items affected. There was no material impact on the Group's statement of cash flows for the year ended 30 March 2019.

The impact on the income statement for the period to 30 March 2019

	Pre the impact of IFRS 15 £m	Impact of IFRS 15 £m	As reported post-adoption of IFRS 15 £m
Revenue	552.6	12.2	564.8
Operating expenses – ordinary	(500.1)	(5.3)	(505.4)
IFRS operating profit	**24.5**	**6.9**	**31.5**
Adjusted operating profit	**53.2**	**6.9**	**60.1**
IFRS basic and diluted EPS		5.0 pence	
Adjusted basic and diluted EPS		5.0 pence	

Under IAS 18, revenue for the currency segment was recognised on final delivery of the goods, which was taken to be the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred. Revenue was recognised at that point provided that the revenue and costs could be measured reliably, the recovery of the consideration was probable and there was no continuing managerial involvement with the goods.

Under IFRS 15, revenue for the currency segment is recognised over time for contract where the product is bespoke and has no alternative use and an enforceable right to payment exists. This means on certain contracts revenue will be recognised before the goods are delivered. Therefore, on certain contracts, revenue in the currency segment is recognised sooner under IFRS 15 than under IAS 18. The impacts of these changes in FY19 for the currency segment are:

- An increase in revenue by £11.9m
- Associated increase in operating costs by £5.3m
- An increase in trade and other receivables by £11.6m
- A decrease in inventories by £5.3m

The impact on the IDS segment was not material, with an increase in revenue of £0.3m reflecting the recognition of revenue over time, using the input method with revenue recognised based on costs incurred to date as a proportion of total costs.

Based on the current customer contracts in the PA&T segment, no adjustments were required for revenue on application of IFRS 15. The following table provides information for the current period (under IFRS 15) about the nature and timing of the satisfaction of performance obligations in contracts with customers and the related revenue recognition policies.

Type of product/ service/segment	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15	Revenue recognition under IAS 18
Currency segment: Supply of banknotes	The Group has determined that for certain banknote contracts (given the highly bespoke nature of the products) with enforceable right to payment, the customer controls all of the work in progress as the products are being manufactured. This is because under those contracts, currency products are made to a customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. For other banknote contracts, where customers do not take control of the goods until they are completed or delivered (based on contract terms), revenue is recognised at the point in time when control transfers to the customer. If the Group has recognised revenue, but not issued an invoice, then the entitlement to consideration is recognised as a contract asset (previously accrued income). The contract asset is transferred to receivables when the entitlement to payment becomes unconditional.	Revenue for certain banknote contracts with enforceable right to payment will be recognised over time for banknotes produced to date and ahead of delivery to the customer. Revenue is recognised progressively based on the input method based on costs incurred to date as a proportion of total costs. Revenue for other banknote contracts, where customers do not take control of the goods until they are completed is recognised based on contractual terms which will determine when control has passed to the customer. This might include recognition of revenue on inventory placed into storage (bill and hold) for the customer so long as it is demonstrated that control of the product has passed to the customer. This is a case where an enforceable right to payment under the contract cannot be demonstrated.	Revenue was recognised when the banknotes were dispatched from the Group's warehouse, or when they were delivered to the customer's specified location (depending on contractual delivery terms) or when the product is placed into storage (meeting the bill and hold criteria for revenue recognition) which was taken to be the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred. Revenue was recognised at that point provided that the revenue and costs could be measured reliably, the recovery of the consideration was probable and there was no continuing managerial involvement with the goods.
Currency segment: Supply of banknotes along with other services	In addition to the supply of banknotes, which is a separate performance obligation (see above), additional and separate performance obligations such as design and storage services have been identified in such contracts.	The transaction price attributable to the additional performance obligations is deemed to be immaterial. Accordingly, no separate transaction price will be attributed to these performance obligations; instead, the consideration in the contract will be entirely allocated to the single performance obligation of supplying currency.	No transaction price was attributed to the satisfaction of the additional performance obligations.

Accounting policies continued

Type of product/ service/segment	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15	Revenue recognition under IAS 18
IDS segment: IDS contracts including supply of passports, hardware and software and other services.	Multiple performance obligations have been identified in some IDS contracts including supply of passports, hardware and software services. For contracts where an enforceable right to payment exists, the customer is considered to control all of the work in progress as the products are being manufactured or installed and as services are delivered. Hence, these performance obligations meet the over time criteria for revenue recognition. For other IDS contracts, where customers do not take control of the goods until they are completed or delivered, revenue is recognised at the point in time when control transfers to the customer. In addition to the above, additional and separate performance obligations such as design, training and shipping and consultancy services have been identified in such contracts which also meet the over time criteria. If the Group has recognised revenue, but not issued a bill, then the entitlement to consideration is recognised as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional.	Revenue will be allocated to the performance obligations identified and revenue will be recognised over time as control of the contract deliverables is passed to the customer. Revenue is recognised progressively based on the cost to cost method. Revenue for other IDS contracts, where customers do not take control of the goods until they are completed is recognised on formal acceptance by the customer.	Revenue was recognised when the products were dispatched from the Group's warehouse, or when they were delivered to the customer's specified location (depending on contractual delivery terms) or on completion of milestones, which was taken to be the point in time at which the customer accepted the goods and the related risks and rewards of ownership transferred. Revenue was recognised at that point provided that the revenue and costs could be measured reliably, the recovery of the consideration was probable and there was no continuing managerial involvement with the goods.

The following table sets out the treatment of costs to obtain a contract with a customer as well as costs of fulfilment incurred in satisfaction of the performance obligations.

Type of costs	Revenue recognition under IFRS 15	Revenue recognition under IAS 18
Costs to obtain a contract: sales commissions.	Management expects that incremental commission fees paid to intermediaries and employees as a result of obtaining long term sales contracts are recoverable. The Group therefore capitalises them as contract costs. Capitalised commission fees are amortised when the related revenues are recognised. The Group applies the practical expedient in paragraph 94 of IFRS 15 and therefore recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less. All commissions included at 1 April 2018 and at 30 March 2019 have been determined to have an amortisation period of less than one year.	Costs to obtain a contract such as commission fees were expensed when they were incurred.

International Financial Reporting Standards issued but not yet effective

IFRS 16 'Leases'

IFRS 16 Leases ('IFRS 16') was issued by the IASB in January 2016 and it is applicable for the Group for the financial year starting 31 March 2019. IFRS 16 replaces existing leases guidance, including IAS 17 Leases ('IAS 17'), IFRIC 4 Determining whether an Arrangement contains a lease ('IFRIC 4'), SIC – 15 Operating Leases – Incentives ('SIC – 15'), and SIC – 27 Evaluating the Substance of Transactions in the Legal Form of a Lease ('SIC – 27').

IFRS 16 introduces a single, on balance sheet, lease accounting model for lessees. The Group will recognise a right of use ('ROU') asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This will result in a substantial number of leases being recorded on the balance sheet, as the distinction between operating and finance leases is removed.

There are exemptions for short term leases and leases of low value items which permit such leases to be excluded from the balance sheet and the lease payments to be recognised as an expense on a straight line basis over the term of the lease.

Previously, the Group recognised operating lease payments as an expense on a straight line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. As noted above, the Group will now recognise new assets and liabilities for its operating leases. The nature of expenses will now change because the Group will recognise a depreciation charge for ROU assets and interest expense on lease liabilities. The interest expense will be front loaded, resulting in a higher total charge to the income statement in the initial years of a lease.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability and the onerous nature of any leases will be recognised by impairing the associated ROU asset.

The Group plans to adopt IFRS 16 using the modified retrospective (with the asset recalculated) method. Under this method, the ROU asset will be measured as if the Group had always followed IFRS 16 but using the discount rate as at the transition date (1 April 2019). The lease liability will be calculated based on the present value of the remaining lease payments.

The cumulative effect of adopting IFRS 16 will be recognised as an adjustment to retained earnings as at 1 April 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 April 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Group is currently undertaking a detailed assessment of the impact of IFRS 16 on the income statement and balance sheet.

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 2019. Subsidiaries are entities controlled by the Group.

The Group is considered to control an entity when it is exposed to, or has rights to, variable returns from its involvement with an entity and has the ability to affect those returns through exerting control over the entity. The results of subsidiaries acquired or disposed of during the period are included in the consolidated financial statements from the date that control commences or until the date that control ceases. Intra-group balances and transactions are eliminated on consolidation. The majority of the subsidiaries prepare their financial statements up to 30 March. The results of subsidiaries where the financial statements are not prepared to 30 March are still included in the consolidation as at 30 March with the income statement and other financial information being also prepared for the year ended 30 March 2019.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method of accounting. The Consideration transferred in the acquisition is measured at fair value as are the identifiable assets and liabilities acquired.

The excess of the fair value of consideration transferred over the fair value of net assets acquired is accounted for as goodwill. Any goodwill that arises is tested annually for impairment.

Transaction costs are expensed as incurred.

Significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements have been incorporated into the relevant notes where possible. General accounting policies which are not specific to an accounting are set out below.

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 measured at fair value 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 note 14 for details of the Group's accounting policies in respect of such derivative financial instruments.

Translation of foreign operations on consolidation

Assets and liabilities of foreign operations, including goodwill and intangible assets, are translated into GBP (the presentational currency of the Group) 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 re-translation are recognised in the Group's currency 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.

Net investment in foreign operations

Foreign currency differences arising on the re-translation of a financial liability designated as a hedge of a net investment in foreign operations are recognised in the currency 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. 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.

Amortised cost investments

As part of the consideration received for the disposal of the Portals De La Rue paper business, the Group has received loan notes, preference shares and ordinary shares in Mooreco Limited, a parent company of the purchaser. As these instruments relating to the loan notes and preference shares are being held solely to collect principal and interest payments on specified dates (SPPI) and the Group has not chosen to fair value these through the income statement, they are accounted for on an amortised cost basis. The ordinary shares are accounted for as fair value through profit and loss (FVPL). See note 5 for further details.

Accounting policies continued

Revenue recognition

The Group accounts for revenue under IFRS 15. IFRS 15 provides a single, five-step principles-based model to be applied to all contracts with customers which requires identification of the contract for accounting purposes, the separate performance obligations within the contract, the transaction price for the contract and the allocation of this to each performance obligation.

The following table provides information for the current period (under IFRS 15) about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/ service/segment	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15
Currency segment: Supply of banknotes	The Group has determined that for certain banknote contracts (given the highly bespoke nature of the products) with enforceable right to payment, the customer controls all of the work in progress as the products are being manufactured. This is because under those contracts, currency products are made to a customer's specification and if a contract is terminated by the customer, then the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. For other banknote contracts, where customers do not take control of the goods until they are completed or delivered, revenue is recognised at the point in time when control transfers to the customer. If the Group has recognised revenue, but not issued a bill, then the entitlement to consideration is recognised as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional.	Revenue for certain banknote contracts with enforceable right to payment will be recognised over time for banknotes produced to date and ahead of delivery to the customer. Revenue is recognised progressively based on the cost to cost method. Revenue for other banknote contracts, where customers do not take control of the goods until they are completed is recognised based on contractual terms which will determine when control has passed to the customer. This might include recognition of revenue on inventory placed into storage for the customer so long as it is demonstrated that control of the product has passed to the customer. This is case where an enforceable right to payment under the contract cannot be demonstrated.
Currency segment: Supply of banknotes along with other services	In addition to the supply of banknotes, which is a separate performance obligation (see above), additional and separate performance obligations such as design and storage services have been identified in such contracts which meet the over time criteria.	The value attributable to the additional performance obligations is deemed to be immaterial. Accordingly, no separate value will be attributed to these performance obligations; instead, the consideration in the contract will be entirely allocated to the single performance obligation of supplying currency.
IDS segment: IDS contracts including supply of passports, hardware and software and other services	Multiple performance obligations are included in some IDS contracts including supply of passports, hardware and software services. For contracts where an enforceable right to payment exists, the customer is considered to control all of the work in progress as the products are being manufactured or installed and the services as they are delivered. Hence, these performance obligations meet the over time criteria for revenue recognition. For other IDS contracts, where customers do not take control of the goods until they are completed or delivered, revenue is recognised at the point in time when control transfers to the customer. In addition to the above, additional and separate performance obligations such as design, training and shipping and consultancy services have been identified in such contracts which also meet the over time criteria. If the Group has recognised revenue, but not issued a bill, then the entitlement to consideration is recognised as a contract asset. The contract asset is transferred to receivables when the entitlement to payment becomes unconditional.	Revenue will be allocated to the performance obligations identified and revenue will be recognised over time as control of the contract deliverables is passed to the customer. Revenue is recognised progressively based on the cost to cost method. Revenue for other IDS contracts, where customers do not take control of the goods until they are completed is recognised on formal acceptance by the customer.
PA&T segment	Multiple performance obligations are included in some PA&T contracts. Where multiple performance obligations exist, the transaction price for the contract is allocated to each separately to each identified. Performance obligations include access to systems, build of systems and the provision of authentication products such as tax stamps.	Revenue on the sale of authenticity products, including tax stamps, is recognised when control passes to the customer based on the standalone selling price of the product. Control generally passes on delivery of the physical product to the customer or the issuance of a digital security key.

Costs to obtain contracts: Sales commissions:
Management expects that incremental commission fees paid to intermediaries and employees as a result of obtaining long term sales contracts are recoverable. The Group therefore capitalises them as contract costs. Capitalised commission fees are amortised when the related revenues are recognised. The Group applies the practical expedient in paragraph 94 of IFRS 15 and therefore recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

Bill and hold revenue
Certain customers require the Group to store completed inventory for them ahead of them taking delivery once they require it. Revenue is recognised on a bill and hold basis when:

1) It can first be demonstrated that control of the product has passed to the customer – principally because the customer now has risk for the product transferred to them and the Group has an enforceable right to payment; and
2) It can be demonstrated that the arrangement is substantive.

Warranties:
All warranties are considered to be of a standard nature and as such are accounted for under IAS 37 rather than IFRS 15.

Critical accounting judgements and key sources of estimation uncertainty

Management has discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. Management is required to exercise significant judgement in the application of these policies. Estimates are made in many areas and the outcome may differ from that calculated. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

Critical accounting judgements

Revenue recognition and cut-off

Customer contracts will often include specific terms that impact the timing of revenue recognition. The timing of the transfer of control varies depending on the individual terms of the sales agreement. For sales of products the transfer usually occurs on loading the goods onto the relevant carrier, however the point at which control passes may be later if the contract includes customer acceptance clauses, control passes on arrival at the customer location. Specific consideration is needed at year end to ensure revenue is recorded within the appropriate financial year.

Revenue recognition and determination of whether an enforceable right to payment exists

For certain customer contracts, revenue is recognised over time in accordance with IFRS 15, as the Group has an enforceable right to payment. Determination of whether the Group had an enforceable right to payment requires careful analysis of the legal terms and conditions included within the customer contract and consideration of applicable laws and customary legal practice in the territory under which contract is enforceable. External legal advice has been obtained if considered necessary to allow management to make this assessment.

Accounting treatment for sales to Portals

The Group provides Security Features to Portals for inclusion in the paper which they manufacture and which the Group subsequently purchases back. The Group has carefully considered the nature of this arrangement and considers it appropriate to record the Security Features sales to Portals as revenue since Portals is not an associate of the Group and does not constitute a related party and the relationship is that of a third party with full control of the product passing to Portals upon sale.

Accounting for the credit loss and revenue recognition associated with a customer in Venezuela

During the period a credit loss of £18.1m was recognised for a customer in Venezuela. Due to the material size of the credit loss and its one off nature and the fact that the customer is unable to pay due to non-UK sanctions it has been concluded that it is appropriate for the item to be classified as exceptional. It has also been considered that Revenue and associated margin should remain in IFRS and adjusted operating profit as, at the time of the revenue recognition, the risk to payment had not fully materialised and because the Group had fully met its obligations under the customer contract with control passing to the customer. Furthermore, there is no dispute or disagreement with the customer, rather the ability to pay is impacted by non-UK sanctions.

Classification of exceptional items

The Directors consider items of income and expenditure which are both material by size and/or by nature and not representative of normal business activities should be disclosed separately in the financial statements so as to help provide an indication of the Group's underlying business performance. The Directors label these items collectively as 'exceptional items'. Determining which transactions are to be considered exceptional in nature is often a subjective matter.

However, circumstances that the Directors believe would give rise to exceptional items for separate disclosure would include: gains or losses on the disposal of businesses, curtailments on defined benefit pension arrangements or changes to the pension scheme liability which are considered to be of a permanent nature such as the change in indexation or the Guaranteed Minimum Payments, and non-recurring fees relating to the management of historical scheme issues, restructuring of businesses, asset impairments and costs associated with the acquisition and integration of business combinations. All exceptional items are included in the appropriate income statement category to which they relate. Refer to note 4 on page 119 for further details.

Critical accounting estimates

Post-retirement benefit 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 rate used to discount future liabilities, the expected longevity for current and future pensioners and estimates of future rates of inflation.

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. The Group engages the services of professional actuaries to assist with calculating the pension liability. See page 144 for detail of the relative sensitivity of the value of the scheme liabilities to changes in the discount and inflation rates.

Accounting policies continued

Valuation of inventory

At any point in time, the Group has significant levels of inventory, including work in progress. Manufacturing is a complex process and the final product is required to be made to exacting specifications and tolerance levels. In valuing the work in progress at the balance sheet date, assessments are made over the level of waste contained within the product based on the production performance to date and past experience.

In assessing the recoverability of finished stock assessments are made to validate that inventory is correctly stated at the lower of cost and net realisable value and that obsolete inventory, including inventory in excess of requirements, is provided against.

Estimation of warranty provisions

The Group measures warranty 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. Refer to note 19 on page 138 for further details.

Impairment of disposal group held for sale

During the prior period the Group disposed of the Portals De La Rue paper business. Judgement was applied by the Directors in assessing when criteria for recognising a disposal group as held for sale were met, and the paper business was not treated as a discontinued operation. Further judgement was required in estimating fair value less costs to sell when determining the remeasurement of assets and liabilities within the disposal group based on the lower of the carrying amount and fair value less costs to sell. The estimation of fair value included forming an expectation of amounts payable in relation to the recompense clause, an updated estimate of which has been made in the current year. Refer to note 5 and note 19 on pages 120 and 138 respectively for further details.

Tax

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

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

The Group has current tax provisions recorded within Current tax liabilities, in respect of uncertain tax positions. Provisions are recognised where there are specific uncertainties identified and it is considered probable that there will be a future outflow of funds to a taxing authority, and are measured based on management's best estimate of the likely outcome. The Group currently has certain ongoing taxation assessments which are provided for where the Company considers it probable that an outflow of economic benefits will occur and the amount can be reliability measured. Where the Company considers that the chance of an outflow is remote no provision is recorded and no disclosure is given.