DeLaRue

De La Rue plc
Annual Report 2014

Contents

Strategic report

1 Highlights
3 De La Rue at a glance
5 Chairman's statement
6 Our business model, strategy and values
8 Our markets
10 Key performance indicators
13 Performance and financial review
21 Risk and risk management
25 Corporate responsibility

Directors' report

30 Directors and Secretary
32 Corporate governance report
38 Audit Committee report
41 Directors' remuneration report
59 Shareholders and share capital
61 Other statutory information

Accounts

63 Independent auditor's report
66 Group income statement
67 Group statement of comprehensive income
68 Group balance sheet
69 Group statement of changes in equity
70 Group cash flow statement
71 Accounting policies
74 Notes to the accounts
103 Company balance sheet
104 Accounting policies – Company
105 Notes to the accounts – Company
107 Five year record
108 Shareholders' information

The images shown on the front cover and inside front cover are the Icelandic 10,000 króner banknote, a new denomination note first issued in October 2013. The note is dedicated to the Icelandic poet, scholar and naturalist Jónas Hallgrímsson, whose portrait appears on the front. The design also includes lines from his poetry and landscape and wildlife images, including plovers. The note features De La Rue's Optiks™ thread which incorporates repeating images of a flower and the text 10000 KRÓNUR which can be clearly seen in the distinctive see through window when the note is held up to the light.

For further information visit www.delarue.com

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.

Highlights

De La Rue is the world's largest commercial banknote printer and passport manufacturer. It is a trusted partner of governments, central banks and commercial organisations around the world in the continuing battle against the counterfeiter.

De La Rue also produces a wide range of other security products, including tax stamps, authentication labels and identity documents, and manufactures high speed cash sorting and banknote inspection equipment.

De La Rue's Currency business provides customers with a full range of sophisticated products and services which are available either individually or as a package. This includes the design and production of security components and paper and polymer substrates as well as the design and printing of banknotes.

Within the Solutions business, a similar integrated offering from design to manufacture is available. In addition De La Rue offers a range of specialist services and software solutions including government identity schemes, product authentication systems and cash management processing solutions.

In recent years De La Rue has been involved in the production of over 150 national currencies, and passports or identity systems for over 65 countries.

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

2014 Revenue

£513.3m

2013: £483.7m

2014 Underlying operating profit*

£89.3m

2013: £61.5m

2014 Profit before tax

£59.8m

2013: £43.7m

2014 Underlying operating cash flow*

£99.1m

2013: £73.0m

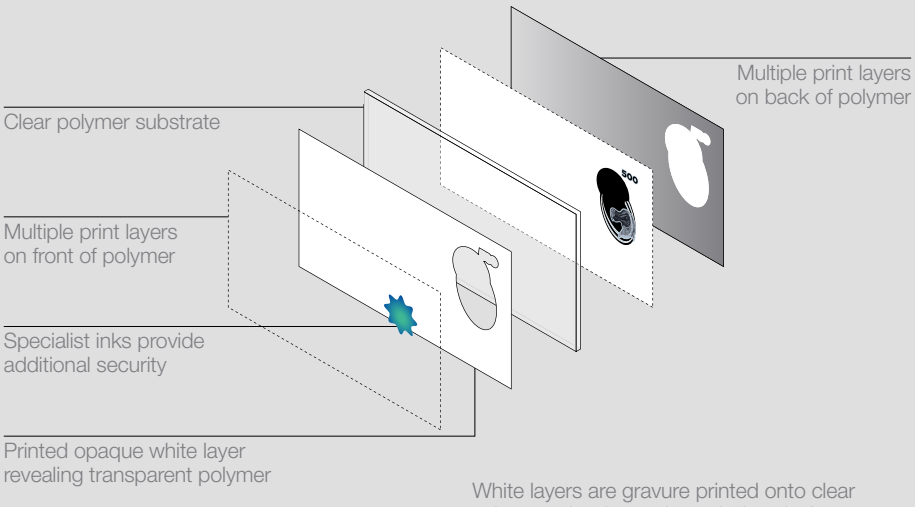
2014 Underlying earnings per share*

60.7p

2013: 38.5p

*Before exceptional items

Innovation at work



White layers are gravure printed onto clear substrate, leaving a clear window, before other print techniques including litho and intaglio are applied to the Safeguard notes

Polymer banknotes gain recognition
Following the successful introduction of De La Rue's polymer substrate, Safeguard™, in 2012, there are currently three central banks using this new substrate – Fiji, Mauritius (pictured above) and most recently Lebanon – with a further six banknote orders in hand for issue during the course of 2014.

Innovative security features continue to be developed for Safeguard including the application of speciality inks such as SPARK® Orbital™, a colour switching ink with the optical effect of a bright ring of light that appears to slip freely within the area of ink. This exploits the transparency of the clear window in the polymer, allowing the feature to be seen from both sides of the note.

De La Rue at a glance

Currency

Provides market leading printed banknotes, banknote paper and polymer substrate 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.

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
Provides central banks and 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.

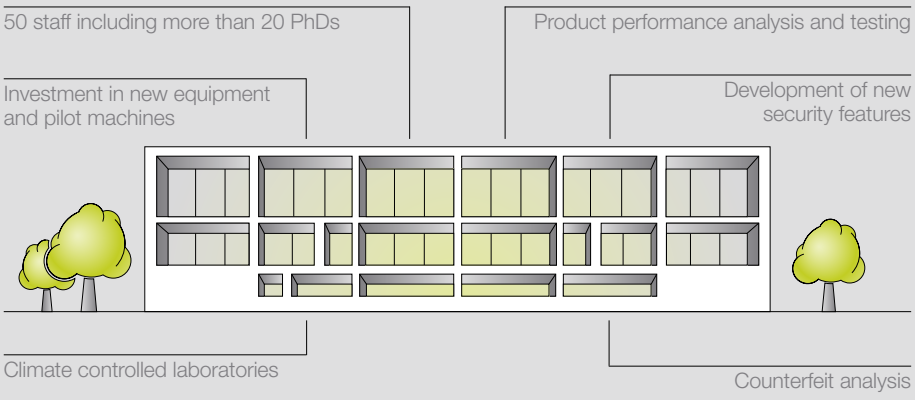
Identity Systems
Develops and delivers sophisticated identity management solutions. As a specialist systems integrator, it works with governments around the world to secure personal identities, focusing on the provision of passport, ePassport, national ID and eID, driving licence and voter registration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

Two complementary divisions offering a comprehensive portfolio of security products and services.

2014 share of revenue
- Currency 66%
- Solutions 34%
  - – Identity Systems 15%
  - – Security Products 8%
  - – Cash Processing Solutions 11%

2014 share of underlying operating profit
- Currency 69%
- Solutions 31%
  - – Identity Systems 24%
  - – Security Products 12%
  - – Cash Processing Solutions -5%

Innovation at work



Our technology centre leads the way
Following two years' work and significant investment De La Rue's technology centre, opened in October 2013, features state of the art technology and equipment and provides a flexible, contemporary working environment. This lays the foundations to offer our customers a wider choice of secure solutions and further grow our patent portfolio. The centre has been built to European Central Bank standards.

The De La Rue technology centre was officially opened in December 2013 by His Royal Highness The Duke of Kent.

Recent R&D activity includes investment in state of the art micro-optic technology, an expansion of our scientific research team and an enhanced security features pipeline. The further development of security features for use on polymer is a particular area of focus.

Chairman's statement

Philip Rogerson
Chairman

Group results
In 2013/14 De La Rue grew underlying operating profit by 43 per cent and revenue by 6 per cent. These results demonstrate the significant progress the Group has made by implementing its three year Improvement Plan which has seen profit grow from £40m in 2010/11 to £90m in 2013/14.

Underlying operating profit (after IAS 19 adjustments) was up significantly at £89.3m (2012/13: £61.5m) and the operating profit margin improved to 17.4 per cent (2012/13: 12.7 per cent). Foreign exchange movements adversely impacted revenue by £3m but improved operating profit by £2m (2012/13: adverse £3m and £2m respectively).

Underlying profit before tax increased by 51 per cent to £77.3m (2012/13: £51.3m) despite higher net finance costs of £4.7m (2012/13: £3.6m) and IAS 19 finance charges of £7.3m (2012/13: £6.6m). Underlying earnings per share increased by 58 per cent to 60.7p (2012/13: 38.5p).

Exceptional charges in the year totalled £17.5m (2012/13: £7.6m) predominantly due to asset impairments in relation to the Cash Processing Solutions business and the cost of implementing the Improvement Plan.

Basic earnings per share were 47.3p (2012/13: 37.4p).

The Group has generated a good underlying operating cash flow of £99.1m (2012/13: £73.0m). Net debt at 29 March 2014 remained modest at £89.9m, up £13.2m from the prior year end.

Dividend
The Board is recommending a final dividend of 28.2p per share (2012/13: 28.2p per share). Together with the interim dividend paid in January 2014, this will give a total dividend for the year of 42.3p per share (2012/13: 42.3p per share). Subject to approval by shareholders, the final dividend will be paid on 1 August 2014 to shareholders on the register on 4 July 2014.

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
Tim Cobbold resigned from the Board as Chief Executive on 29 March 2014 and the Board would like to record its appreciation of Tim's significant contribution over the past three years.

On the same date, I assumed executive responsibilities until a new Chief Executive joins the Board. I now chair De La Rue's Executive Committee, supported by Colin Child, Group Finance Director, who was appointed Chief Operating Officer on a similar temporary basis. The Board's Nomination Committee is well advanced in the search to identify suitable candidates for the role.

People
De La Rue is proud of the quality of its employees who remain a vital part of its success. The results this year clearly demonstrate their dedication and hard work and the Board would like to thank everyone for their contribution in the past 12 months.

Outlook
While current market conditions remain challenging, the fundamental strengths of the business provide a strong foundation from which to deliver enhanced shareholder value.

De La Rue entered the new financial year with a good order book, albeit reflecting the recent more difficult pricing environment in the Currency market. The Board's expectations for 2014/15 remain unchanged.

Our business model, strategy and values

We use our unique capabilities and relationships to maintain a leading market position.

Central banks, governments and commercial organisations rely on our products and solutions to deliver security and confidence when conducting their everyday transactions. As society becomes increasingly globalised and technology develops, 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 of innovation, sophisticated design, and the production and delivery of high quality products and services. 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 to ensure we have the technology, capability and capacity to meet customer needs, maintain an industry leading position and deliver sustainable growth.

Strengths →

- Proven track record in innovation
- Integrated competitive position
- Enduring relationships with central banks, governments and specialist commercial organisations
- Industry recognised creative flair
- Brand and reputation
- Highly skilled and dedicated workforce

Delivering →

- Sophisticated and award winning designs
- High quality products and services which add value
- Long term trusted partnerships
- Efficient and flexible manufacturing supply chain
- Motivated and professional employees respected and valued by customers

Outcomes

- We have the technology and capability to meet customer needs
- We maintain an industry leading position
- We deliver long term sustainable growth
- We provide attractive returns to investors
- We enjoy a high performance culture

Our vision is to be the leading provider of secure products and services, touching the lives of everyone, every day.

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

The successful execution of our strategy will provide customers with innovative products and solutions to meet their needs, employees with a rewarding environment in which to develop and shareholders with long term sustainable growth.

Our strategy
To be a customer focused, efficient, professional and innovative leader in the markets in which we operate

Customers
Focusing on and anticipating the needs of customers

Innovation
Driving innovation and new product development

Professionalism
Increasing professionalism in all aspects of the business

Operational excellence
Delivered throughout the business by continuous improvement

Currency

In our Currency business we will:

- Continue to invest in technology
- Grow Safeguard™, our polymer substrate offering
- Address opportunities across the whole market from state print works to central banks, with particular focus on the sale of security components such as threads and holographic stripes and patches
- Improve lead times through investing in continuous improvement and capability
- Deliver operational excellence in our supply chain by focusing on quality, cost and delivery

The successful execution of our strategy will provide shareholders with increasing value from each of our businesses and from the Group as a whole by delivering:

- Sustainable revenue growth over the longer term
- Improved profitability through continuous improvement
- Strong cash flows
- Increased returns to shareholders

Solutions

In our Solutions business we will:

- Build on our position as the world's largest commercial producer of passports and address the growing market demand for ePassports
- Support governments in their efforts to collect tax revenues through the introduction of the latest product authentication software solutions
- Continue to support bulk cash handling organisations by offering a range of sophisticated products and services

Our values, which support our strategy are to:

be open to change

act with integrity

take responsibility

excel in what we do

work together

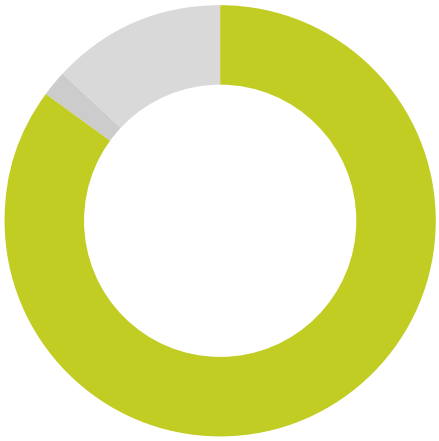
All of our business units operate globally within specialist market environments.

Three quarters of our revenue comes from outside the UK.

Currency

Global substrate market*
c157k tonnes pa
- State paper mills (SPM) 48%
- Overspill from SPMs 6%
- Commercial paper market 43%
- Polymer 3%

Global print market*
c157 billion notes pa
- State print works (SPW) 85%
- Overspill from SPWs 2%
- Commercial print market 13%



Commercial market share: substrate*
- De La Rue 11%
- Other 89%

Commercial market share: print*
- De La Rue 31%
- Other 69%

Market overview
The global demand for banknotes continues to grow on average by c4 per cent annually although the rate of growth for individual countries will vary reflecting local economic circumstances. The demand for banknotes and the substrates on which they are printed is largely satisfied by state print works (SPW), state paper mills (SPM) and a small number of commercial manufacturers such as De La Rue (see charts opposite). SPWs or SPMs may turn to commercial providers to supplement their own production capacity to satisfy demand they are unable to meet, known as 'overspill'. As well as the supply of finished banknotes to central banks and substrates to SPWs, De La Rue also supplies security components that SPWs and SPMs can incorporate directly into their products.

Variability in demand is a feature of the market, with short term fluctuations in the timing and size of orders, including overspill, reflecting the decisions taken by central banks. This has the potential to create material volume variation year on year.

Key factors affecting banknote issuance by central banks are note retirement, changes in the underlying level of GDP, and changes in using cash as a means of payment. Of these, note retirement is the most important and is affected by:

- The timing and frequency of changes in note design
- Changes in cash circulation policy and technology
- Growth in automated cash handling requiring notes to be in good condition
- Changes in 'clean note' policy
- Changes in denomination structure
- The introduction of new anti-counterfeiting security features

*Source: De La Rue estimates

Solutions

Cash Processing Solutions

Market overview

The cash processing industry is a mature market with a number of suppliers providing a variety of different products to manage and control the handling of cash.

Cash processing is an essential aspect of the currency lifecycle as it assists in maintaining the authentication and integrity of all cash in circulation. In addition, to guarantee the quality of currency there is a market requirement within banknote print works for end of line inspection and processing of printed banknotes.

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 its advanced cash sorting machines, market leading vault management software, and single note inspection systems. De La Rue supports and maintains customer solutions via a global network of engineers.

Security Products

Market overview

Security Products' customers fall into two broad categories: governments and commercial brand owners, both of which continue to come under attack from criminal activity.

Governments continue to work hard to protect indirect tax revenues on products such as alcohol and tobacco by minimising illicit trade. By 2013, 168 countries were 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 apply 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 and consumer confidence. Advanced technology within labels, linked to digital authentication and tracking solutions, ensures brands are protected and that consumers can be confident of buying genuine products.

Contracts are often secured on a multi year basis. This means that while sales cycles may be long, once contracts are secured, the business benefits from a good degree of continuity.

Growth in security products will come from building share in the currently fragmented market and opportunities offered by increasing demand for government revenue solutions.

Identity Systems

Market overview

The passport and identity market is increasingly seeking complete integrated solutions, with highly secure passports and ID cards, full 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 manage the project efficiently and without undue risk.

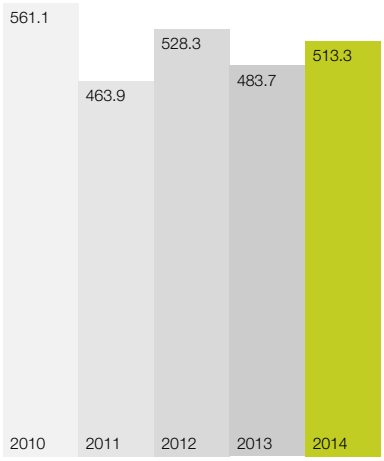
De La Rue is a leading provider of passport and ID solutions and continues to deliver complex projects globally. It is able to offer an in-house passport design and production capability as well as issuance and passport personalisation systems. Additionally, De La Rue's experienced project managers are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

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. To maintain market position it is key that De La Rue continues to provide value to its customers through efficient manufacturing and market leading design and security features.

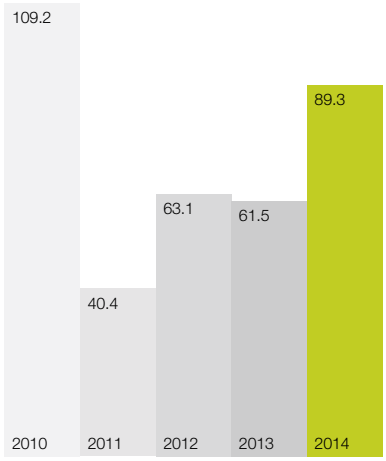
Key performance indicators

We use the following key performance indicators to measure the overall progress of the business relative to our strategy.

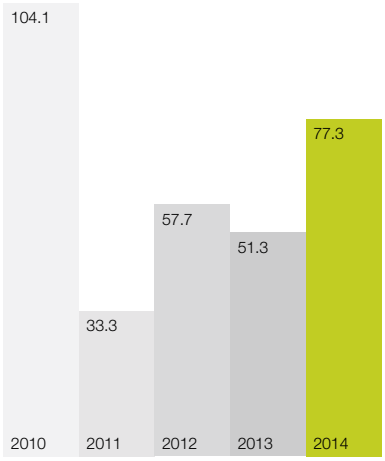
Revenue
£m



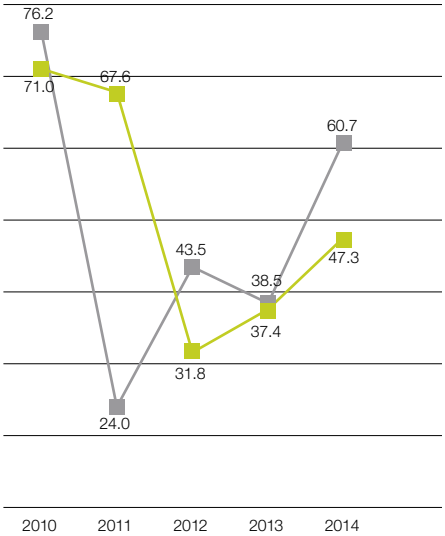
Underlying operating profit*
£m



Underlying profit before tax*
£m



Earnings per share*
Pence
Basic earnings per share
Underlying earnings per share

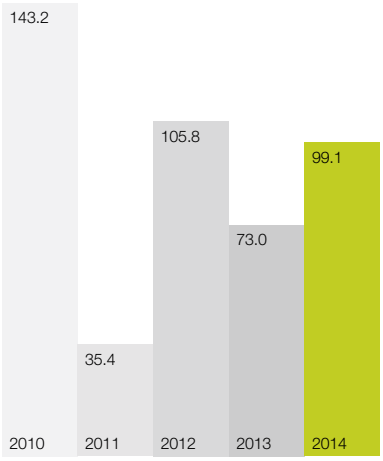


*2010-2012 comparatives have not been adjusted for the impact of IAS 19

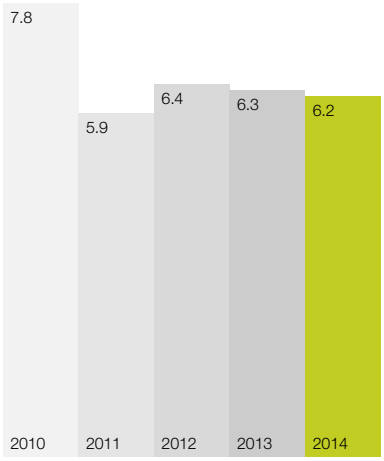
For 2013 and 2014, the comparable figures excluding the impact of IAS 19 are as follows:

	2013	2014
Underlying operating profit	£63.2m	**£90.5m**
Underlying profit before tax	£59.1m	**£85.2m**
Basic earnings per share	43.3p	**53.4p**
Underlying earnings per share	44.4p	**66.8p**

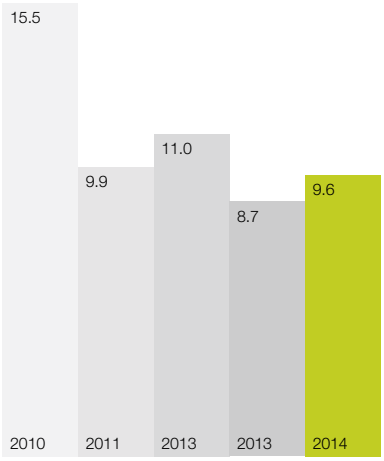
Underlying operating cash flow
£m



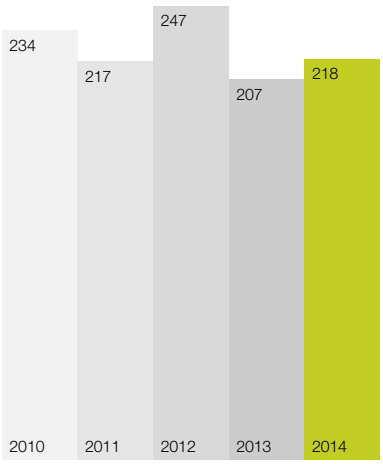
Banknote print volume
Billion notes



Banknote paper output volume
'000 tonnes



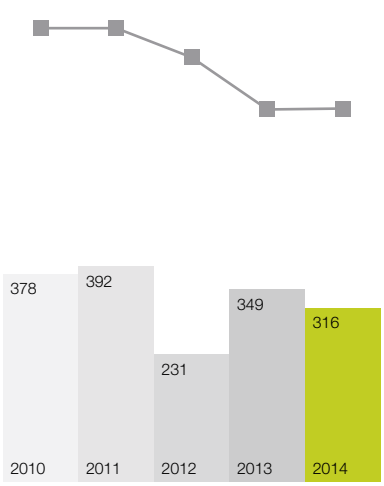
Group year end 12 month order book
£m



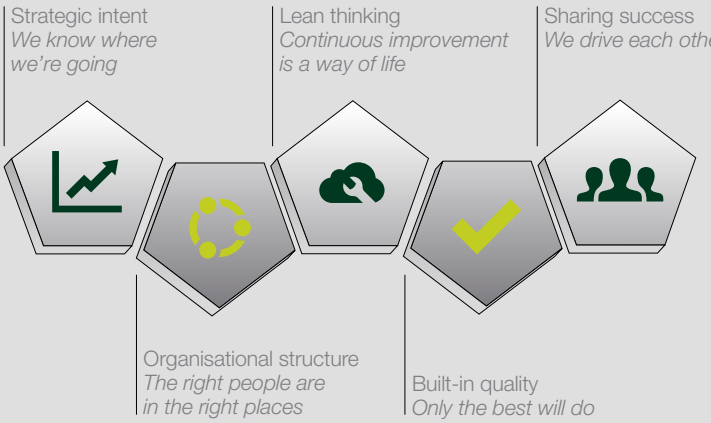
Annualised reportable injury rate
per 100,000 employees

UK manufacturing industry average

(Source: Health and Safety Executive, May 2014)



Innovation at work



De La Rue is pursuing operational excellence with a clear quality roadmap against which to measure progress

Quality from start to finish

De La Rue's holistic approach to quality includes working with our suppliers and right across our integrated supply chain from design to delivery.

By tailoring proven methods drawn widely from other manufacturing industries we are delivering improvements in our key quality measures.

We are building close partnerships with our suppliers to drive quality improvements from source and co-developing products to speed up innovation.

Our dedicated quality planning process ensures consistent quality is achieved throughout production, addressing every key point of a customer specification. To ensure we continue on this journey we are setting ourselves challenging targets to reach in the coming years.

Performance and financial review

Colin Child
Chief Operating Officer and
Group Finance Director

Introduction
In 2013/14 De La Rue grew underlying operating profit by 43 per cent and revenue by 6 per cent. These results demonstrate the significant progress the Group has made by implementing its three year Improvement Plan which has seen profit grow from £40m in 2010/11 to £90m in 2013/14.

The Group's 12 month order book at 29 March 2014 was £218m, 5 per cent higher than the prior year end. The Currency business' order position was up 8 per cent reflecting some significant contract wins albeit at reduced contribution levels. These reduced contribution levels reflect the continuing overcapacity in the banknote paper market which has led to a more difficult pricing environment in the printed banknote market.

Amendments to the IAS 19 accounting standard are 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 as well as the recognition of the pension scheme administration costs in operating profit. The impact of IAS 19 in the current period has been to reduce underlying operating profit from £90.5m to £89.3m, comparatives have been restated as required by the standard.

Financial results
Underlying operating profit (after IAS 19 adjustments) was up significantly at £89.3m (2012/13: £61.5m) reflecting the benefits of the Improvement Plan, increased paper and component volumes and a strong performance in Identity Systems offsetting a less favourable product mix in Currency and reduced volumes in Cash Processing Solutions. The Improvement Plan realised savings of £20m in the period, bringing the annual savings under the Plan to £40m. The Group underlying operating profit margin improved to 17.4 per cent (2012/13: 12.7 per cent). Foreign exchange movements adversely impacted revenue by £3m but improved operating profit by £2m (2012/13: adverse £3m and £2m respectively).

Underlying profit before tax increased by 51 per cent to £77.3m (2012/13: £51.3m) despite higher net finance costs of £4.7m (2012/13: £3.6m) and IAS 19 finance charges of £7.3m (2012/13: £6.6m). Underlying earnings per share increased by 58 per cent to 60.7p (2012/13: 38.5p). Exceptional charges in the year totalled £17.5m (2012/13: £7.6m) predominantly due to asset impairments in relation to the CPS business and the cost of implementing the Improvement Plan. Basic earnings per share were 47.3p (2012/13: 37.4p).

The Group has generated a good underlying operating cash flow of £99.1m (2012/13: £73.0m). Net debt at 29 March 2014 remained modest at £89.9m, up £13.2m from the prior year end.

Delivering the Improvement Plan
2013/14 was the final year of the three year Improvement Plan which provided a strong emphasis and focus on the key areas of customers, revenue growth and cost reduction and included a programme of investment to improve manufacturing capability, quality and efficiency. Although the benefits of the Improvement Plan have been achieved, its culture of continuous improvement has been embedded within the Group and will lead to further efficiency gains in the future.

Initiatives under the Improvement Plan have delivered the following:

- Country plans; firmly established throughout the business and are integral to the sales planning process
- Innovation; new industry leading technology centre fully operational with a good new product pipeline
- Process improvement; £19m of cost and efficiency savings delivered over the Plan
- Procurement; £14m of savings delivered over the Plan
- Facility optimisation; two facilities consolidated into existing footprint generating savings of £7m
- Standardisation; sales and operational planning process deployed

Although good progress continues to be made on revenue growth initiatives, we have yet to see their full benefit due to the more challenging market conditions.

Performance and financial review continued

Currency

Currency performance 2013/14

Banknote print volume at 6.2bn notes was similar to the prior year (2012/13: 6.3bn). Paper output volume was up 10 per cent at 9,600 tonnes (2012/13: 8,700 tonnes) despite the continuing overcapacity in the banknote paper market.

Revenue grew by 15 per cent to £342.7m (2012/13: £298.1m) largely due to increased direct banknote paper and component sales. In addition the average price of banknotes sold was higher than in the corresponding period albeit below the historic average for this mix of work.

Underlying operating profit improved by 63 per cent to £62.0m (2012/13: £38.0m) principally reflecting the benefits from the ongoing cost reduction programme together with the positive impact of the higher revenues.

At the year end, the Currency 12 month order book, excluding currently suspended orders, was up 8 per cent at £170m (2012/13: £158m). The level of early orders for 2015/16 is encouraging.

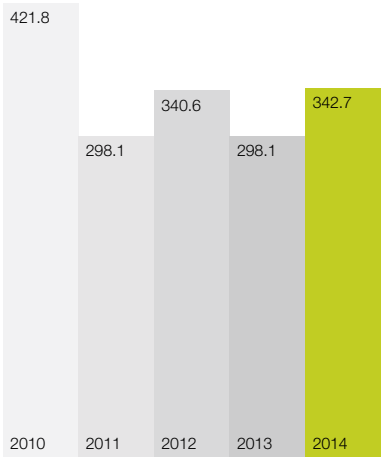
Solutions

Solutions performance 2013/14

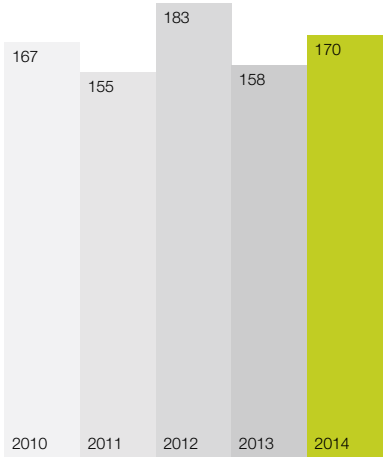
Revenue declined by 5 per cent to £181.2m (2012/13: £190.7m) largely as 2012/13 included one off revenue items in Identity Systems. Underlying operating profit improved by 13 per cent to £28.5m (2012/13: £25.2m) reflecting a strong performance in Identity Systems offset by a disappointing performance within Cash Processing Solutions.

At the year end, the Solutions 12 month order book was £48m (2012/13: £49m). These figures exclude order volumes which have yet to be confirmed on committed contracts.

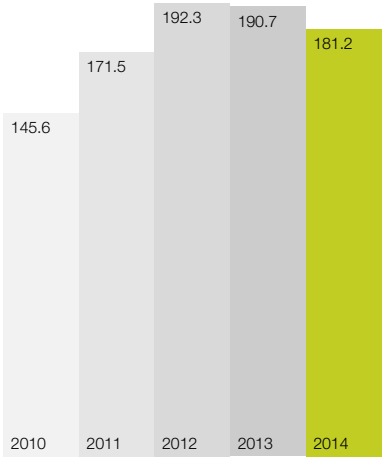
Currency: Revenue
£m



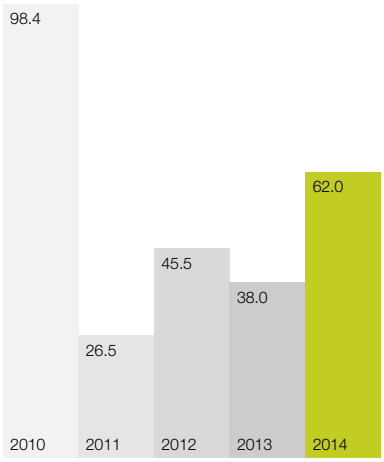
Currency year end 12 month order book
£m



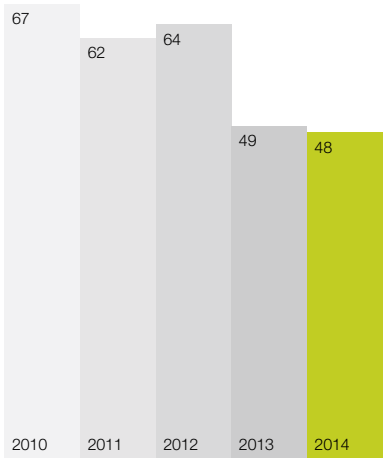
Solutions: Revenue
£m



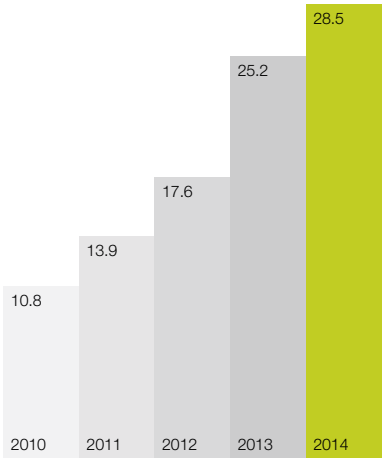
Currency: Underlying operating profit
£m



Solutions year end 12 month order book
£m



Solutions: Underlying operating profit
£m



Cash Processing Solutions performance 2013/14

The CPS business performance was disappointing with revenues 6 per cent lower mainly reflecting reduced large sorter sales and a reduction in service revenue. The lower revenue and increased machine trial costs on prospective orders resulted in an underlying operating loss of £4.1m (2012/13: £nil). The business has a target of achieving breakeven in 2014/15.

The carrying value of the CPS intangible and tangible assets has been reviewed in the light of the poor trading performance of this business. This has resulted in a non-cash exceptional asset impairment charge of £14.2m (see note 9).

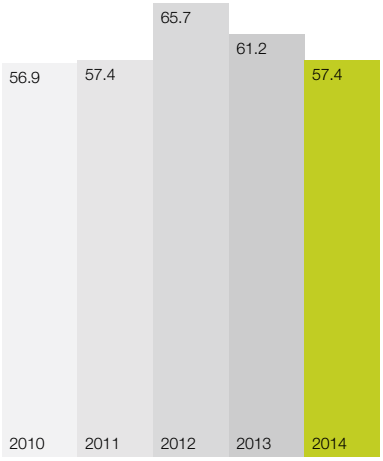
Security Products performance 2013/14

Revenue grew by 2 per cent to £46.2m (2012/13: £45.1m) mainly due to increased passport and other security paper volumes. Underlying operating profit increased to £10.6m (2012/13: £8.9m) mainly reflecting the benefits of the Improvement Plan and the full year effect of reduced costs following the relocation of manufacturing from Dunstable to the Gateshead factory.

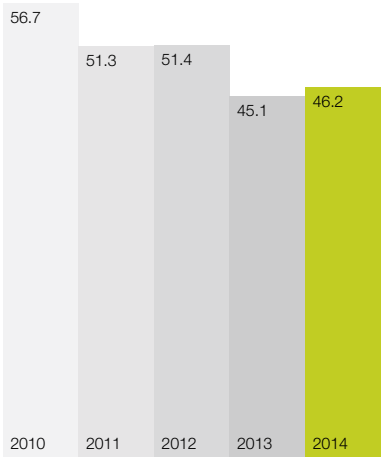
Identity Systems performance 2013/14

The Identity Systems business performed strongly throughout the year. Although revenue declined by 8 per cent to £77.6m (2012/13: £84.4m), largely as the corresponding period included one off sales in relation to the HM Passport Office regional office roll out project, underlying operating profit increased to £22.0m (2012/13: £16.3m). The increase in underlying operating profit reflects a strong performance across all operations largely generated by further operating efficiencies and within the International part of the business, an unusually high number of longer term contracts completed in the year.

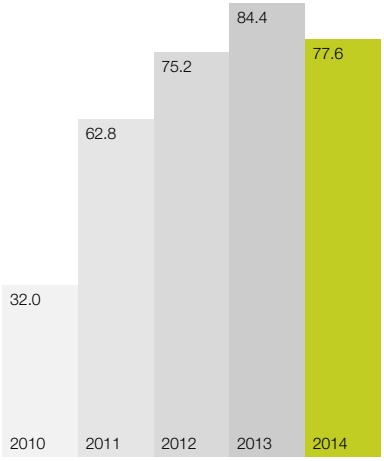
Cash Processing Solutions: Revenue
£m



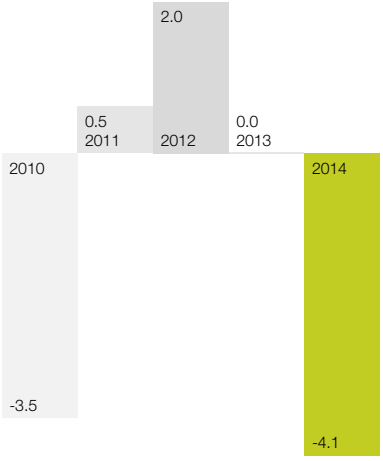
Security Products: Revenue
£m



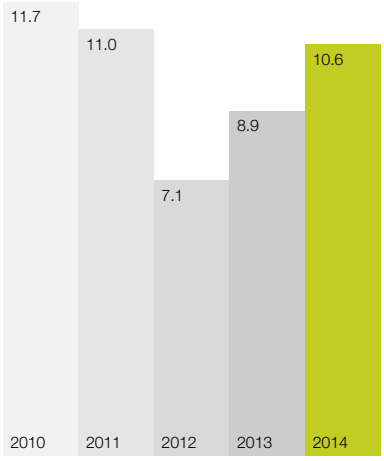
Identity Systems: Revenue
£m



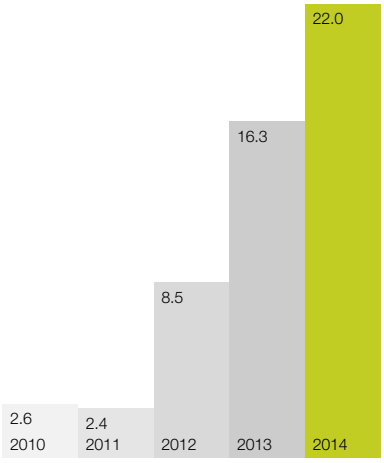
Cash Processing Solutions: Underlying operating profit
£m



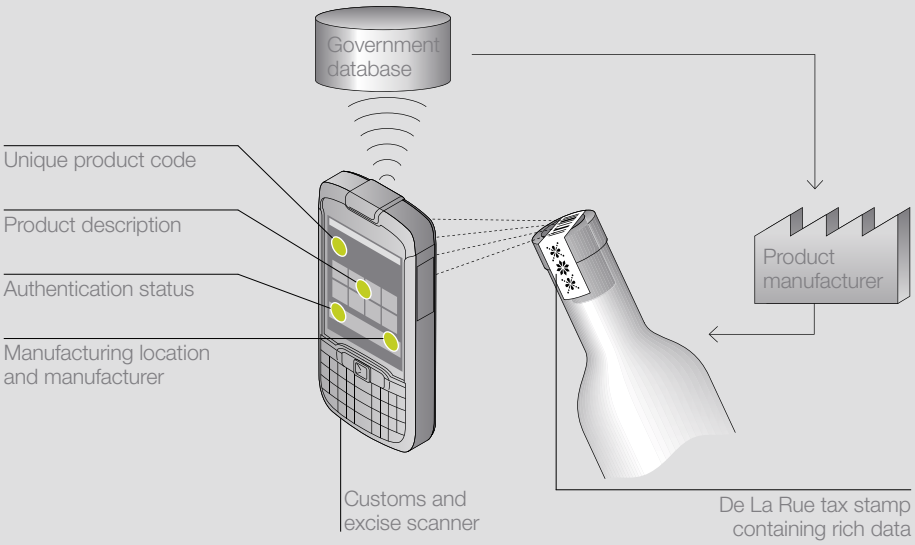
Security Products: Underlying operating profit
£m



Identity Systems: Underlying operating profit
£m



Innovation at work



Implementation of security stamp schemes

De La Rue has been working closely with manufacturers to facilitate the application of tax stamps in their factories by engaging with them at the development and testing stages of the stamps. As a result governments have seen faster acceptance and implementation of tax stamp schemes, which leads to higher revenues and a reduction in illicit trade in a shorter period of time.

Performance and financial review continued

Key financial summary

	2014	2013	Change
Revenue	**£513.3m**	£483.7m	6%
Underlying operating profit[1]	**£89.3m**	£61.5m	45%
Reported operating profit	**£71.8m**	£53.9m	33%
Underlying profit before tax[1]	**£77.3m**	£51.3m	51%
Reported profit before tax	**£59.8m**	£43.7m	37%
Underlying earnings per share[2]	**60.7p**	38.5p	58%
Basic earnings per share	**47.3p**	37.4p	26%
Underlying operating cash flow[3]	**£99.1m**	£73.0m	
Cash conversion[4]	**111%**	119%	
Net debt	**£89.9m**	£76.7m	
Dividends per share[5]	**42.3p**	42.3p	

[1] Before an exceptional operating charge of £17.5m (2012/13: £7.6m)

[2] Before exceptional charges per note 1 and exceptional tax credit of £4.2m (2012/13: £6.5m)

[3] Underlying operating profit adjusted for depreciation and the movement in working capital

[4] Underlying operating cash flow divided by underlying operating profit

[5] Includes proposed final dividend

Exceptional items

During the period exceptional costs of £17.5m have been charged (2012/13: £7.6m).

The costs of implementing the Improvement Plan in the current financial year were £3.5m (2012/13: £7.6m). This brings the cumulative exceptional charges taken in respect of the Improvement Plan to a total of £35.2m and a cumulative cash cost to date of £29.0m.

In addition, £1.1m of charges were incurred in connection with the preparation of bids for the supply of products or services under multi year arrangements, £2.2m of charges with regard to the resolution of an overseas historic indirect tax liability, £1.0m of legal and professional fees incurred in relation to an aborted acquisition and £14.2m in respect of asset impairments in relation to the CPS business (see note 9 for details). These costs were partly offset by a gain on the sale of fixed assets of £4.5m. The 2013/14 net cash cost of exceptional items was £4.0m.

Dividend

The Board is recommending a final dividend of 28.2p per share (2012/13: 28.2p per share). Together with the interim dividend paid in January 2014, this will give a total dividend for the year of 42.3p per share (2012/13: 42.3p per share). Subject to approval by shareholders, the final dividend will be paid on 1 August 2014 to shareholders on the register on 4 July 2014.

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 1.45 times which, although below the policy level, reflects the Board's confidence in the underlying strengths of the business.

Cash flow and borrowings

Underlying operating cash flow, comprising underlying operating profit adjusted for depreciation and the movement in working capital, was £99.1m (2012/13: £73.0m). This represents a cash conversion ratio (underlying operating cash flow divided by underlying operating profit) of 111 per cent (2012/13: 119 per cent).

Cash expenditure on items such as capital investment, special pension contributions, dividends and tax totalled £112.3m. After allowing for the underlying operating cash flow income of £99.1m this resulted in an increase in net debt to £89.9m (2012/13: £76.7m).

The Group utilises a £200m revolving credit facility which expires in December 2016. The key financial covenants on this facility, which the Group has operated well within throughout the period, 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 of 18.0 times.

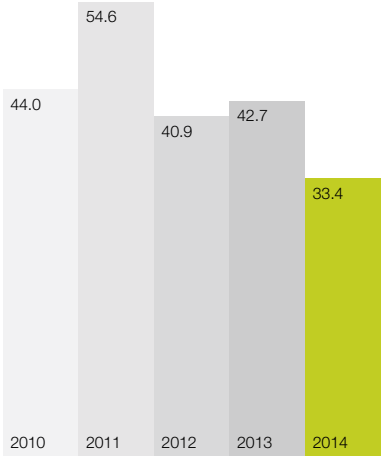
Net debt/EBITDA of 0.83 times.

Capital structure

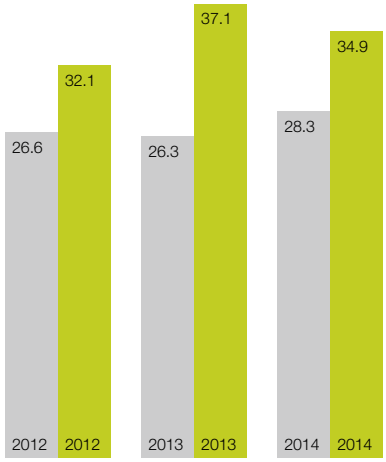
At 29 March 2014 the Group had net liabilities of £70.4m (30 March 2013: £66.6m), predominantly reflecting the recognition of the long term retirement benefit obligations and dividends paid.

The Company had shareholders' funds of £235.5m (2012/13: £273.0m) and had 100.7m fully paid ordinary shares in issue (2012/13: 99.7m) at the year end.

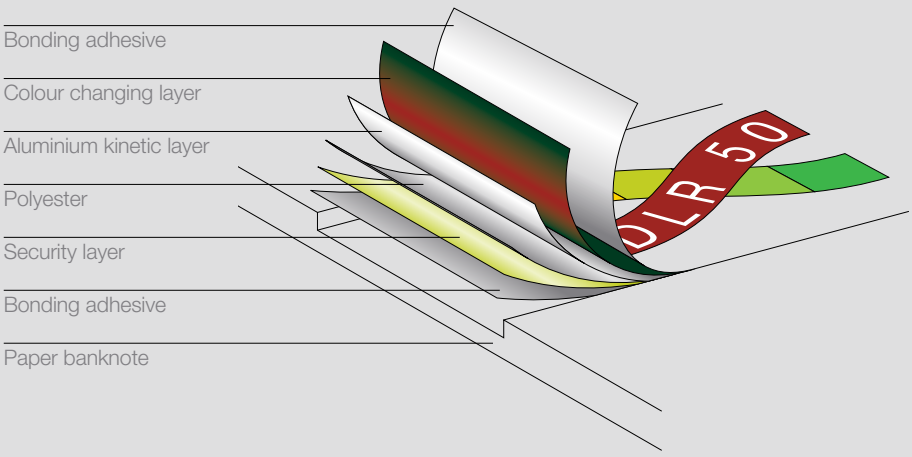
Group working capital – advance payments
£m



Capital expenditure relative to depreciation
£m



Innovation at work



Kinetic StarChrome is a metallised polyester thread combining kinetic movement with colour changing effect

Next generation security thread

Following on from the development (by De La Rue) of the first embedded metallic thread in the 1940s, Kinetic StarChrome® is De La Rue's latest premium security thread. It was developed to encourage and instigate public authentication as well as secure the banknote against the counterfeiter. This is achieved through the integration of dynamic kinetic movement and high impact colour change.

The thread unites two secure technologies with intuitive effects to create an engaging, robust and durable public security feature. It is built upon De La Rue's StarChrome, a secure, proven and effective technology. This is combined with the kinetic movement to deliver instinctive public recognition.

Performance and financial review continued

Interest charge
The Group's net interest charge increased to £4.7m (2012/13: £3.6m) predominantly reflecting the higher average level of net debt during the period. The IAS 19 related finance cost, which represents the difference between the interest on pension liabilities and assets, was £7.3m (2012/13: £6.6m).

Taxation
The net tax charge for the year was £11.9m (2012/13: £5.5m). The effective tax rate, before exceptional items, was 20.8 per cent (2012/13: 23.4 per cent), reflecting the reduction in the UK statutory tax rates and the benefit of the introduction of the UK patent box regime.

Tax credits relating to exceptional items arising in the period were £0.9m (2012/13: £2.1m). In addition there was an exceptional credit of £3.3m (2012/13: £4.4m) in respect of the determination of the tax treatment of prior year exceptional items, of which £1.7m credit related to discontinued operations.

Principal exchange rates used in translating the Group's results

	2013/14 Average	2014 Year end
US dollar	**1.59**	**1.66**
Euro	**1.19**	**1.21**

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

Pension deficit and funding
During 2013/14, special funding payments of £11.5m 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 that the scheme had a deficit of £180m. The special funding arrangements 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 29 March 2014 of £165.6m broadly unchanged from the prior year (30 March 2013: £166.7m). The charge to operating profit in respect of the UK defined benefit pension scheme for 2013/14 was £1.2m (2012/13: £1.7m). In addition, under IAS 19 there was a finance charge of £7.3m arising from the difference between the expected return on assets and the interest on liabilities (2012/13: £6.6m).

Amendments to the IAS 19 accounting standard are 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 have been restated.

The impact of the change has been to increase operating costs by £1.2m (2012/13: £1.7m), increase the net interest expense by £6.7m (2012/13: £6.1m) and reduce taxation by £1.8m (2012/13: £1.9m), with compensating adjustments in other comprehensive income leaving equity unchanged. This has reduced profit after tax by £6.1m (2012/13: £5.9m), and reduced underlying and basic EPS by 6.1p (2012/13: 5.9p).

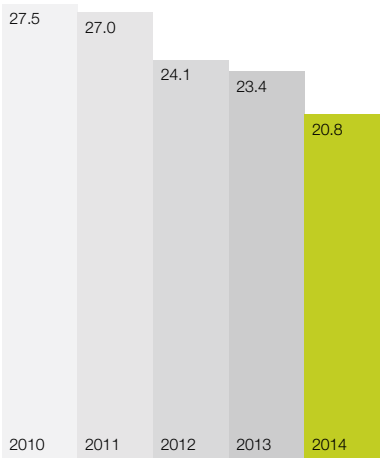
The IAS 19 calculation is sensitive to small changes in the base assumptions used in the valuation. See note 22 for details of the impact on the scheme valuation.

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

	2014 Group assets/ (liabilities) £m	2014 Group cash/ (debt) £m	2014 Net assets/ (liabilities)* £m	2013 Net assets/ (liabilities)* £m
Sterling	**(62.0)**	**(71.3)**	**(133.3)**	(151.9)
US dollar	**28.5**	**(25.0)**	**3.5**	3.9
Euro	**40.8**	**(0.5)**	**40.3**	63.6
All other	**7.1**	**6.9**	**14.0**	13.1
	14.4	**(89.9)**	**(75.5)**	(71.3)

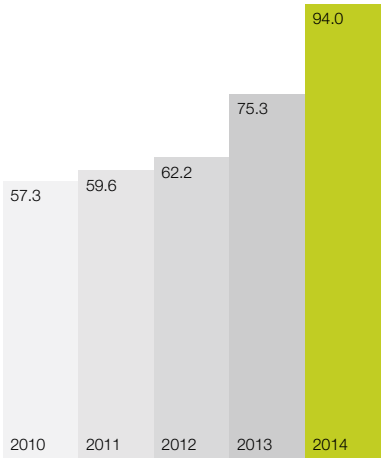
*Excluding non-controlling interest

Underlying effective tax rate before exceptional items
Percentage



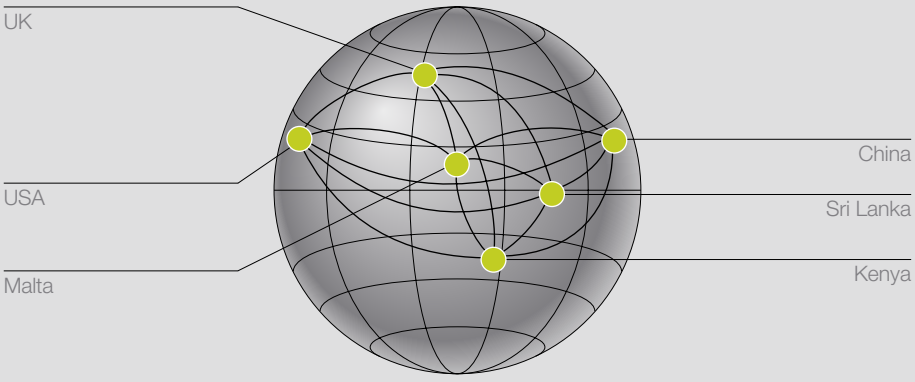
Group working capital – trade working capital
£m

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



Geographic revenue by destination
- UK 23%
- Rest of Europe 15%
- Americas 7%
- Rest of world 55%

Innovation at work



The entire network of De La Rue sites is working together to ensure that we have effective business continuity capability for our customers

Ensuring business continuity

The business continuity management system operated at the Group head office in Basingstoke, UK and at the banknote manufacturing site in Debden, UK has been certified to ISO 22301.

The management system defined by the ISO standard gives De La Rue a robust preparedness by ensuring we have identified contingency for our critical activities. This protects against and reduces the impact of a disruptive event, while ensuring our business continues with minimal impact to our customers.

The award of this certification is a significant achievement for De La Rue, understood to be the first company in the banknote industry to achieve this standard.

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.

Committed to effective risk management

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

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 Audit Committee report and corporate governance report on pages 37 to 40.

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.

Management is responsible for implementing the controls which are designed to address 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

Our system of internal control is built on the pillars of effective governance, risk management, internal control and assurance. These are more fully described below:

Governance

- An organisation and management structure which operates across the business to enable the delivery of products and services to our customers and operational control of business activities
- The Board and its various committees define financial authorities and operational responsibilities which are designed to enable effective decision making and organisational control
- Annual strategic planning and budgeting processes
- Group central functions: finance, human resources, company secretariat and legal, health, safety and environment, security and global information services, which have responsibility to manage and improve standards in their respective areas of responsibility across all our operations
- Annual objective setting and performance reviews
- A Group policy framework which contains the core polices with which employees are required to comply, for example the Code of Business Principles, Group finance manual and other key finance, operational, people, legal and information services policies
- Defined delegation of authorities that cascades throughout the Group
- A system of monthly financial and operational reporting by each operating unit which involves comparison of actual results with the original budget and the updating of a full year forecast

Risk management

- 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 Code
- A Group risk register which identifies the risks faced by the business, their potential impact and likelihood of occurrence and the key controls and management processes established to mitigate these risks. Each of the Group's business units and central functions also maintains a risk register
- The Risk Committee 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 at Group and business unit level

Internal control

- A control environment which defines the detailed financial, operational, compliance, security, people and information security controls to be applied by all business operations
- Each site operates a control environment to satisfy legal, regulatory, Group and customer requirements
- Operational processes that govern the way in which we operate such as the quality management process, the technology management process, health and safety standards and security requirements

Assurance

- Annual control self assurance declarations, which require attestation that controls are being operated as required, are completed by all De La Rue operations
- Other internal assurance providers – health, safety and environment, quality, security and business continuity – conduct reviews across De La Rue operations to evaluate compliance with required standards
- External audit conducts statutory audits across our operations as required
- Audits by external authorities and customers are conducted for purposes such as achieving or maintaining ISO accreditations and to ensure compliance of individual manufacturing sites with customer requirements
- An outsourced internal audit function, which is subject to the controlling direction of the Audit Committee, 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
- The operation of a 24/7 whistleblowing hotline to enable reporting of breaches of ethical or policy requirements
- The Audit Committee assists the Board in discharging its responsibility to review the system of internal control

Risk and risk management continued

Principal risks and uncertainties

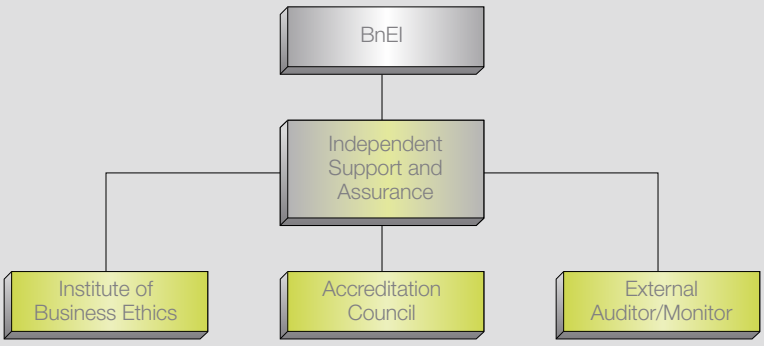
The following pages set out the principal risks affecting the Group and are not listed in any order of materiality. In addition there may be other risks which are currently believed to be immaterial, which could turn out to be material to the Group. These risks, whether they materialise individually 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 Technological revolution or failure to innovate may result in loss of market share and lower margins	The Group regularly reviews its research and development portfolio as part of the strategic planning process and progress against individual research and development projects as part of its technology management process Continued investment in innovation, research and development and design capabilities during 2013/14 included the opening of our technology centre housing a state of the art materials science research centre, and the award of the Queen's Award for Enterprise: Innovation for Optiks™ super wide security thread
Commercial risks		
The timing and frequency of substantial contract awards can be uneven	The timing of contract awards can be uncertain. Delays in awards may result in volatility in the order book and our operating performance and failure to optimise capacity 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 Sales activity, order pipeline and forward order book are monitored to ensure that 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	Relationships with current and previous customers, together with detailed country plans, ensure 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 that includes financial, technical, production, commercial and contractual reviews Our track record of delivering product innovation and our continuing commitment to quality and customer service, when combined with a commercial approach to tendering, places us in a good position to win or renew strategic or significant contract opportunities. The business maintains focus on retaining key contracts as and when they fall due for renewal
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	An established quality management system operates across all of our production sites which are all certified to ISO9001 quality management standards As part of the Improvement Plan, an operational excellence programme was introduced to further drive continuous improvement across our manufacturing sites
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, established procedures for identifying possible risks for each supplier are in place. 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 cont.		
Product security	There is 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. The Group may be contractually liable for those losses	Robust physical security and materials control 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. A comprehensive global insurance programme is maintained
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 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. The Board also receives monthly reports. 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 2013, De La Rue was accredited to ISO22301 Business Continuity standard for its head office and Debden banknote production operations (see case study on page 20) In recognition of increasing customer requirements on business continuity standards, we continue to enhance business continuity resilience across all of our major facilities in line with the ISO standard
Legal / 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 legal or regulatory requirements in relation to bribery and corruption and competition, resulting in major reputational and financial damage to the business	In February 2014, De La Rue was formally accredited as a Banknote Ethics Initiative member following a detailed audit of our ethics and compliance processes completed by independent auditors The ethical standards of the business are 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 Particular focus is given to the operation and development of our anti-bribery and corruption and competition law control frameworks, supported by delivery of relevant training Overseen by the General Counsel and Company Secretary, the Group has a process for the appointment, management and remuneration of third party partners which operates independently of the sales function. The Group's whistleblowing policy and procedure forms an integral part of the compliance framework
Information risks		
Cyber risk	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	All aspects of information security arrangements are regularly reviewed. 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 The Group maintains accreditation to ISO22701 Information Security standard in respect of its corporate information systems provision
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

Innovation at work



BnEI governance structure

Raising ethical standards industry wide

De La Rue was one of six leading companies across the banknote industry who established the Banknote Ethics Initiative (BnEI) in 2013. The aim of the initiative is to promote ethical business practice, with a focus on the prevention of corruption and on compliance with anti-trust law within the industry.

At the first meeting of the BnEI Accreditation Council, chaired by Philippa Foster Back CBE, Director of the Institute of Business Ethics, De La Rue was accredited as a BnEI member, along with two other companies, following an in depth independent audit.

"I have no doubt that the initiative will become acknowledged as setting the ethical standards to which all suppliers in the banknote industry will be expected to perform." Antti Heinonen, BnEI Chairman and former Director, Banknotes, European Central Bank.

We are committed to:

Embedding the highest ethical standards throughout our business

Keeping employees safe and secure when they are at work

Building positive relationships within the communities where we operate

Minimising the impact of our operations on the environment

Engaging with our employees

Our approach to corporate responsibility
A commitment to doing business responsibly is not only about doing the right thing. Building relationships with customers, suppliers, communities, investors and employees based on ethical values and behaviours and responsible business practice helps us earn trust and attract and retain talent. Positive actions with respect to corporate responsibility not only create wider benefits for society but also contribute to our commercial success.

Accountability
Responsibility for assessing the impact of corporate responsibility issues on the Group and setting appropriate policies lies with the Board. The Chief Executive is the Board member with designated responsibility, supported by the Executive Committee, the Risk Committee, and the Health, Safety and Environment Committee, whose responsibilities include making recommendations on health, safety and environmental strategy and identifying areas for improvement.

Ethics
All employees and business partners are required to follow our Code of Business Principles when they are representing De La Rue. Training on the Code is an integral part of our employee induction process and third party partners all receive training on the Code and the standards of ethical behaviour expected by De La Rue.

Since the Code of Business Principles was launched in 2011, a steering group of senior employees meets regularly to look at ways to ensure that the principles are embedded in everything we do.

During the year a team of site based Ethics Champions was appointed to help us understand and respond to the needs of each site in a focused and effective way and ensure that each site has local support and representation for Code of Business Principles related matters. In May 2014 Ethics Champions attended a training conference in the UK to ensure they are fully equipped for the role.

Our whistleblowing policy and procedures are reviewed annually by the Audit Committee. They enable employees who have concerns about the application of the Code of Business Principles or business practices within the Group to raise them either internally or anonymously through the De La Rue CodeLine, a telephone and email helpline operated by an independent third party. The Board and Audit Committee receive details about any issue raised and how it has been followed up.

The Ethics Committee, made up entirely of Non-executive Directors, is responsible for monitoring and advising the Board on ethical matters. For further information see pages 36 to 37.

Corporate responsibility continued

Third party partners
All applications for the appointment or renewal of third party partners are managed by a central team which reports directly to the General Counsel and Company Secretary. The process is subject to audit and external verification. All third party partners are subject to appropriate due diligence and receive training covering anti-bribery and corruption, competition law and third party partner policy.

Human rights
De La Rue fully supports the principles set out in the UN Universal Declaration of Human Rights, in particular with regard to equal opportunity and freedom from discrimination, fair working conditions, freedom of association and collective bargaining and the prohibition of forced and child labour. Our Code of Business Principles covers human rights issues including whistleblowing, employment principles, health and safety, and protecting personal information. These principles are underpinned by specific global Group policies and other relevant local workplace policies which the business is required to follow.

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 of our facilities help us to achieve this.

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

During the year no De La Rue operation was prosecuted for infringing any health and safety laws or regulations. However, we had one improvement notice issued by the Health and Safety Executive to the Gateshead site in respect of legionella management controls relating to a small cooling tower and all recommended actions were quickly closed.

The Executive Committee and the Board receive confirmation that all sites comply with Group health, safety and environmental policies and any applicable legislation through external and internal audits on their management systems. Sites are measured against any corrective actions identified and 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. Our focus on machinery safety continues, with many improvements completed this year.

We have continued to invest in and improve our fire risk management with several sites upgrading sprinkler systems or equipment with specific fire suppression systems.

We have managed to reduce both our number of lost time accidents and the total days lost due to accidental injuries by 30 per cent and injuries by 18 per cent. With 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. This year we have achieved our targeted reportable injury rate (see graph on page 11) and we will continue to set robust health and safety objectives and targets. We continue to run the annual health, safety and environment corporate standards audit programme identifying opportunities to improve and track the agreed actions.

Our health and safety objectives for 2014/15 are:

- To align our HSE internal audit programme with the operational excellence programme
- To achieve a reportable injury rate per 100,000 employees of 310 or lower
- To ensure that all older machinery is assessed with regard to the latest EU machinery safety standards
- To maintain our OHSAS18001 certification at all supply chain manufacturing sites

People

Communication

Following feedback from employees we have continued to improve communication at our supply chain sites. In addition to daily site walkabouts by heads of operations and site management, weekly and monthly scheduled team briefings take place to keep employees fully informed of business developments. Monthly briefings by the managing director, supply chain, are now open to front line managers as well as middle managers and heads of operations. Human resources representatives also ensure that they are accessible to employees by regularly touring our factory floors.

As well as regular newsletters, 'all hands' calls for the Currency and Solutions businesses are held, supplemented by more informal lunch meetings. These forums give employees the opportunity to ask questions directly to the management teams. The exchange of information between business areas and functions is encouraged either via invitation to speak at briefings or articles in newsletters.

During the year members of the Executive Committee visited our main sites around the world to explain Group strategy. A toolkit of materials to support the 'Living Our Values' campaign is now being rolled out across sites to help embed them into our culture.

Regular conference calls, open to all employees, were hosted by the Chief Executive and questions invited. For those unable to attend the calls, an audio recording is made available. Videos of strategy updates are also made available to all sites.

A user group has been established to review how our company intranet is used by employees and how it should be developed to better meet the needs of the business.

De La Rue engages regularly with the unions representing our employees and with the UK and European Works Councils. In addition to an annual joint UK and European Works Council meeting at which senior management present business updates, steering group meetings for both forums are held throughout the year.

Equality and diversity

Our policy is to treat all employees fairly and equally in recruitment, training, development, promotion and in terms and conditions of employment irrespective of their sex, transgender status, sexual orientation, religion or belief, marital status, civil partnership status, age, colour, nationality, national origin, ethnic origin, disability or trade union membership or affiliation. If an employee becomes disabled when in the Group's employment, full support is given through the provision of special training, equipment or other resources to facilitate continued employment wherever possible.

Every manager and employee has a responsibility to ensure that our equal opportunities policy is implemented.

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

Gender diversity

Employees by gender (as at 29 March 2014)		
Male	2,909	(73%)
Female	1,066	(27%)
Total	**3,975**	

Senior managers by gender (as at 29 March 2014)		
Male	50	(85%)
Female	9	(15%)
Total	**59**	

Directors by gender (as at 29 March 2014)		
Male	4	(67%)
Female	2	(33%)
Total	**6**	

For further information about Board diversity, see page 37.

Training and development

During the year our human resources strategy was approved by the Board. Our vision is 'a highly engaged, high performing workforce, aligned and focused on the key goals, with the capability to deliver sustainable growth'. To deliver this vision, supported by newly articulated values, the foundations of our strategy are based on key improvements in five areas:

- Leadership
- Talent management
- Engagement
- Capability
- Performance

Initiatives launched so far include a leadership capability programme, which replaces the personal development review process for the senior leadership team. The programme defines a set of seven competencies against which the senior leadership team has been assessed, and the Executive Committee conduct quarterly reviews of the assessments. Training modules have been developed to support these key competencies.

Personal development reviews have been updated and aligned so performance measures are entirely consistent across the Group. The talent management process has also been reviewed and updated to ensure that 'performance' and 'potential' criteria are better reflected and thus future capability and talent are better identified and assessed.

Two dedicated trainers have been rolling out an operational excellence training programme to leaders across our supply chain sites, from first level supervisory right up to the senior leadership team. Training comprises three modules: Leadership, High Performing Teams and 'Align'. To date training has been delivered to c150 employees.

An 'Inspirational Managers' training initiative was launched in April 2014, which fully aligns with the operational excellence training and the leadership capability programmes.

Environment

The Group continues to measure greenhouse gas (GHG) emissions arising from all of the activities for which it is responsible worldwide. In response to new mandatory reporting requirements the Group has undertaken a thorough review of its data collection and reporting programme with support from independent specialist consultants Carbon Clear.

Using an operational control approach the Group has collected activity data and reported on all material GHG emissions including scopes 1 and 2 and an expanded range of scope 3. The validity and completeness of the data were checked both internally and by Carbon Clear, with the internally assured data being used to calculate the GHG emissions for the Group. KPMG LLP also reviewed the process used for collecting and analysing the data.

The calculations performed follow the ISO-14064-1:2006 standard and the results presented in the table on page 28 give absolute and intensity factors for Group emissions. The Group uses renewable energy and exports electricity to the grid at some sites. These practices have been quantified and accounted for against the Group's gross GHG emissions to show a net reduction.

Improvements to data collection techniques and calculation methods mean comparison with prior performance in most areas is not relevant. The emissions intensity, which is reported relative to Group revenues is 210 net tCO_2e per £m turnover which will be a new benchmark for the future.

Water used per gross tonne of banknote paper produced is dependent on product mix and volume and also reflects complexity of specifications and security features. Water usage in absolute terms increased by 17 per cent compared with the prior year reflecting increased production volumes, smaller production runs, more machine cleans/changeovers and tighter paper specifications resulting in less water recycling. The water used per gross tonne of banknote paper produced was up 5.5 per cent. Overton mill is one of De La Rue's major installations. Its sole water resource is groundwater, which is abstracted and in turn cleaned and discharged into the river Test, within 500 metres of the point of abstraction. The river is classified as a Site of Special Scientific Interest protected by UK conservation regulations. We share the keen interest shown by varied stakeholders in ensuring that the water quality and quantity is optimised for good ecology, and so follow best practice regarding our use, treatment and release of freshwater. Our water treatment facilities meet and exceed expected quality standards as stipulated within the installation's environmental permit.

Overton mill cleans and returns to the river at least 95 per cent of water abstracted, which provides an important and valuable contribution to the ecology of the region.

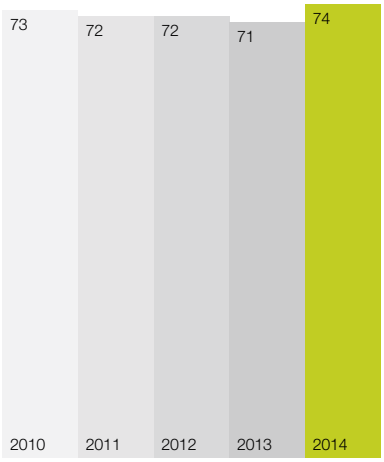
Examples of environmental achievements over the past year include:

- Maintained ISO14001 certification that is independently externally audited for all supply chain manufacturing sites with only a few minor non-conformances which were promptly rectified
- Reduction in our solid waste going to landfill sites by 24 per cent over the three year period against our target of >10 per cent
- A reduced carbon footprint and improved utilisation of fixed energy loads following the closure of two UK sites and the absorption of many of the activities into other UK sites resulted in a saving of over 3,000 tCO_2e in scope 1 and 2 emissions
- Reduction in our scope 1 and 2 carbon emissions (tCO_2e) from our direct consumption of energy by over 12 per cent over three years beating our plan of 10 per cent (approximate reductions of 3 per cent each year for three years)

Environmental objectives for 2014/15 are to:

- Maintain ISO14001 certification for all supply chain manufacturing sites and work towards certification for two other areas of the business
- Reduce solid waste sent to landfill by 3 per cent each year during the three year period ending in 2016/17
- Reduce our direct energy consumption in tCO_2e relative to Group revenue by 3 per cent each year during the three year period ending in 2016/17

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



Corporate responsibility continued

Greenhouse gas emissions 2013/14[1]

Type of emissions	Activity	tCO_2e	% of total
Direct (scope 1)	Natural gas	37,505	35
	Other fuels	1,048	1
	Process emissions	34	0
	Fugitive emissions	234	0
	Owned vehicles	75	0
	Subtotal	**38,896**	**36**
Indirect (scope 2)	Electricity	40,177	37
	Subtotal	**40,177**	**37**
Indirect other (scope 3)	Rail travel	2	0
	Air travel	8,803	8
	Non-owned vehicles	271	0
	Water	1,956	2
	WTT all scopes[2]	18,403	17
	Subtotal	**29,434**	**27**
Total gross emissions (tCO_2e)			108,507
Renewable electricity (tCO_2e)			(19)
Electricity exported to grid (tCO_2e)			(891)
			107,597

Intensity metric	
Total gross emissions (tCO_2e)	108,507
Total net emissions (tCO_2e)	107,597
Revenue (£m)	513
Tonnes of gross CO_2e per £m	211
Tonnes of net CO_2e per £m	210

Notes

[1] Prior year data is not available due to adoption of new reporting standards

[2] Standard 'well to tank' carbon calculation

Community and charitable donations

The '200 For Good' initiative was an integral part of our 200 year celebrations during 2013. Employees at our sites around the world were encouraged to support local causes and they rose to the challenge by organising and taking part in numerous fundraising and sponsored events and donating their time to help local projects. In the UK, activities included hosting student visits at our head office and attending events to promote STEM (science, technology, engineering and maths) subjects amongst local school children. In Malta employees planted 200 trees in a local family park, refurbished a hostel and organised various fundraising events. Employees in Sri Lanka donated blood and donated funds to a children's cancer ward. Our Irving site in the USA collected food for a local charity.

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.

The De La Rue Charitable Trust continues to match funds raised by employees for charitable causes and also distributes funds to appropriate causes worldwide.

Customers

Customer focus is a key part of our strategy.

We have reviewed our approach to customer surveys, looking at ways of reaching more customers and using different methods. We have invested in software to enable the creation of bespoke questionnaires and our aim is to collect meaningful information about the marketplace as well as about De La Rue's products and services.

We attend relevant industry conferences to maximise personal contact with our customers. 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

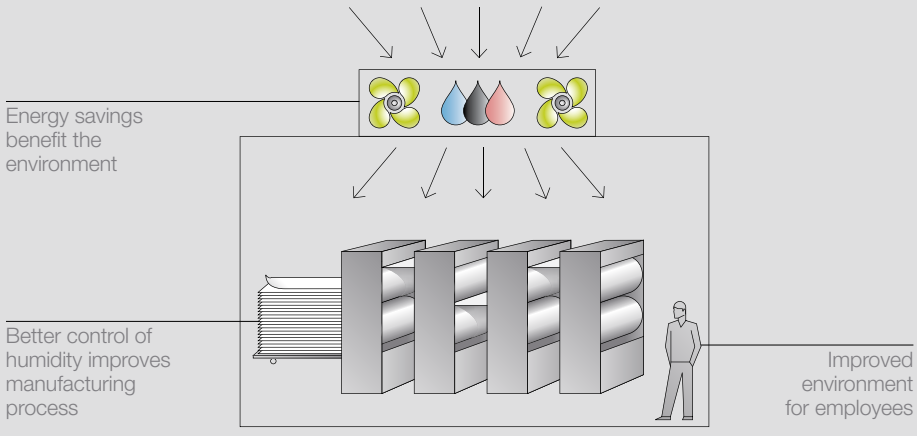
De La Rue applies consistent procurement policies and processes to ensure accountability and sustainable value for money while minimising risk and enabling the Group to fulfil its legal and financial obligations. De La Rue expects its suppliers to share the Group's commitment to best practice standards in health and safety and environmental matters. Suppliers are also required to meet defined quality, product security and business continuity standards.

Suppliers are obliged to abide by the Group's Code of Business Principles and the United Nations Convention on the Rights of the Child and International Labour Organisation Conventions 138 and 182.

As part of our ongoing procurement programme we will continue to monitor our key cotton comber and linter suppliers.

De La Rue subscribes to the policies in the UK Government's Prompt Payment Code. We undertake to pay suppliers on time, give them clear guidance, and encourage good practice amongst our lead suppliers.

Innovation at work



Working smarter to benefit customers, employees and the environment

Our operational excellence programme is a business wide initiative developed for our supply chain function. Through the engagement of our workforce in initiatives that improve manufacturing efficiencies we are able to deliver recognisable benefits to our customers.

As part of our commitment to operational excellence we have invested significantly in many areas of our businesses, including a state of the art HVAC (heating, ventilation and air conditioning) system at Overton mill. This system is expected to lead to annual energy savings of c£350,000 and better control of humidity, improving the manufacturing process. Employees also benefit from an improved environment in which to work.

Directors and Secretary

Philip Rogerson (69)
Chairman [2, 3, 4]

Colin Child (56)
Chief Operating Officer and
Group Finance Director [5]

Warren East CBE (52)
Non-executive [1, 2, 3, 4]

Victoria Jarman (41)
Non-executive [1, 2, 3, 4]

Gill Rider CB (59)
Non-executive [1, 2, 3, 4]

Andrew Stevens (57)
Non-executive [1, 2, 3, 4]

Edward Peppiatt (47)
General Counsel and Company Secretary [5]

Philip Rogerson
Philip was appointed to the Board on 1 March 2012, becoming Chairman on 26 July 2012. He assumed executive responsibilities on an interim basis following the departure of the Chief Executive on 29 March 2014 until a new Chief Executive is appointed. Philip is Chairman of both the Nomination Committee and the Ethics Committee. He is currently chairman of Bunzl plc. He was chairman of Carillion plc until 7 May 2014 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. He is chairman of the Advisory Board of the North and East London Commissioning Support Unit of the NHS.

Colin Child
Colin was appointed to the Board as Group Finance Director on 1 June 2010. With effect from 29 March 2014 he was appointed as Chief Operating Officer on an interim basis following the departure of the Chief Executive and will retain this position until a new Chief Executive is appointed. 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 was a non-executive director of The Rank Group Plc until 18 March 2014. He is a chartered accountant.

Warren East CBE
Warren was appointed to the Board on 9 January 2007 and on 25 July 2013 was appointed Senior Independent Director. Warren has been Chairman of the Audit Committee since 1 April 2009. Warren was chief executive officer of ARM Holdings plc until 1 July 2013. He is a non-executive director of Rolls-Royce Holdings plc, BT Group plc, Micron Technology Inc and Dyson Limited.

Victoria Jarman
Victoria 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
Gill 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, a non-executive director of Pennon Group plc and a non-executive director and chairman of the remuneration committee of Charles Taylor Consulting plc.

Andrew Stevens
Andrew was appointed to the Board on 2 January 2013. Andrew has extensive international experience in the technology and engineering sectors, having spent over 30 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 and Héroux-Devtek Inc, and non-executive chairman of AIM-Aviation Holdings Limited.

Edward Peppiatt
Edward 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 29 March 2014

Corporate governance report

Philip Rogerson
Chairman

Chairman's introduction to the corporate governance report

Dear Shareholder,

De La Rue's corporate governance framework is designed to facilitate and ensure that high standards of corporate governance are maintained to safeguard shareholders' interests and sustain the success of the Group over the longer term. Under the Board's leadership, De La Rue has put in place comprehensive policies, management structures and processes that are applied rigorously to ensure that the Company complies with the requirements of the 2010 and 2012 UK Corporate Governance Codes (the Code) a copy of which is available at www.frc.org.uk. The Code contains broad principles together with more specific provisions which set out standards of good practice in relation to Board leadership and effectiveness, accountability, remuneration and relations with shareholders. The corporate governance report describes how these principles have been applied by the Group during the year ended 29 March 2014.

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 corporate governance policies are reviewed and amended to reflect changes to legislation and good practice. Revisions were last made in March 2014.

During the year to 29 March 2014, as detailed below and in the risk and risk management report and directors' remuneration report on pages 21 to 23 and 41 to 58 respectively, the Company complied fully with the requirements of the Code save in respect of the separation of the roles of the Chairman and Chief Executive from 29 March 2014 when I assumed executive responsibilities pending the appointment of a new Chief Executive.

Strong corporate governance will continue to be the driving force by which the Group is run. This will enable the Board to achieve its objectives while complying with the required standards of accountability and probity, through a combination of comprehensive internal policies, rigorous processes and controls, strong leadership and measures designed to create a culture in which high standards of ethics and integrity are instinctive.

Philip Rogerson
Chairman
28 May 2014

Governance principle: leadership

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 Directors' biographical details are on pages 30 and 31 and demonstrate the skills and experience of the Board. The Chairman and each of the Non-executive Directors has a breadth of strategic, management and financial experience, giving them the ability to constructively challenge and scrutinise performance.

The core objectives of the Board are:

- Delivering value to shareholders and other stakeholders
- Maintaining the Group's reputation for integrity as the 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

Members of the Board as at 29 March 2014 and their Committee memberships are on pages 30 to 31.

Following the departure of Sir Jeremy Greenstock on 25 July 2013 and Tim Cobbold on 29 March 2014 and as at the date of this report the Board comprises four independent Non-executive Directors, the Executive Chairman and one Executive Director. The Board has concluded that its composition throughout the year was appropriately balanced and will remain so on the appointment of a new Chief Executive.

During the year the Board held nine meetings. Details of attendance at Board and Committee meetings can be found on page 34. During the year there was 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. Until 29 March 2014, the roles of the Chairman and Chief Executive were separated and clearly defined and will continue to be once a new Chief Executive is appointed.

The Chairman is primarily responsible for the working and leadership of the Board and ensuring its effectiveness. The Chairman 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 corporate governance and probity throughout the Group are established and maintained
- Shareholders are kept properly informed on all important matters

In addition to its routine business, matters considered by the Board in 2013/14 included:

- Health and safety
- Presentations on the business units' performance and strategy
- Group strategy
- Full and half year financial statements
- Forecasts and budgets
- Regulatory announcements
- Annual report and accounts
- Dividends
- Monthly Executive Directors' reports
- Security
- Review of governance policies and procedures
- Delegation of authorities
- Succession planning
- Leadership and management capability
- Board effectiveness
- Investor feedback
- Review of conflicts of interests

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 manage the Group's day to day activities
- 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
- Ensure that the Group has in place appropriate risk management and control mechanisms
- Set the operating plans and budgets required to deliver the agreed strategy

The role and responsibilities of 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

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

Tim Cobbold resigned from the Board on 29 March 2014.

Philip Rogerson assumed executive responsibilities on 29 March 2014 on an interim basis until a new Chief Executive is appointed.

Colin Child, Group Finance Director, was appointed Chief Operating Officer on an interim basis on 29 March 2014 until a new Chief Executive is appointed.

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.

To ensure Directors maintain overall control over strategic, financial and compliance issues, the Board has reserved certain matters to itself, generally being those items which affect the shape and risk profile of the Group. These matters are reviewed regularly by the Board. Full details are set out on the Group's website. Key aspects of the Board's role 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 material acquisition or disposal

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

Role of Non-executive Directors

The Non-executive Directors, all of whom are considered by the Board to be independent as at 29 March 2014, have an appropriate range of business, financial and international experience which is relevant to the Company's activities and which allows them to constructively 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 upon 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.

Warren East is the Senior Independent Director. 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 re-appointment, 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

Corporate governance report continued

Board committees

The Board has established a number of Committees, the principal ones being Audit, Remuneration, Nomination, Ethics and Risk. Terms of reference for each Committee are available on the Group's website. 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 on the Directors' biographies on pages 30 and 31. Reports on the activities of each of the principal Committees are on pages 36 to 42. Details of key activities undertaken by the Health, Safety and Environment Committee and Risk Committee are on pages 25 and 37 respectively.

Senior management and advisers are invited to attend Board and Committee meetings where appropriate to contribute to discussions and advise members of the Board or Committee on relevant matters. The involvement of senior management additionally helps strengthen the relationship between the Board and senior management and helps to provide the Board with greater understanding of operations and strategy.

Board protocol

The Board timetable ensures that the Board receives regular reports and presentations from the Executive Directors, operational managing directors and key functional heads.

Directors receive agendas and Board papers generally seven 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.

Governance principle: effectiveness

Board evaluation and effectiveness review

The Code requires that the Board undertakes an annual evaluation of its own performance and that of its Committees and individual Directors and to do so externally at least every three years. The performance evaluation for 2013/14 involved the use of an external independent facilitator, Linstock Limited.

The review process involved completion of online questionnaires which focused on Board composition, expertise and dynamics, Board support and process, structure, behaviours and other key issues such as strategy and succession. The review also addressed delivery of the Board's objectives and any issues identified during the previous review or which became relevant during the year. A report on the performance of the Board and each of the principal Committees was compiled by Linstock 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 2014 and concluded that the performance of the Board, its Committees and individual Directors was effective. Any areas for improvement are agreed by the Board.

Directors' terms of appointment

Executive Directors are employees who have day to day responsibilities as executives of the Group in addition to their duties as Directors. Each Executive Director enters a service contract on appointment (see page 49 for further information).

Non-executive Directors are generally independent of the Company, are not employees and do not participate in the daily business management of the Group. Non-executive Directors receive a letter of appointment setting out the conditions of their appointment. Non-executive Directors are appointed for an initial period of three years, which may be extended with the agreement of the Board (see page 35 for further information).

Service contracts and letters of appointment will be available for inspection at the AGM.

Outside commitments

The Directors' biographies and other appointments appear on pages 30 and 31. 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.

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 2013/14	Board	Audit Committee	Ethics Committee	Nomination Committee	Remuneration Committee
Number of meetings held	9	4	2	2	4
Colin Child	9 (9)	–	–	–	–
Tim Cobbold (resigned 29 March 2014)	8 (8)	–	–	–	–
Warren East	9 (9)	4 (4)	1 (2)	2 (2)	4 (4)
Sir Jeremy Greenstock (resigned 25 July 2013)	2 (3)	2 (2)	–	1 (1)	–
Victoria Jarman	9 (9)	4 (4)	2 (2)	2 (2)	4 (4)
Gill Rider	9 (9)	4 (4)	2 (2)	2 (2)	4 (4)
Philip Rogerson	9 (9)	4 (4)	2 (2)	2 (2)	4 (4)
Andrew Stevens	9 (9)	4 (4)	2 (2)	2 (2)	4 (4)

Note
Figures in brackets denote the maximum number of meetings that could have been attended.

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 one further three year term subject to satisfactory performance and annual re-election by shareholders. Terms beyond this period are considered on a case by case basis.

The Board, having carried out the effectiveness and evaluation process, considers the performance of each of the Directors standing for 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 re-election and recommends that shareholders vote in favour of the resolutions at the AGM.

Succession planning

The Board reviews its composition at least annually, assessing the skills profile, diversity and 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 Group'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 (Gateshead and Westhoughton in 2013/14). 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. All Directors have access to the advice and services of the Company Secretary.

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

Other Board matters

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 a review during the year 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 FCA Listing Rules the Group indemnifies certain officers so that the Group 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 25 to 28.

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 21 to 23.

This process has been in place throughout the year and up to the date of approval by the Board of the annual report and accounts. The Board concluded its latest review in April 2014.

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

Corporate governance report continued

Governance principle: accountability

Financial and business reporting

The Directors consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Investor and shareholder relations

The Company places great importance on communications with and accountability to shareholders. An 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. Other information about the Group is also available on the website including current business strategy, historical financial data and recent presentation materials.

Announcements are also regularly made by the Company through a Regulatory Information Service to the London Stock Exchange. The shareholder register is actively monitored. The Group conducts a dedicated investor relations programme with institutional investors which includes various formal events during the year, as well as a regular series of one to one and group meetings. In February 2014, the Group hosted a sell side and investor presentation at its Basingstoke and Overton facilities, which included tours of the technology centre, Overton mill and holographics areas. The tours focused on operational matters and the purpose of such events is to highlight a particular issue, theme or announcement that the Group believes warrants further explanation or clarification. 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.

The Chairman and the Senior Independent Director are available to meet key shareholders to discuss strategy, governance and other matters. To mark the 200th anniversary of the foundation of De La Rue, the Company hosted an external event in 2013 with Board and Executive Committee members present. This took the form of an exhibition of items from the De La Rue archive and demonstrations of some of the Group's technologies such as banknote design and cash processing equipment.

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. Shareholders are encouraged periodically to register their email addresses so that they may benefit from immediate communication of the publication of the Company's notice of meetings and our online annual report.

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.

Committees of the Board

Ethics Committee report

The Ethics Committee was formed in 2012 comprising all Non-executive Directors and chaired by the Chairman with the Chief Executive in attendance. The General Counsel and Company Secretary is Secretary to the Committee and advises on governance. The Committee is responsible, on the Board's behalf, for reviewing compliance with the Group's Code of Business Principles (CBP). De La Rue is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards across all territories in which it operates. The Committee considers recommendations on ethical matters made by external regulatory authorities or other bodies and makes recommendations to the Board on how they should be applied in De La Rue and underlines the Group's commitment to ensuring that business ethics are a fundamental and enduring part of the Group's culture.

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 (TPPs) 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 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 that the Group competes for business and delivers its services. We believe that by committing to these values, supporting the business objectives and adhering to the expected behaviours, De La Rue will strengthen the culture of the business and the industry itself and work towards achieving De La Rue's vision to be the leading provider of secure products and services, touching the lives of everyone, everyday.

The Banknote Ethics Initiative (BnEI) Accreditation Council accredited De La Rue as a BnEI member at its first meeting in February 2014, following a detailed audit completed by independent auditors GoodCorporation (GC). BnEI sets out a rigorous framework for promoting and maintaining high ethical standards in the industry and requires members to commit to a code of Ethical Business Practice that was developed in partnership with the Institute of Business Ethics. Compliance with the code is rigorously tested through an audit framework developed in conjunction with GC, recognised worldwide as a leading company in the field of assuring corporate responsibility and business ethics. The initiative was established to promote ethical business practice, with a focus on the prevention of corruption and on compliance with anti-trust law within the banknote industry. The Group played a leading role in the establishment of the initiative.

De La Rue's ethics and business integrity programme includes:

- Anti-bribery and corruption and anti-trust controls – regular audits are undertaken of the Group's anti-bribery and corruption policies and processes. An internal audit on the TPPs process was also undertaken during the year. Targeted training took place during the year and will continue during the forthcoming year in relation to all relevant employees and TPPs
- CBP – general refresher sessions took place for all head office staff through the use of ethical dilemma training. The appointment of ethics champions to all major sites was introduced during the year to ensure that each site has local support and representation for CBP related matters
- Gifts and hospitality – in support of the CBP the Group reinvigorated its gifts and hospitality policy during the year. All gifts, hospitality and entertainment offered, given or received above a certain value are required to be recorded. The Ethics Committee periodically reviews the gifts and hospitality given or received by the Executive Directors
- Whistleblowing – since 2004, employees have been able to access a confidential reporting line to report concerns about any alleged malpractice within the Group. The provision was enhanced recently with employees now able to report concerns, anonymously where necessary, through email as well as by traditional telephone and written reporting routes. The Board and Ethics Committee receive regular updates on whistleblowing reports received and key investigations being undertaken. The Audit Committee reviews the arrangements in place annually
- Insider trading – relevant employees who have access to inside information are advised of their responsibilities under the insider dealing rules and all new employees are advised of the share dealing and market abuse policy which the Company has in place

Nomination Committee report

At the date of this report the Nomination Committee consists of four independent Non-executive Directors and the Chairman (who chairs the Committee) and (once appointed) 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 Committee and the Board recognise and understand the importance and benefits of gender diversity and currently have two female Non-executive Directors (33 per cent of the Board). The Board expects to maintain the number 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 26.

The Committee met twice during the year and the principal activities of the Committee during the period included:

- Review of the composition of the Board and the range of skills and experience on the Board
- Consideration of Board and management succession
- Review of Board diversity
- Review of Non-executive Directors' periods of appointment and confirmation that all should stand for re-election at the AGM following a formal performance appraisal process
- Review of the composition of Board committees
- Recommendation to the Board on the successor to Sir Jeremy Greenstock as the Senior Independent Director
- Recommendations to the Board on the interim arrangements to be put in place following the resignation of the Chief Executive with effect from 29 March 2014, including the assumption of executive responsibilities by Philip Rogerson and appointment of Colin Child as Chief Operating Officer
- Arrangements for the search for a successor to Tim Cobbold, the former Chief Executive, which is well advanced. An external search consultancy which does not have other connections with the Company has been retained by the Company to assess potential candidates to be considered as the prospective replacement

Remuneration Committee

Gill Rider was appointed to the Remuneration Committee in July 2006 and she has been the Committee Chairman since 26 July 2007. The Committee met on four occasions during the year. Details of the Committee and of the remuneration policy can be found in the directors' remuneration report on pages 41 to 58.

Risk Committee report

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 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 principal functions, all divisional managing directors, the Group Director of Risk and Internal Audit and the Group Director of Security and such other members as determined by the Board. Any Director may attend meetings. 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.

The Committee met twice during the year and details of risk management and particular risks within the Group are set out on pages 21 to 23.

By order of the Board

Edward Peppiatt
Company Secretary
28 May 2014

Audit Committee report

Warren East CBE
Chairman of the Audit Committee

I am pleased to present the report of the Audit Committee for the financial year ended 29 March 2014. This report describes the Committee's ongoing responsibilities and key tasks as well as its major activities over the past year.

Composition of the Audit Committee
Members of the Committee are Victoria Jarman, Gill Rider and Andrew Stevens and myself, all of whom are independent Non-executive Directors. I have been the chief executive of a listed company and therefore have 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. The Board is satisfied that the membership of the Audit Committee meets the requirement for relevant and recent financial experience.

At my invitation, 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 being present.

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

- The appointment of the external auditors including the agreement of the terms of engagement at the start of each audit, the audit scope and the external audit fee
- Monitoring and reviewing the effectiveness of internal financial controls and internal control and risk management systems and the effectiveness of the internal audit function
- Reviewing the integrity of the interim and full year financial statements
- Reviewing significant financial reporting issues and judgements contained in the financial statements
- Reviewing and monitoring the external auditor's effectiveness, independence and objectivity including the nature and appropriateness of any non-audit fees
- Reviewing reports on the effectiveness of the Group's whistleblowing procedures and arrangements, details of which are set out on page 25
- Advising the Board on whether the Committee believes the annual report and accounts are fair, balanced and understandable

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

Activities
During the period, the Audit Committee met on four occasions and dealt with the following matters:

- Group's half year results
- Group's preliminary announcement and annual results
- Principal judgemental accounting matters affecting the Group based on reports from management and the external auditors
- External audit plans and reports
- Risk and assurance plans and reports including:
  - Group risk profile
  - Internal audit plan
  - Internal audit reports
  - Follow up of internal audit recommendations
  - Annual review of the system of internal controls
  - Internal control improvement activity report
  - Quality and security internal assurance review
  - Internal control self assessment review
  - HSE legal compliance audit
- Group's business continuity arrangements
- Group disclosure and whistleblowing policy
- Going concern
- Internal audit effectiveness and independence
- External audit effectiveness, independence, re-appointment and fees

Significant accounting matters
The Audit Committee is responsible for reviewing whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements in the preparation of the financial statements. In respect of the financial statements for the year ended 29 March 2014, the significant issues reviewed and how these issues were addressed are summarised below:

Revenue recognition
The Committee considered the Group's revenue recognition and contract accounting policies and procedures to ensure that they remained appropriate and that the Group's internal controls were operating effectively in this area. Feedback was also sought from the external auditors over the application of the revenue recognition policy including a specific review of shipments pre and post year end. Following a review of the varied sources of information received, the Committee concluded that the accounting treatments were reasonable and appropriate.

Pension benefit obligations
The Committee received and considered reports from management and the external auditors in relation to the valuation of the defined benefit pension scheme and challenged the key actuarial assumptions used in calculating the scheme liabilities, especially in relation to discount rates, inflation rates and mortality. The Committee discussed the reasons for the decrease in the net pension deficit and was satisfied that the assumptions used were appropriate and were supported by independent actuarial specialists. Details of the key assumptions used are set out in note 22 to the financial statements.

Valuation of work in progress
The Committee reviewed the Group's policies and procedures over the valuation and recoverability of work in progress. The Committee received confirmation that the valuation principles had been consistently applied and noted that the majority of inventory items were made to order rather than held for generic stock and hence the recoverability risk was low. Accordingly, the Committee concluded that the accounting treatments were reasonable and appropriate.

Intangible assets
The Committee considered a paper prepared by management on their review of the carrying value of goodwill and intangible assets as at 29 March 2014 against updated forecasts for each of the relevant businesses. This included a consideration of the sensitivity analysis undertaken by management and reviewed by the external auditors. In view of the difficult market conditions being experienced by the CPS business and as a consequence of this review, the Committee concurred that it would be appropriate to recognise an impairment loss of £3.2m in relation to goodwill on the 2001 CSI acquisition, £7.4m in relation to intangible development costs and £3.6m was allocated to property, plant and equipment across the CPS business.

Warranties
The Group holds a number of provisions relating to warranties (including present obligations for defective products and known claims as well as anticipated claims that had not been reported at the balance sheet date). The Committee reviewed and discussed reports from management and the external auditors concerning the significant provisions held for such matters including any provisions with notable movements. The Committee considered the background to such provisions and challenged management over the judgements applied in determining the value of provisions required. The Committee enquired of management and the external auditors as to the existence of other matters potentially requiring a provision to be made. The Committee concluded that it was satisfied with the value of warranty provisions carried.

Exceptional items
Although not considered to be a significant issue, as part of the Committee's deliberations over whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, the Committee also considered the amounts disclosed as exceptional items. The nature of the items classified as operating exceptional items during the period are described in note 3 to the financial statements. The Committee considered the accounting treatment and disclosure of these items in the financial statements including seeking the views of the external auditors. On the basis of this review, the Committee concluded that the accounting treatment and disclosures in relation to these items were appropriate.

Independence and objectivity of external auditors
The Committee ensures that the external auditors (KPMG) remain independent of the Group. The Audit Committee has a detailed policy covering:

- Choosing the statutory auditors 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 be 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 my prior approval. The selection criteria include detailed proposals, timescales, local resource, cost and the safeguards put in place by KPMG to avoid conflicts of interest or loss of independence. In addition, the Group's policy is for any individual assignment to be undertaken by KPMG where the fee is likely to be in excess of £50,000 to be approved by myself prior to any commencement of work. During 2013/14 the amount of non-audit fees paid to KPMG was £0.4m.

The safeguards KPMG put in place avoid compromising their objectivity and independence. They provide a written 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 report is available on the Group's website.

Audit Committee report continued

Appointment of auditors
The Audit Committee assesses annually the qualification, expertise, 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 auditors, and the level of non-audit work undertaken, and has not considered it necessary to date to require KPMG to re-tender for the audit work. Accordingly, the Committee recommended to the Board that a resolution for the re-appointment of KPMG for a further year as the Company's auditors be proposed to shareholders at the AGM.

The Committee acknowledges the new recommendation in the Code that the external audit contract should be put out to tender at least every 10 years. Following completion of the 2011/12 audit KPMG's audit engagement partner was rotated providing fresh oversight of the audit process. Given this change, the Committee will keep under review the timing of its next tender process but does not currently intend that the audit will be put out to tender during 2014/15.

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.

Internal control and risk management
As noted above, the Committee is responsible for reviewing, on behalf of the Board, the effectiveness of the Group's internal financial controls and the assurance procedures relating to the Group's risk management systems. These controls and procedures are designed to manage, but not eliminate, the risk of failure of the Group to meet its business objectives and, as such, provide reasonable but not absolute assurance against material misstatement or loss. The key elements of the Group's internal financial control framework and procedures are set out on page 21. The Committee reviews these topics at each meeting and considers that none of the areas identified for enhancement during the year constituted a significant failing or weakness for the Group.

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 period. The internal audit function has been outsourced since 2009. PricewaterhouseCoopers LLP have performed this role since the start of 2013/14. The Committee periodically reviews whether the internal audit function is likely to be more effective or efficient if provided internally. In view of the nature and scope of the Group's business and its management structure, the Committee considers that it continues to be more effective and efficient for the core internal audit functions to be undertaken by a specialist external service provider.

Internal audit continued to ensure that their 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 the external auditors on internal control matters noted as part of their audit work.

Fair, balanced and understandable view
At its May 2014 meeting, the Committee reviewed the content of this annual report and accounts and advised the Board that, in its view, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Warren East CBE
Chairman of the Audit Committee
28 May 2014

Directors' remuneration report

Gill Rider CB
Chairman of the Remuneration Committee

Annual statement from the Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present our directors' remuneration report for 2014, which sets out the remuneration policy for the Directors of De La Rue plc and the amounts earned in respect of the year ended 29 March 2014.

The directors' remuneration report complies with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Corporate Governance Code (the 'Code') and the Financial Conduct Authority Listing Rules.

To reflect the requirements of the revised remuneration reporting regulations which took effect from 1 October 2013 this report is presented in three sections: an annual statement from me as Chairman of the Remuneration Committee (pages 41 to 42), a policy report which sets out the approach to remuneration (pages 43 to 51), and the annual report on remuneration for 2013/14 (pages 52 to 58) containing information relating to the Directors' remuneration for 2014/15 and additional information on Directors' share interests. The remuneration policy must be approved at least every three years if it remains unchanged, or sooner in the event the policy is revised. The policy will be subject to a binding vote at the AGM.

The Remuneration Committee's overriding objective is to ensure that the Group's executive remuneration policy encourages, reinforces and rewards the delivery of sustainable shareholder value. In determining the Group's remuneration policy the Remuneration Committee takes into consideration reward across the whole of the Group, not just the Executive Directors.

Outcomes 2013/14

Annual Bonus Plan (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. 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). For 2013/14, underlying operating profit was the single performance measure for the ABP, with an entry point at £90m and a maximum payment at £100m. Based on achievement of an underlying operating profit of £90.5m, the cash bonus element under the ABP resulted in a payout of 5 per cent of maximum opportunity. The entry point for a deferred share award was a performance target of £100m and therefore there was no deferred share entitlement in respect of the ABP for the period.

Performance Share Plan (PSP)

Awards under the PSP to Executive Directors in 2010/11 had three year performance criteria based on earnings per share (EPS) and total shareholder return (TSR). Sixty per cent of the award was based on a performance measurement of EPS growth over RPI and the remaining 40 per cent was based on relative TSR. The EPS performance test was achieved in full and the TSR element was not achieved. Consequently 60 per cent of the award vested and the balance lapsed. Executive Directors did not exercise the vested awards during the year.

Proposed changes in executive remuneration for 2014/15

Background

The Remuneration Committee has with the help of independent remuneration consultants conducted a thorough review of the Group's remuneration policy and is proposing some changes to the ABP and PSP. The Committee has done so conscious that, for good reasons, it has made changes to the remuneration structure in De La Rue in each of the last three years. One of the aims now is to have a structure that is effective for a number of years.

De La Rue's strength lies in its relationships with central banks, governments and specialist commercial organisations. Our strategy is to be a professional and innovative leader in the markets in which we operate. In doing so we will ensure that employees are empowered and fairly rewarded as part of generating the performance culture our customers demand. The successful execution of the strategy will provide shareholders with increasing value from each of our businesses and from the Group as a whole.

Directors' remuneration report continued

Rationale

Earlier this year, I consulted with De La Rue's largest UK shareholders, the main investors outside of the UK and the main UK institutional investor bodies as part of an active consultation process prior to the Remuneration Committee finalising the policy.

The proposed changes to the remuneration structure build on the current arrangements and are designed to reflect the distinct commercial needs of De La Rue's business and better align with shareholder interests. They are also aimed at ensuring a consistent and stable reward structure throughout the entire management group that will remain fit for purpose, help attract and retain top talent and continue to be cost effective.

The principles used in the Remuneration Committee's review were as follows:

- Apply a pay for performance philosophy relevant to De La Rue's business environment
- Continue to maximise the alignment between executives and shareholders
- Increase the overall timetable of delivery of pay to four years, while introducing less of an "all or nothing" approach
- Ensure overall cost efficiency and that potential overall cost is sustainable

Changes for 2014/15

The structure of remuneration has not materially changed from 2013/14 and the overall maximum opportunity for Executive Directors remains unchanged.

The maximum opportunity for Executive Directors under the PSP remains at 100 per cent of salary but in order to further align the interests of Executive Directors with that of shareholders the overall timetable for deferred pay has increased to four years. Subject to performance conditions measured over three years, 60 per cent of an award will vest and become exercisable on the third anniversary of grant and 40 per cent will vest and become exercisable on the fourth anniversary of grant.

The maximum opportunity under the ABP continues to be 135 per cent of salary for the Chief Executive and 115 per cent for the Group Finance Director. Changes under the ABP include a realignment of the cash and share elements so that, for awards at or near the maximum, a greater proportion will be made up of shares, payable over a deferred period of two years. Subject to performance conditions, 60 per cent of the annual bonus under the ABP will be payable immediately in cash with the remaining 40 per cent deferred in shares and released in two equal tranches over the two years following. This replaces the previous arrangement whereby up to 35 per cent of salary was awarded in shares over a deferral period of three years.

Further details of the proposed changes and performance conditions are set out in the policy section on pages 44 to 47. Awards under the ABP from 2014/15 are subject to shareholder approval of the revised plan rules at the next AGM.

Interim arrangements

In the absence of a Chief Executive interim arrangements have been put in place. Philip Rogerson, Chairman, assumed executive responsibilities until a new Chief Executive joins the Board. He will be supported by Colin Child, Group Finance Director, who was appointed Chief Operating Officer on a similar temporary basis. The arrangements are outlined more fully on page 48.

Governance

The Remuneration Committee's remit is set out in its terms of reference, which are regularly reviewed by the Board and were updated in March 2014. They are available on the Company's website. Membership of the Remuneration Committee and the key activities during 2013/14 are summarised on page 58.

We believe that our remuneration policy, by aligning executive rewards with shareholders' interests, and with our strategy, positions us to deliver the performance that both the Remuneration Committee and shareholders expect.

Gill Rider CB
Chairman of the Remuneration Committee
28 May 2014

Directors' remuneration policy

This part of the report sets out the directors' remuneration policy which, subject to shareholder approval at the 2014 AGM, will take binding effect from the date of that meeting.

Remuneration policy framework

The Group's remuneration policy aims to align the interests of the Executive Directors and other senior executives with those of shareholders. The overriding objective is to ensure that the Company's executive remuneration policy encourages, reinforces and rewards the delivery of sustainable shareholder value. 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. Performance related elements of remuneration therefore form a significant proportion of the total remuneration packages. The Committee believes that an effective remuneration strategy plays an essential part in the future success of the Group.

Proposed changes to remuneration policy

The principal changes to remuneration structure from 2013/14 are outlined in the statement from the Chairman of the Remuneration Committee on pages 41 and 42. The modifications are aimed at implementing a reward structure that will remain fit for purpose for a number of years, help attract and retain top talent and be cost effective, while creating greater alignment with the interests of shareholders and avoiding any overall increase in the variable remuneration of Executive Directors.

In order to accommodate the changes, the Remuneration Committee is proposing that the rules of the ABP be amended and details of the changes are set out more fully in the explanatory notes to the notice of AGM. Details of the performance measurements that will apply to the ABP and PSP are outlined on page 54. The Company is committed to continuing to set stretching targets for all performance measures, both under the ABP and PSP, in order to ensure alignment between pay and performance.

Directors' remuneration report continued

Remuneration policy table – Executive Directors

The policy will take effect from 24 July 2014, subject to shareholder approval. The Remuneration Committee may make minor amendments to the policy set out below (for regulatory, exchange control or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Element	Purpose and link to strategy	Operation
Base salary	Fixed competitive remuneration set at levels to recruit and retain talent. Judgement informed, but not led, by reference to the market place for companies of similar size and complexity Reflects individual skills, experience and responsibility necessary to deliver business strategy Rewards individual performance	Reviewed annually and fixed for 12 months (but may be reviewed more frequently) Influenced by: • Role, experience, responsibilities and performance • Change in broader workforce salary • Group profitability and prevailing market conditions • Salary levels across the Group generally Increases are not automatic
Benefits	To provide market competitive benefits sufficient to recruit and retain the talent necessary to develop and execute the business strategy	Provision of car allowance, life assurance and private medical scheme. Executive Directors are also provided with permanent health insurance Other benefits may be provided based on individual circumstances such as, but not limited to, relocation allowances, including transactional and legal costs, disturbance and travel and subsistence costs or other benefits
Pension	To provide market competitive pensions sufficient to recruit and retain executives	Executive Directors are offered membership of a defined contribution pension plan. The contribution rates offered are reflective of market practice and based on base salary only If contributions to the plan would cause an Executive Director to exceed the HM Revenue and Customs (HMRC) annual allowance or lifetime allowance limits they will be offered a cash allowance in lieu of pension contribution
Annual Bonus Plan (ABP) post 2014/15 AGM	Annual cash award: • To incentivise and reward delivery of financial and/or personal performance targets that address the distinct commercial needs of the business, and better alignment with shareholder interests • Aimed at ensuring a consistent and stable reward structure throughout the management group that will remain fit for purpose • To support a pay for performance philosophy • To help attract and retain top talent and be cost effective	The Remuneration Committee sets Group financial targets and agrees personal objectives for each Executive Director at the start of each year. Reference is made to the prior year and to budgets and business plans while ensuring the levels set are appropriately challenging but do not encourage excessive risk taking Payments are determined by the Remuneration Committee after the year end. The bonus plan is non-contractual and may be offered on a year by year basis 60% of annual bonus payable immediately in cash 40% of the annual bonus deferred in shares Deferred share element is subject to clawback provisions
	Compulsory deferral of shares supports alignment with shareholder interests and also provides a retention element. Executive Directors are encouraged to hold a level of shareholding as described on page 55	40% of annual bonus is payable in deferred shares and released in tranches, subject to continued employment (with early release in certain circumstances). There are no further performance conditions 50% of deferred shares released one year after cash payout and remaining 50% two years after cash payout The Remuneration Committee may increase the number of shares subject to a deferred share award to reflect dividends that would have been paid over the deferral period on shares that vest The deferred share element will be disclosed in the annual report on remuneration

	Maximum opportunity	Performance metrics
	To avoid expectations of Executive Directors and other employees no maximum base salary has been set under the remuneration policy although increases will not normally exceed the average of increases awarded within the rest of the Group in the UK Larger increases may be awarded in certain circumstances including, but not limited to: • Increases in scope or responsibility • Where market conditions indicate a level of under competitiveness and there is a risk in relation to attracting or retaining executives • Other exceptional circumstances Where the Remuneration Committee exercises its discretion to award increases above the average for other employees, a full explanation will be provided in the next annual report on remuneration	Individual performance is the primary consideration in setting salary alongside overall Group performance, affordability and market competitiveness
	While the Remuneration Committee has not set an absolute maximum, benefits will be market competitive taking into account the role and individual circumstances and the relevant market levels	Not applicable
	The contribution rates for the Executive Directors are 30% of base salary for the Chief Executive and 25% of base salary for the Group Finance Director The Executive Directors may choose to receive a cash allowance in lieu of contributions. The allowance is equal to the pension contribution that would otherwise have been paid	Not applicable
	The current annual maximum bonus opportunity of 135% of salary for the Chief Executive and 115% of salary for the Group Finance Director linked to business performance will continue to apply The Remuneration Committee has the discretion to increase the overall maximum bonus level to 150% of salary, subject to this not being above the competitive market range	The bonus payout level is determined by achievement of Group financial performance measures with an element based on personal objectives. The metrics, while stretching, do not encourage inappropriate business risks to be taken For 2014/15 the bonus opportunity will be based on an element of personal objectives and the following financial measures: • Group revenue • Group underlying operating profit • Group cash conversion The Remuneration Committee will maintain discretion to consider the financial underpin in respect of awards under the ABP. Financial targets and weightings will be disclosed in the annual report on remuneration
	The Remuneration Committee has the right to reduce any deferred bonus awards which have not yet vested to the extent there has been a material misrepresentation in relation to the performance of the Group (ie clawback provision)	Linked to cash award

Directors' remuneration report continued

Element	Purpose and link to strategy	Operation
Annual Bonus Plan (ABP) pre 2014/15 AGM	The purpose of the ABP pre the 2014/15 proposed changes is consistent with the purpose of the ABP described on page 44	The operation of the ABP prior to the 2014/15 proposed changes is as described for the ABP on page 44 except as follows: • Potential maximum cash award: 100% of salary • Potential share award: up to 35% of salary deferred for three years subject to continued employment
Performance Share Plan (PSP) 2014/15 onwards	Share based long term incentive aligned closely with interests of shareholders and business strategy through the performance measures chosen Increase the overall timetable of pay to four years and supports a pay for performance philosophy Retain key executives over a longer term measurement period. Executive Directors are encouraged to hold a level of shareholding as described on page 55 Aimed at ensuring a consistent and stable reward structure throughout the management group that will remain fit for purpose Help attract and retain top talent and continue to be cost effective Ensure overall cost efficiency and that overall cost is sustainable EPS growth ensures any payout is supported by sound profitability ROCE supports the strategic focus on growth and margins through ensuring that cash is reinvested to generate appropriate returns	Annual share award with a three year performance period and performance metrics which, while challenging, will not encourage excessive risk taking 60% of the award vests after three years provided Group performance (two metrics) criteria are met and the balance will vest after a further one year subject to continued employment The Remuneration Committee may add dividend shares accrued only on vested shares during the performance and extended vesting period The Remuneration Committee has the right to clawback any PSP awards within three years of an award vesting to the extent there has been misconduct, or a material misrepresentation in relation to the performance of the Company Vesting of awards is subject to continued employment until the vesting date but, as described on page 50, PSP awards may also vest early in 'good leaver' circumstances Awards under the PSP will vest early on a change of control (or other similar event) subject to satisfaction of the performance conditions and, unless the Remuneration Committee determines otherwise, pro-rating for time
PSP awards pre 2014/15	Same principle as above	Awards vest after three years provided performance criteria met Clawback provisions apply to awards from 10 July 2012
All employee share plans	Encourage employees including the Executive Directors to build a shareholding through the operation of all employee share plans such as the HMRC approved De La Rue Sharesave scheme in the UK and the De La Rue US Employee Share Purchase Plan ('ESPP') established in the US under the Internal Revenue Code	Executive Directors may participate in the Sharesave scheme on the same terms as other employees Under the UK Sharesave scheme, the option price may be discounted by up to 20%. Accumulated savings through payroll may be used to exercise an option to acquire shares Under the ESPP, employees in the US may purchase the Company's shares at a 15% discount to the market price. Purchases are funded through accumulated payroll deductions

Note
In addition to the specific provisions of this policy, the Company may also honour any pre-existing arrangements to make remuneration or loss of office payments to current and former Directors which remain at the time that this policy becomes effective (including the satisfaction of any outstanding awards of variable remuneration made to Executive Directors). Details of any such payments will be set out in the annual report on remuneration as they arise.

	Maximum opportunity	Performance metrics
	Same aggregate bonus opportunity as described for the ABP post the 2014/15 AGM on page 45	See page 53
	The maximum number of shares which may be subject to an award granted to eligible employees in any financial year shall be an amount equal to such percentage, not exceeding 100% of salary as at the award date, as may be determined by the Remuneration Committee. The Committee retains discretion in exceptional circumstances to grant awards with a face value of up to 150% of salary	Awards will vest subject to the achievement of Group performance over a period of three years against key metrics set by the Remuneration Committee which are aligned to commercial business needs and strategy. For proposed awards in 2014/15, the vesting of PSP awards will be subject to EPS (compound average growth rate) and return on capital employed (ROCE) (absolute) performance conditions At least 5% pa growth in EPS must be achieved for threshold vesting of 25% under the EPS performance measure with maximum vesting at 10% pa A return of at least 40% must be achieved for threshold vesting of 25% under the ROCE performance measure with a maximum vesting of 100% at a return of 45% The Remuneration Committee must be satisfied that vesting reflects the underlying performance of the Group and retains the flexibility to adjust the vesting amount to ensure it remains appropriate to the business performance achieved The Remuneration Committee regularly reviews the performance conditions and targets to ensure they continue to be aligned with the Group's business objectives and strategy and retains the discretion to change the measures and their respective weightings to ensure continuing alignment with such objectives and strategy The Remuneration Committee maintains the ability to adjust or set different performance measures if events occur or circumstances arise which cause the Committee to determine that the performance conditions have ceased to be appropriate. If varied or replaced, the amended performance conditions must, in the opinion of the Committee, be fair, reasonable and materially no more or less difficult than the original condition when set and these will be disclosed in the annual report on remuneration
	As above As reported in the Group's 2011 annual report and accounts the Committee exercised discretion, on an exceptional basis, and made share based awards in June 2011 under the PSP with a maximum face value on grant of 150% of salary	The performance measures and outturn for awards made in January 2011 and June 2011 are described on page 53 The award in 2012 under the PSP is dependent on achievement of the following: • Up to 75% of awards will vest subject to annual growth in EPS: – EPS>RPI + 12% pa will achieve 25% of maximum vesting – EPS>RPI + 15% pa will result in 100% of maximum vesting • Up to 25% of award is based on average cash conversion over three years: – Cash conversion of 80% – 25% of maximum vesting – Cash conversion of 100% – 100% of maximum vesting
	The maximum savings amount currently offered is £250 per month over a three or five year period under the Company's Sharesave scheme. The rules of the scheme provide for savings up to the legislative limit of £500 per month Under the ESPP, participants are eligible to save up to a monthly maximum of 10% of salary (US$25,000 per annum) to go towards the purchase of shares at the end of the offering period (currently one year)	No performance measures but employment conditions apply

Directors' remuneration report continued

Remuneration policy for the Chairman and Non-executive Directors

Element	Operation by the Company
Chairman fees	The remuneration of the Chairman is set by the Remuneration Committee. Fees are set at a level which reflects the skills, knowledge and experience of the individual, while taking into account market data
Non-executive Director fees	Non-executive Directors do not have service contracts but are appointed for fixed terms of three years renewable for a further three years. Terms beyond this period are considered on a case by case basis. The Board (excluding Non-executive Directors) is responsible for setting Non-executive Directors' fees. Fees are structured as a basic fee for Board and Committee membership. Committee Chairmen and the Senior Independent Director receive an additional fee. Reasonable expenses for attending Board meetings are reimbursed by the Company and the Group may pay any tax due on such benefits Fees paid to Non-executive Directors will remain within the limit set out in the Company's Articles of Association of £750,000 per annum Non-executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's annual incentive arrangements, or share option schemes. No compensation is payable to the Chairman or to any Non-executive Director if the appointment is terminated

Remuneration policy for new appointments

When considering the appointment of Executive Directors, the Committee balances the need to attract candidates of sufficient calibre while remaining mindful of the need to pay no more than necessary. The Committee will typically align the remuneration package with the above remuneration policy. Base salary may be set at a higher or lower level than previous incumbents. Where possible, salary may be set at an initially lower level with the intention of increasing it over the following two years dependent on performance in the role and experience gained. In certain circumstances, to facilitate the recruitment of individuals of the required calibre, incentive arrangements and awards may also be higher. The Remuneration Committee retains the discretion to make payments or awards which are outside the policy to facilitate the recruitment of candidates of the appropriate calibre to implement the Group's strategy. In addition, remuneration forfeited on resignation from a previous employer may be compensated. The form of this compensation would be considered on a case by case basis and may comprise either cash or shares. Generally (though not necessarily in all circumstances) the Committee will favour share awards with appropriately stretching performance targets attached and at a minimum expects that:

- If forfeited remuneration was in the form of shares, compensation will be in the form of shares
- If forfeited remuneration was subject to achievement of performance conditions, compensation will be subject to no less challenging performance conditions
- The timing of any compensation will, where practicable, match the vesting schedule of the remuneration forfeited

A newly appointed Executive Director may be provided with reasonable relocation support.

Internal appointments will receive a remuneration package that is consistent with the remuneration policy. Legacy terms and conditions would be honoured, including pension entitlements and any outstanding incentive awards.

Subject to the limit on additional maximum variable remuneration set out below, incentive awards may be granted within the first 12 months of appointment above the maximum award opportunities set out in the policy table above. Excluding payments or awards to compensate for remuneration forfeited on resignation from a previous employer, the maximum level of variable remuneration which may be awarded to a new Executive Director, above the maximum levels set out in the policy table above, is one times base salary.

The Remuneration Committee will ensure that variable remuneration is linked to the achievement of appropriate and challenging performance measures and will be forfeited if performance or continued employment conditions are not met.

Fees payable to a newly appointed Chairman or Non-executive Director will be in line with the fee policy in place at the time of appointment.

In the absence of a Chief Executive interim arrangements are in place. Philip Rogerson, Chairman, assumed executive responsibilities until a new Chief Executive joins the Board and he will be supported by Colin Child, Group Finance Director, who was appointed Chief Operating Officer on a similar temporary basis. In order to reflect the additional time commitment Philip Rogerson will be paid an additional fee of £297,500 per annum, to take effect from 1 April 2014, to be pro-rated for so long as he continues in this role.

Pay policy for other 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 Committee is kept informed of:

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

The remuneration policy applied to the Executive Committee and the most senior executives in the Group is similar to the policy for the Executive Directors in that a significant element of remuneration is dependent on Group and individual performance. The key principles of the remuneration are applied consistently across the Group below this level, taking account of seniority and local market practice. The Group aims to offer competitive levels of remuneration, benefits and incentives to attract and retain employees. 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. On authority of the Committee, the Chief Executive has discretion to make awards to a limited number of employees not being Executive Directors or Executive Committee members.

All UK employees may join the Company's HMRC 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 ESPP. 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.

The Remuneration Committee considered that it would be impractical to consult with employees when drawing up the remuneration policy.

Shareholder views

The Remuneration Committee engages in regular dialogue with shareholders to discuss and take feedback on its remuneration policy and governance matters. In particular, the Committee discusses any significant changes to the policy. The Committee consulted De La Rue's largest UK shareholders, the main investors outside the UK and the main UK institutional investor bodies on the proposals for the redesign of the ABP and the PSP. The Committee welcomes an open dialogue with shareholders and intends to continue to consult with major shareholders before implementing any significant change to the Executive Director remuneration policy.

Service contracts

The Board's policy for current and new Executive Directors is that service contracts are one year rolling contracts with a notice period that should not exceed one year.

Name	Date of contract	Date of appointment	Notice from Company	Notice from Director
Tim Cobbold (resigned with effect from 29 March 2014)	12 December 2010	1 January 2011	12 months	6 months
Colin Child	20 May 2010	1 June 2010	12 months	6 months

The Remuneration Committee recognises that in the case of appointments to the Board from outside the Group, it may be necessary to offer a longer initial notice period, which would subsequently reduce to 12 months after that initial period.

Non-executive Directors

The Non-executive Directors' current terms of appointment are detailed below:

Non-executive Director	Date of appointment	Current letter of appointment end date
Warren East	9 January 2007	8 January 2016
Victoria Jarman	22 April 2010	21 April 2016
Gill Rider	22 June 2006	21 June 2015
Philip Rogerson	1 March 2012	28 February 2015
Andrew Stevens	2 January 2013	1 January 2016

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

All Directors offer themselves for annual re-election at each AGM in accordance with the UK Corporate Governance Code. Service contracts for Executive Directors and letters of appointment for Non-executive Directors are available for inspection at the registered office address of the Company.

Directors' remuneration report continued

Payment for loss of office

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. Should additional compensation matters arise, such as a settlement or compromise agreement, the Remuneration Committee will exercise judgement and will take into account the specific commercial circumstances.

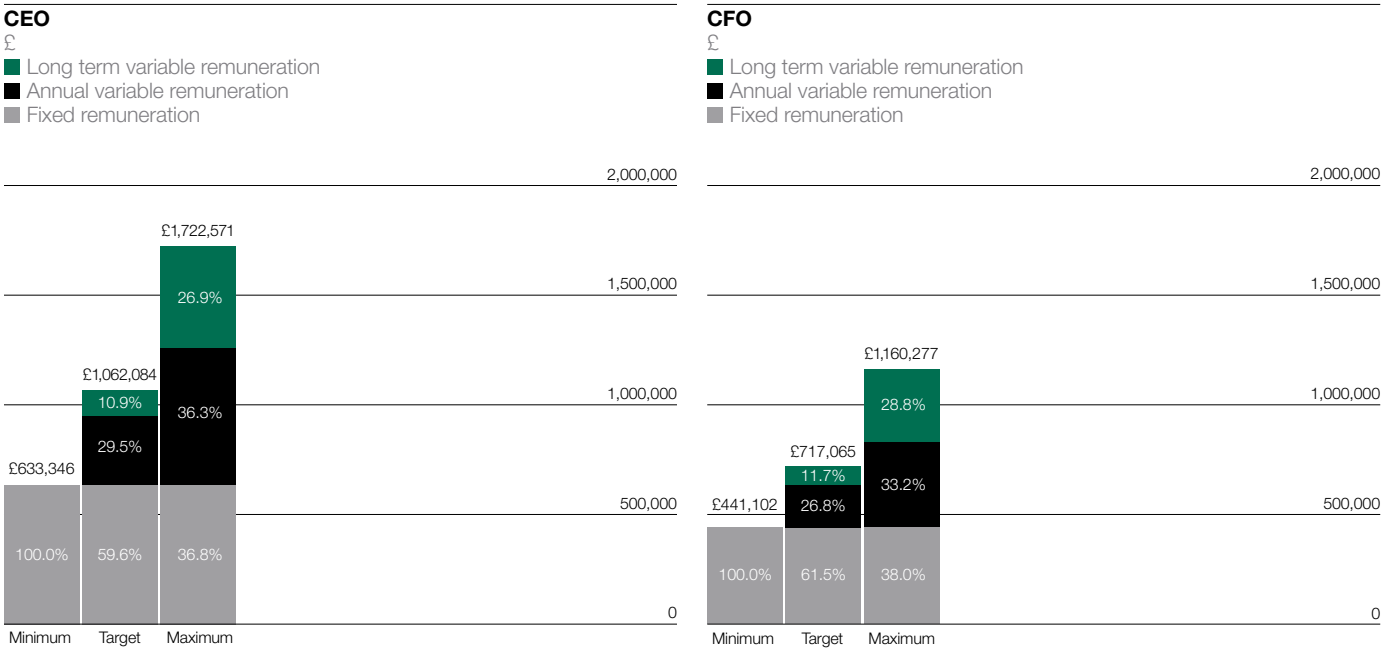
Policy	
Notice period on termination by the Company	12 calendar months. The Remuneration Committee recognises that in the case of appointment to the Board from outside the Group, it may be necessary to offer a longer initial notice period, which would subsequently reduce to 12 months after that initial period
Termination payment at the Company's sole discretion	On termination on notice by either the Company or the relevant Executive, the Company retains the discretion to make a payment in lieu of notice not exceeding 12 months' basic salary, excluding bonus but including benefits in kind (including company car or car allowance and private health insurance) and pension contributions (which may include salary supplement) Benefits provided in connection with termination payments may also include, but are not limited to, outplacement and legal fees
Change of control	Under the ABP, share awards will vest in full on change of control. Awards under the PSP will vest early on a change of control (or other similar event) subject to satisfaction of the performance conditions and, unless the Remuneration Committee determines otherwise, pro-rating for time
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. Typically for 'good leavers', bonus amounts (as estimated by the Remuneration Committee) will be pro-rated for time in service to termination and will be subject to performance, paid at the usual time 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 (unless the Remuneration Committee determines otherwise) 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 • Good leavers under the Sharesave scheme, which is HMRC approved, are entitled to exercise options, pro-rata to the savings made • If awards are made on recruitment the treatment on leaving would be determined at the time at the Remuneration Committee's discretion in accordance with the relevant plan rules
Pension benefits	Will be paid in accordance with the rules of the pension scheme. Where an early retirement pension is paid from a legacy UK defined benefit arrangement, a reduction will be made to the pension to reflect early receipt using factors determined and set by the Trustees from time to time

Illustration of remuneration policy application

The following chart illustrates the potential value of the Executive Directors' remuneration package in various scenarios in a typical year. Salary levels are as at 1 April 2014.

Performance scenarios for the ABP and PSP assume the following:

Minimum	Target	Maximum
There is no cash bonus or deferred share award under the ABP or vesting under the PSP	Target cash bonus and deferred shares under the ABP, target vesting under PSP	Maximum cash bonus, maximum deferred shares under the ABP, maximum vesting under the PSP



The role of Chief Executive is currently vacant and the above information is therefore an illustration only, based on the remuneration package which the outgoing Chief Executive would have had, had he remained in employment.

Assumptions for the scenario charts

Minimum performance	• Fixed pay (base salary, benefits and pension) • No bonus payout • No vesting under ABP or PSP
Target performance	• Fixed pay (base salary, benefits and pension) • 50% of maximum bonus opportunity (67.5% of salary for CEO, 57.5% of salary for CFO) 30% will be payable immediately in cash and 20% will be deferred in shares • 25% of PSP shares vesting (25% of salary for CEO and CFO)
Maximum performance	• Fixed pay (base salary, benefits and pension) • 100% of maximum bonus opportunity (135% of salary for CEO, 115% of salary for CFO) 60% will be payable immediately in cash and 40% will be deferred in shares • 100% of PSP shares vesting (100% of salary for CEO and CFO)

Executive Director remuneration mix 2014/15

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

		Minimum %	Target %	Maximum %
CEO	Fixed	100	60	37
	Variable	0	40	63
CFO	Fixed	100	62	38
	Variable	0	38	62

The remuneration mix above is based on the remuneration policy as it is intended to be operated for 2014/15. As indicated above the Company is in the process of recruiting a new Chief Executive. In the absence of a Chief Executive interim arrangements are in place. Philip Rogerson assumed executive responsibilities and the arrangements are disclosed more fully on page 48 and do not include any variable elements.

Directors' remuneration report continued

Annual report on remuneration

Single figure of remuneration for each director (subject to audit)

The remuneration of the Directors of the Company for the year ended 29 March 2014 and the previous year is set out in the table below.

	Salary and fees (a)		Benefits (excluding pensions) (b)		Bonus (c)		Long term incentive (PSP) (vested) (d)		Pensions allowance (e)		Other payments (f)		Total	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000
Executive Directors														
Tim Cobbold (resigned with effect from 29 March 2014)	**464**	464	**31**	28	**–**	–	**351**	–	**139**	139	**86**	–	**1,071**	631
Colin Child	**325**	325	**23**	21	**13**	–	**387**	–	**81**	81	**51**	–	**880**	427
	789	789	**54**	49	**13**	–	**738**	–	**220**	220	**137**	–	**1,951**	1,058
Non-executive Chairman														
Nicholas Brookes (resigned with effect from 26 July 2012)	**–**	53	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	53
Philip Rogerson (appointed Chairman with effect from 26 July 2012)	**175**	132	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**175**	132
	175	185	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**175**	185
Non-executive Directors														
Warren East	**57**	50	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**57**	50
Sir Jeremy Greenstock (resigned with effect from 25 July 2013)	**17**	47	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**17**	47
Sir Julian Horn-Smith (resigned with effect from 31 December 2012)	**–**	32	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	32
Victoria Jarman	**45**	43	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**45**	43
Gill Rider	**52**	50	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**52**	50
Andrew Stevens	**45**	11	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**45**	11
Aggregate emoluments	**1,180**	1,207	**54**	49	**13**	–	**738**	–	**220**	220	**137**	–	**2,342**	1,476

Notes

The figures in the single figure table above are derived from the following:

(a) Base salary and fees: the actual salary and fees received during the year

(b) Benefits: the gross value of all taxable benefits received in the year, including for example car or car allowance and private medical and permanent health insurance

(c) Bonus: bonus is the cash value of the bonus earned in respect of the year including the value of deferred shares which must be held for a minimum three year period. A description of the performance measurements that applied to the year 2013/14 is provided on page 53

(d) PSP: the value of shares vesting that was subject to performance over the three year performance period ending 31 January 2014 based on a De La Rue plc share price of £7.81 on the date of vesting (but unexercised as at 29 March 2014). In the case of Colin Child the total figure includes an estimated value (£140,849) of the PSP shares (including dividend shares) that are due to vest in June 2014 (2013/14 being the final year of the performance period). It is based on the number of shares that will vest multiplied by the average share price of 810.5p over the quarter ending 31 March 2014 (as the vesting price is not known at the date of the directors' remuneration report). The performance conditions for the PSP awards vesting are described on page 53

(e) Pension allowance: relates to cash in lieu of pension contributions

(f) Other payments relate to:

(i) Contractual benefits and holiday pay to Tim Cobbold

(ii) Dividend shares equivalent to a value of £73,508 in respect of the Recruitment Share Award reported in the Chief Executive pay table on page 57 (9,412 shares based on the De La Rue plc share price of £7.81 on 31 January 2014 vesting date)

(iii) Dividend shares equivalent to a value of £51,444 in respect of the Retention Share Award, further details of which are given on page 56 (6,587 shares based on the De La Rue plc share price of £7.81 on 31 January 2014 vesting date)

In 2010/11 Colin Child was awarded 45,884 shares (to the value of £315,000) under the Retention Share Award, which vested on 31 January 2014. According to the regulation it would be reported in the 2010/11 single figure.

Implementation of remuneration policy

Information on the elements of remuneration and how the Company intends to implement the remuneration policy in 2014/15 are set out below and on pages 54 to 55.

Base salary and fees

Executive Directors decided not to accept a salary increase in 2013/14. The base salaries are shown in the table below. The Remuneration Committee reviewed the salary levels of Executive Directors and agreed an increase in salary of 3 per cent for 2014/15 which is consistent with increases across the UK business. The following is payable from 1 April 2014:

	Base salary 2014/15 £'000	Base salary 2013/14 £'000
Tim Cobbold (resigned 29 March 2014)	–	464
Colin Child	335	325

The remuneration policy for Non-executive Directors, other than the Chairman, is determined by the Board. Fees reflect the responsibilities and duties placed upon Non-executive Directors while also having regard to the market place. The Non-executive Directors do not participate in any of the Group's share incentive plans nor do they receive any benefits or pension contributions. Fees to Non-executive Directors were last increased in October 2012 to £45,000. The Chairmen of the Remuneration Committee and Audit Committee and the Senior Independent Director receive an additional fee of £7,200 to reflect their additional duties. The Chairman received a fee of £175,000 in 2013/14. Fees payable to Non-executive Directors were increased by 4 per cent for 2014/15 and are as follows:

Non-executive Director fees	2014/15 £'000	2013/14 £'000
Basic fee	47	45
Additional fee for chairmanship of Audit and Remuneration Committees and Senior Independent Director	8	7

In 2014/15 Philip Rogerson will receive a fee of £182,500 as Chairman. In order to reflect the additional time commitment for the period he continues to assume executive responsibilities pending appointment of a new Chief Executive, he will be paid an additional fee of £297,500 per annum. This will take effect from 1 April 2014 and will be pro-rated for so long as he continues in this role.

Performance against targets (subject to audit)

Annual Bonus

Under the existing 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 of salary for the Group Finance Director (being 80 per cent cash and 35 per cent shares).

ABP 2013/14 performance measures

A cash bonus became payable in respect of the year 2013/14 for Group underlying operating profit in excess of £90m with payments increasing on a straight line basis from £90m to a maximum of £100m. Deferred shares would be awarded on a similar basis for achievement of underlying operating profit between £100m and £105m. Based on achievement of an underlying operating profit of £90.5m for 2013/14, the cash bonus element under the ABP was a payout of 5 per cent of maximum opportunity. There was no deferred share entitlement in respect of the ABP for the period.

Performance Share Plan (PSP)

Executive Directors did not receive awards under the PSP in 2013/14.

Awards under the PSP in January 2011 and June 2011 respectively had the following performance measures over a three year period ending during or at the end of the financial year 2013/14:

Date of award	Performance measures	Performance thresholds	Proportion of award vesting	Vested %	% 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	100	60
	40% of award based on relative TSR[2]	TSR at median	50% of maximum	Nil	20
		TSR in upper quartile	100% of maximum	Nil	40
June 2011	2013/14 underlying operating profit[3] target in excess of £100m	Operating profit[3] £85m	Nil	Nil	Nil
		Operating profit[3] £100m	66.67% of award	24.44	36.66
		Operating profit[3] £115m	100% of award	Nil	150

Notes

1 EPS is defined as the fully diluted 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. Based on half year results, EPS growth of 14.1 per cent per annum over the three year performance period exceeded the hurdle which was 8.8 per cent per annum (being equivalent to RPI +5 per cent per annum)

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. TSR performance was 34.7 per cent below the median of the comparator group and this portion of the award lapsed

3 Threshold target was linked to the three year Improvement Plan underlying operating profit for 2013/14 of £100m. Entry was at £85m and vesting started at zero for threshold performance at the end of the three year performance period. Underlying operating profit for 2013/14 was £90.5m and therefore 24.44 per cent of the award will vest and the balance of the award will lapse

Directors' remuneration report continued

Operation of awards from 2014/15

It is intended that awards under the ABP will be made under the amended ABP to be put to shareholders for approval at the AGM. The Plan rules have been updated as described more fully in the explanatory notes to the notice of the AGM. The overall timetable of pay under the PSP has increased to four years. The performance measures that will apply to awards under the ABP and PSP are described more fully below.

ABP performance measures from 2014/15

The ABP has been refined to include a re-weighting of the elements attributable to cash and deferred shares and to include a larger number of performance metrics apportioned as follows:

- Group revenue (20%)
- Group underlying operating profit (40%)
- Group cash conversion (20%)
- Individual objectives (20%)

Sixty per cent of the bonus opportunity is payable in cash with the remaining 40 per cent deferred in shares. Half of the deferred shares will vest one year after the cash payout and the remaining half of the deferred shares will vest two years after the cash payout. There will be no change to the maximum bonus opportunities for Executive Directors as described on page 45. The Board considers that the specific profit and revenue targets are commercially sensitive and they are therefore not disclosed here. This will remain under review but the Remuneration Committee will continue to disclose how the bonus payout delivered relates to performance against the targets on a retrospective basis.

PSP performance measures from 2014/15

The PSP is designed to provide Executive Directors and selected senior managers with a long term incentive that promotes annual and long term performance and reinforces alignment between participants and shareholders. No changes are proposed to the maximum opportunity which will remain (in the absence of exceptional circumstances) 100 per cent of salary. Subject to the performance measurements outlined below, 60 per cent of an award will vest and become exercisable on the third anniversary of grant and 40 per cent will vest and become exercisable on the fourth anniversary of grant.

The Remuneration Committee believes that the most appropriate performance measures for the PSP at the current time are EPS and ROCE, with a weighting of 75 per cent measured against average growth in EPS and 25 per cent subject to ROCE.

For proposed awards in 2014/15, the vesting of PSP awards will be subject to EPS (compound average growth rate) and ROCE (absolute) performance conditions. EPS was chosen because it is a key performance indicator for shareholders. Award vesting levels under the EPS target will apply as follows:

	Vesting % of EPS element of award for Executive Directors	EPS growth
Threshold	25%	5%
Maximum	100%	10%

ROCE supports the strategic focus on growth and margins through ensuring that cash is reinvested to generate appropriate returns. ROCE targets are based on average ROCE and vesting levels will be as follows:

	Vesting % of ROCE element of award for Executive Directors	ROCE
Threshold	25%	40%
Maximum	100%	45%

The Remuneration Committee believes that the performance necessary to achieve awards is sufficiently stretching.

All awards are made as performance shares based on a percentage of salary and the value is divided by the average share price over a period before the date of grant in accordance with the rules of the PSP. In addition, the Remuneration Committee must be satisfied that the vesting reflects the underlying performance of the Group and retains the flexibility to adjust the vesting amount to ensure it remains appropriate. Any adjustments will depend on the nature, timing and materiality of any contributory factors.

Total pension entitlements (subject to audit)

The Group's UK pension schemes are funded, HMRC registered and approved schemes. They include both defined contribution and defined benefit pension schemes.

Tim Cobbold opted out of membership of the defined contribution plan on 31 March 2012 and received a cash allowance of 30 per cent of his basic salary up until his resignation on 29 March 2014.

The Company made a contribution to Colin Child's self invested personal pension of 25 per cent of his basic salary up until 31 March 2012. Since that date he has received a cash allowance in lieu of a pension contribution of 25 per cent of his basic salary.

Neither of the Executive Directors were members of the legacy defined benefit schemes.

Details of the payments made to the Executive Directors are included on page 52.

Payments to past Directors (subject to audit)

There were no payments to past Directors during the period in respect of services provided to the Company as a Director.

Payments for loss of office (subject to audit)

There were no payments for loss of office during the period.

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 in respect of the year. Tim Cobbold is a non-executive director of Drax Group plc. Colin Child was a non-executive director of Rank Group plc until his resignation on 18 March 2014. In each case the relevant Director was permitted to retain the fees as shown in the table below:

External directorship fees

	Payment received 2013/14 £'000
Tim Cobbold (resigned from De La Rue plc with effect from 29 March 2014)	54
Colin Child	44

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 has adopted a policy that Executive Directors 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.

Directors' interests in shares (subject to audit)

The Directors and their connected persons had the following interests in the ordinary shares of the Company at 29 March 2014:

	Current shareholding ordinary shares (held outright)	Current shareholding as % of salary	Performance Share Plan		Annual Bonus Plan	Recruitment Share Award	Retention Share Award	SAYE	Total as at 29 March 2014
			Vested (unexercised)	Unvested	Unvested	Vested (unexercised)	Vested (unexercised)	Unvested	
Executive Directors									
Tim Cobbold (resigned 29 March 2014)	14,813	26%	44,976[a]	–	–	74,961[b]	–	–	134,750
Colin Child	14,813	36%	31,482[c]	94,928	8,958		52,471[d]	1,245	203,897
Non-executive Chairman									
Philip Rogerson	5,000	n/a	–	–	–	–	–	–	5,000
Non-executive Directors									
Warren East	4,314	n/a	–	–	–	–	–	–	4,314
Victoria Jarman	1,481	n/a	–	–	–	–	–	–	1,481
Gill Rider	454	n/a	–	–	–	–	–	–	454
Andrew Stevens	2,327	n/a	–	–	–	–	–	–	2,327

There have been no changes in Directors' outright interests in ordinary shares in the period 29 March 2014 to 28 May 2014. All interests of the Directors and their families are beneficial. Details of awards to Tim Cobbold that lapsed following his resignation on 29 March 2014 are on page 56.

The current shareholdings as a percentage of salary are calculated using the closing De La Rue plc share price of 799.50p on 28 March 2014 (29 March 2014 being a Saturday).

Notes

(a) Includes a total of 5,647 vested dividend shares

(b) Includes a total of 9,412 vested dividend shares

(c) Includes a total of 3,952 vested dividend shares

(d) Includes a total of 6,587 vested dividend shares

Directors' remuneration report continued

Outstanding Directors' vested and unvested share awards

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 30 March 2013	Awarded during year	Exercised during year	Lapsed during year	**Awards held at 29 March 2014**	Awards vested (unexercised) during year	Mid-market share price immediately preceding date of award (pence)	Market price at exercise date (pence)	Performance target	Date from which exercisable	Expiry date
Tim Cobbold												
Recruitment Share Award	Jan 11	65,549	–	–	–	**65,549**	65,549	686.50	–	(a)	Jan 14	Sept 14
Performance Share Plan	Jan 11	65,549	–	–	(26,220)	**39,329**	39,329	686.50	–	(b)	Jan 14	Sept 14
	Jun 11	88,839	–	–	(88,839)	**–**	–	759.80[1]	–	(b)	–	(c)
	Jul 12	46,766	–	–	(46,766)	**–**	–	991.10[1]	–	(b)	–	(c)
Annual Bonus Plan	May 12	12,798	–	–	(12,798)	**–**	–	984.50	–	(a)	–	(c)
		279,501	–	–	(174,623)	**104,878**	104,878					
Sharesave options	Dec 11	1,245	–	–	(1,245)	**–**	–	722.66[2]	–	(a)		(c)
Colin Child												
Retention Share Award	Jan 11	45,884	–	–	–	**45,884**	45,884	686.50	–	(a)	Jan 14	Jan 21
Performance Share Plan	Jan 11	45,884	–	–	(18,354)	**27,530**	27,530	686.50	–	(b)	Jan 14	Jan 21
	Jun 11	62,187	–	–	–	**62,187**	–	759.80[1]	–	(b)	Jun 14	Jun 21
	Jul 12	32,741	–	–	–	**32,741**	–	991.10[1]	–	(b)	Jul 15	Jul 22
Annual Bonus Plan	May 12	8,958	–	–	–	**8,958**	–	984.50	–	(a)	May 15	May 22
		195,654	–	–	(18,354)	**177,300**	73,414					
Sharesave options	Dec 11	1,245	–	–	–	**1,245**	–	722.66[2]	–	(a)	Mar 15	Aug 15

(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 page 53

(c) Awards to Tim Cobbold in June 2011 and July 2012 under the PSP, under the ABP in May 2012 (including dividend shares in respect of those awards) and the Sharesave scheme in December 2011 lapsed following his resignation from the Company on 29 March 2014

Recruitment Share Award/Retention Share Award

- Participants will acquire shares at nominal value on exercise
- The awards are not pensionable. 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 otherwise than on a pre-emptive basis would be that conferred by shareholders on 25 July 2013

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 29 March 2014 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 (resigned 29 March 2014):15,059 ordinary shares in respect of awards vesting on 31 January 2014

Colin Child: 22,527 ordinary shares (10,539 in respect of awards vesting in the year)

Chief Executive pay, total shareholder return (TSR) and all employee pay

This section of the report enables our remuneration arrangements to be seen in context by providing:

- De La Rue's TSR performance for the five years to 29 March 2014
- A history of De La Rue's Chief Executive's remuneration over the same period
- A comparison of the year on year change in De La Rue's Chief Executive's remuneration with the change in the average remuneration across the Group
- A year on year comparison of the total amount spent on pay across the Group with profit before tax and dividends paid

Five year TSR performance

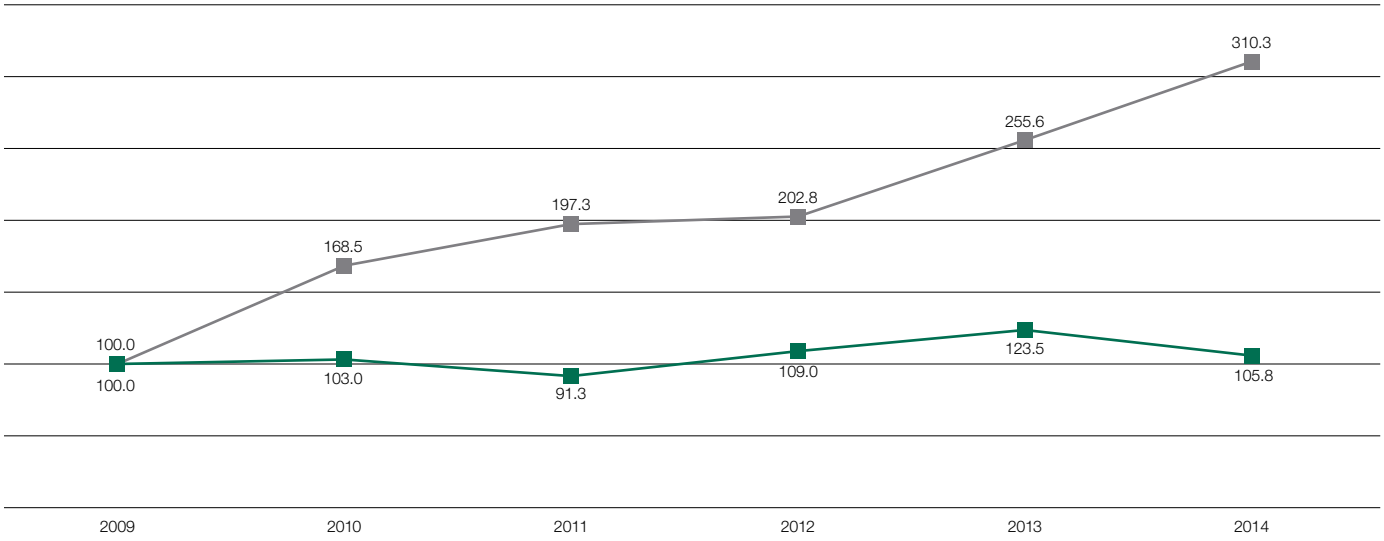
The graph below shows the value, at 29 March 2014, of £100 invested in De La Rue plc on 28 March 2009 compared with the value of £100 invested in the FTSE 250 index excluding investment trusts, assuming in each case the reinvestment of dividends. The other points plotted are the values at intervening 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

£

De La Rue plc

FTSE 250 index excluding investment trusts



Chief Executive pay

Year ended March	2009/10	2010/11	2010/11	2011/12	2012/13	2013/14
Chief Executive	James Hussey[1]	James Hussey[1]	Tim Cobbold[2,3]	Tim Cobbold[2]	Tim Cobbold[2]	Tim Cobbold[2]
Single figure of total remuneration £000	843	433	604	1,053	634	1,071
Annual bonus payout as a % of maximum opportunity	46	44	Nil	80	Nil	Nil
LTIP vesting against maximum opportunity (%)	100	100	Nil	Nil	Nil	60

Notes

1 Resigned as Chief Executive on 12 August 2010

2 Appointed Chief Executive on 1 January 2011 and resigned on 29 March 2014

3 Includes award to the value of £450,000 at the date of award under the Recruitment Share Award (which vested on 31 January 2014)

Directors' remuneration report continued

Percentage change in Chief Executive remuneration

The table below sets out, in relation to salary, taxable benefits and annual bonus, the increase in pay for Tim Cobbold compared to all UK employees between 2012/13 and 2013/14. UK employees were chosen as a comparator group to avoid the impact of exchange rate movements over the year. UK employees make up approximately 55 per cent of the total employee population.

	Salary %	Benefits %	Annual bonus %
Chief Executive	0.0	8.7	0.0
UK employees average	1.0	0.0	55.1

Relative spend on pay

The following table sets out the percentage change in payments to shareholders and the overall expenditure on pay across the Group.

	2014 £m	2013 £m	Change %
Dividends (note 7 to the financial statements)	42.2	42.1	0.0
Overall expenditure on pay (note 23 to the financial statements)	151.0	158.7	(4.8)

Statement of shareholder voting 2013

Approval of 2013 remuneration report	For	Against	Votes withheld
Percentage of votes (%)	98.15	1.85	0.05
Number of votes cast	78,610,979	1,481,452	43,644

De La Rue carefully monitors shareholder voting on the remuneration policy and implementation and the Company recognises the importance of ensuring that shareholders continue to support the remuneration arrangements. All voting at the AGM is undertaken by poll.

Remuneration Committee members

The Remuneration Committee comprises: Philip Rogerson, Warren East, Victoria Jarman and Andrew Stevens and I chair the Committee. 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 four times during the period and details of attendance can be found on page 34. 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 remuneration.

The work of the Remuneration Committee during 2013/14

The Remuneration Committee follows a clear cycle of activities during the year and in 2013/14 this covered among other things the following matters:

- Approved PSP awards vesting in respect of the three year performance period to January 2014
- Reviewed pay awards for Executive Directors and the Executive Committee for 2013/14 (Executive Directors and other Executive Committee members decided not to accept an increase in salary in 2013/14)
- Agreed pay awards for Executive Directors and the Executive Committee for 2014/15
- Consulted with major shareholders on the proposed changes to executive remuneration under the ABP and PSP
- Agreed the redesign and operation of the ABP and PSP
- Carried out an effectiveness review of the Committee
- Reviewed and agreed the remuneration policy statement and directors' remuneration report
- Agreed awards under the Sharesave and US employee share schemes

Remuneration advice

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. During 2013/14, the Committee also received advice from Towers Watson UK Limited (Towers Watson). Towers Watson has been formally appointed by the Remuneration Committee and advised on executive remuneration and assisted in the review of the Executive Directors' remuneration policy during the year. The Remuneration Committee requests Towers Watson to attend meetings periodically during the year.

Towers Watson is a member of the Remuneration Consultants' Group and has signed up to the code of conduct relating to the provision of executive remuneration advice in the UK. In light of this, and the level and nature of the service received, the Committee remains satisfied that the advice has been objective and independent.

Total fees for advice provided to the Remuneration Committee during the year by Towers Watson were £92,000.

New Bridge Street also assisted the Remuneration Committee and calculated the results of the EPS and TSR performance condition attached to the long term incentive awards but they do not provide advice to the Committee.

Dilution limits

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

Statutory requirements

The directors' remuneration report has been prepared on behalf of the Board by the Remuneration Committee.

The Remuneration Committee adopts the principles of good governance as set out in the UK Corporate Governance Code and complies with the Listing Rules of the Financial Conduct Authority and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as Amended) and the relevant schedules of the Companies Act 2006.

Gill Rider CB
Chairman of the Remuneration Committee
28 May 2014

Shareholders and share capital

Share capital
As at 29 March 2014, there were 100,718,004 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.

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 93.

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 limited authority were passed in 2013. 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.

Authority to purchase own shares
The Company was granted authority by its shareholders at the 2013 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, 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. Electronic and paper proxy appointments, and voting instructions, must be received by the Company's Registrar no later than 48 hours before a general meeting.

Dividends and distributions to shareholders on winding up
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 Conduct 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 Conduct 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.

Shareholder agreements and consent requirements
There are no known arrangements under which financial rights carried by any of the shares in the Company are held by a person other than holders of the shares and no known agreements between the holders of shares with restrictions on the transfer of shares or exercise of voting rights.

Shareholders and share capital continued

Substantial shareholdings

As at 29 March 2014, the Company had been notified in accordance with the Financial Conduct 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	% of issued ordinary share capital held
Prudential plc group of Companies	20/01/2014	Direct	17.52
Franklin Templeton Investment Management Limited	11/02/2014	Indirect	5.74
Jupiter Asset Management Limited	04/01/2013	Indirect	5.09
Mondrian Investment Partners Limited	26/01/2011	Indirect	5.80
Ameriprise Financial, Inc.	05/08/2011	Direct	0.05
		Indirect	5.01
		Total	5.06
BlackRock, Inc.	03/07/2013	Indirect	4.13
		Contracts for difference	0.84
		Total	4.97
Kames Capital	18/11/2013	Direct	4.33
		Indirect	0.64
		Total	4.97
Nordia 1 SICAV	29/04/2013	Direct	3.07

Note

On 1 May 2014 Kames Capital notified the Company that their holding had fallen to 3.99 per cent (3.22 per cent direct, 0.77 per cent indirect)

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 32 to 37.

Annual general meeting

The AGM will be held at 10:30am on Thursday 24 July 2014 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, 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.

Dividends
An interim dividend of 14.1p was paid on 8 January 2014 in respect of the half year ended 28 September 2013 and the Directors are recommending a final dividend of 28.2p, making a total for the year of 42.3p per share (2013/14: 42.3p per share). Dividend details are given in note 7 to the financial statements. Subject to approval of shareholders at the AGM on 24 July 2014, the final dividend will be paid on 1 August 2014 to those shareholders on the register on 4 July 2014.

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 2013 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.

Branches
The Group has established branches in a small number of different countries in which it operates. These branches are, however, not material to the Group's financial results.

Disclosures in the strategic report
The Board has taken advantage of section 414C(11) of the Companies Act 2006 to include disclosures in the strategic report on:

- Greenhouse gas emissions on page 28
- Disabled people and employee involvement on page 26
- The future developments, performance and position of the Group throughout pages 1 to 28
- The financial position of the Group on pages 13 to 19
- The R&D activities of the Group on page 4
- The summary of principal risks on pages 21 to 23

In addition, notes 12, 13 and 16 to the consolidated financial statements include the Group's objectives, policies and processes for financial risk management, details of its cash and cash equivalents, indebtedness and borrowing facilities and the financial instruments used for hedging liquidity, currency and interest rate risk.

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 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.

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

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 strategic report, directors' report, directors' remuneration report and corporate governance report 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.

Other statutory information continued

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 strategic report on pages 1 to 28 and pages 30 to 62 of the directors' report include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy

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.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors
In accordance with section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming AGM on 24 July 2014.

Strategic report and directors' report
Pages 1 to 28 inclusive consist of the strategic report and pages 30 to 62 inclusive consist of the directors' report. These reports have been drawn up and presented in accordance with, and in reliance upon, applicable English company law and any liability of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

The strategic report and the directors' report were approved by the Board on 28 May 2014.

By order of the Board

Edward Peppiatt
Company Secretary
28 May 2014

Independent auditor's report to the members of De La Rue plc

Opinion and conclusions arising from our audit

Our opinion on the financial statements is unmodified

We have audited the financial statements of De La Rue plc for the year ended 29 March 2014 set on pages 66 to 106. In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 29 March 2014 and of the Group's profit for the year then ended
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union
- The Parent Company financial statements have been properly prepared in accordance with UK Accounting Standards
- 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

Our assessment of risks of material misstatement

In arriving at our audit opinion on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

	The risk	Our response
Revenue recognition in the Currency division – £342.7m Refer to pages 39 (Audit Committee report), 71 to 73 (accounting policy) and 74 (financial disclosures)	Reflecting the specialist nature of the Currency division's products, many customer contracts include specific terms that impact the timing of revenue recognition on those contracts. For example, a number of customer contracts have complex acceptance conditions and some allow for 'bill and hold' arrangements where the customer asks the division to store finished products on its behalf. Reflecting these contractual complexities, there is a risk that revenue may be misstated	In this area our audit procedures included, among others, reading significant new contracts to obtain an understanding of contract terms, testing the design and operating effectiveness of controls designed to ensure that revenue is accurately recognised in the correct accounting period and specific testing of revenue transactions recorded around the year end To test revenue recognition we obtained appropriate evidence of customer acceptance on a sample basis and, in relation to revenue recorded under 'bill and hold' transactions we evaluated the underlying contractual arrangements and obtained third party documentation that demonstrates when the risks and rewards of ownership have been transferred to the customer to support the timing of revenue recognition We also assessed the adequacy of the Group's disclosure about significant judgements in relation to revenue recognition
Recoverability of work in progress – £22.2m Refer to pages 39 (Audit Committee report), 71 to 73 (accounting policy) and 83 (financial disclosures)	At the balance sheet date the Group has significant inventory, most notably work in progress on customer banknote orders. Production of banknote paper, printed banknotes and other security products is a complex process reflecting the tight specifications set by customers and the many embedded security features which are often bespoke to each product Accordingly, there is a risk that work in progress will fail quality control checks at a later stage in production and need to be scrapped or reworked. The Group provides for this risk through allowances based on past experience and known issues	In this area our audit procedures included, among others, testing the Group's controls over the determination of these allowances, recalculating the historical experience factors used and assessing their appropriateness in light of current manufacturing quality, considering the adequacy of the Group's allowances for specific issues by reference to current and recent customer complaints and assessing the risk of bias within these calculations In performing these procedures we assessed information obtained from the quality control and sales functions in relation to quality performance levels and overall customer satisfaction respectively to identify possible emerging trends We also assessed the adequacy of the Group's disclosures in relation to the significant judgements in relation to the carrying value of work in progress

Independent auditor's report to the members of De La Rue plc continued

	The risk	Our response
Warranty provisions – £11.7m Refer to pages 39 (Audit Committee report), 71 to 73 (accounting policy) and 93 (financial disclosures)	As noted above, the Group's products are complex and produced to exacting standards. Product quality issues can be identified subsequent to delivery to customers. Accordingly, at any point in time the Group may be in dialogue with customers over potential product quality issues The Group holds provisions for the potential costs associated with these risks based on a mixture of specific events and expected but not identified issues based on past experience. The assumptions underpinning these provisions are inherently uncertain	In relation to provisions for specific known issues, our audit procedures included, among others, assessing the basis of the Group's calculations by reference to the status of discussions with the relevant customer (determined by inspecting relevant correspondence) and challenging cost estimates for rectification work. In performing these procedures we have regard to past experience in addressing such matters In relation to unidentified issues, we assess and challenge the Group's methodology for determining the level of provision required taking into account the key assumptions such as historical accuracy of provisioning, the levels of expense incurred over time together with current information on product quality experience and an assessment of the risk of bias within these calculations We also assessed the adequacy of the Group's disclosures in relation to the significant judgements in relation to warranty provisioning and related contingent liabilities
Post-retirement benefit obligation – £168.0m Refer to pages 39 (Audit Committee report), 71 to 73 (accounting policy) and 97 to 99 (financial disclosures)	The Group has material defined benefit pension schemes. Significant estimates are made in valuing these and small changes in the assumptions and estimates used to value the Group's net pension deficit would have a significant effect on the financial position of the Group	In this area our audit procedures included, among others, testing of the membership data and asset valuations used to determine the net deficit. In addition, with the support of our own actuarial specialists, we challenged the key assumptions, which were the discount rate, inflation rate and mortality/life expectancy, used to determine the Group's net deficit. This included a comparison of these key assumptions against externally derived data. We also considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions
Recoverability of assets within the CPS division and related impairment charge of £14.2m Refer to pages 39 (Audit Committee report), 71 to 73 (accounting policy) and 81 to 82 (financial disclosures)	Due to competition and weaker demand for the Group's products within the cash sorters market, there is uncertainty over the value of the Group's loss making CPS division Reflecting this, the Group has recorded an impairment charge of £3.2m against goodwill and £7.4m against product development costs and £3.6m against property, plant and equipment Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which determines the scale of the impairment charge recorded, this is one of the key judgemental areas that our audit has concentrated on	In this area our audit procedures included, among others, assessing the Group's budgeting procedures used to derive the forecasts considered within the impairment assessment and testing the integrity of the Group's discounted cash flow model used to determine the recoverable amount of the division as a whole. We challenged the assumptions and methodologies used by the Group, in particular those relating to the forecast revenue and profit margins. We compared the Group's assumptions to externally available information about potential market opportunities as well as our own assessments in relation to key inputs such as tender timetables, competition, cost inflation and discount rates. Our own specialists contributed to this work We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of this division. We also assessed whether the Group's disclosures reflected appropriately the outcome of its impairment testing

Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £3.5 million. This has been determined with reference to a benchmark of Group profit before taxation, which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the Group. Materiality represents 5.9 per cent of Group profit before tax and 4.7 per cent of Group profit before tax adjusted for the impairment charge of £14.2m as disclosed in note 9 of the financial statements.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £175,000 for income statement items, in addition to other audit misstatements we believed warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component audit teams at the reporting components in the following countries: UK (eight components, seven performed by the Group audit team), Kenya and Malta. In addition, specified audit procedures were performed by component auditors covering three components in the UK (two locations) and by the Group audit team over a further five components including two in the UK, two in the US and one in Brazil. These Group procedures covered 91 per cent of total Group revenue; 92 per cent of Group profit before taxation; and 88 per cent of total Group assets.

The audits undertaken for Group reporting purposes at all the key reporting components of the Group were all performed to local materiality levels. These local materiality levels were set individually for each component and agreed with the Group audit team and ranged from £0.1 million to £2.7 million.

Detailed instructions were sent to all the auditors in these locations. These instructions covered the significant areas that should be addressed by the component auditors (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. In addition to those components audited directly by the Group audit team, members of the Group audit team visited three components; two in the United Kingdom and Malta. Telephone meetings were also held with the auditors at these and other locations that were not physically visited.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- The part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006
- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

We have nothing to report in respect of matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- The Audit Committee report on pages 38 to 40 does not appropriately address matters communicated by us to the Audit Committee

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

- Adequate accounting records have not been kept by the Parent Company or returns adequate for our audit have not been received from branches not visited by us
- The Parent Company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 71, in relation to going concern; and
- The part of the corporate governance report on pages 32 to 37 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the statement of Directors' responsibilities set out on page 61, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Ian Bone
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants, 15 Canada Square, London

28 May 2014

Group income statement
for the period ended 29 March 2014

	Notes	2014 £m	2013* £m
Revenue	1	**513.3**	483.7
Operating expenses – ordinary	2	**(424.0)**	(422.2)
Operating expenses – exceptional	2, 3	**(17.5)**	(7.6)
Total operating expenses		**(441.5)**	(429.8)
Operating profit		**71.8**	53.9
Comprising:			
Underlying operating profit before IAS 19R		**90.5**	63.2
Defined benefit pension administration costs (IAS 19R)**		**(1.2)**	(1.7)
Exceptional items	3	**(17.5)**	(7.6)
Profit before interest and taxation		**71.8**	53.9
Interest income	4	**0.2**	0.2
Interest expense	4	**(4.9)**	(3.8)
Retirement benefit obligation net finance expense	22	**(7.3)**	(6.6)
Net finance expense		**(12.0)**	(10.2)
Profit before taxation		**59.8**	43.7
Comprising:			
Underlying profit before tax		**77.3**	51.3
Exceptional items	3	**(17.5)**	(7.6)
Taxation	5	**(11.9)**	(5.5)
Profit for the year		**47.9**	38.2
Comprising:			
Underlying profit for the year		**61.2**	39.3
Loss for the year on exceptional items	3	**(13.3)**	(1.1)
Profit attributable to equity shareholders of the Company		**47.3**	37.2
Profit attributable to non-controlling interests		**0.6**	1.0
		47.9	38.2

Profit for the year attributable to the Company's equity holders			
Earnings per ordinary share			
Basic	6	**47.3p**	37.4p
Diluted	6	**47.0p**	36.9p
Impact of IAS 19R restatement			5.9p
Basic earnings per ordinary share as previously reported			43.3p
Diluted earnings per ordinary share as previously reported			42.8p

*Restated to reflect the amendments to IAS 19R Employee benefits (IAS 19R) – see accounting policies

**The impact of IAS 19R on operating profit has been separately disclosed above as we consider this to be useful to the users of the accounts given the importance of the Group's Improvement Plan operating profit target, which was stated before exceptional items and IAS 19R

Group statement of comprehensive income for the period ended 29 March 2014

	Notes	2014 £m	2013* £m
Profit for the year		**47.9**	38.2
Other comprehensive income			
Items that are not reclassified subsequently to profit or loss:			
Remeasurement losses on retirement benefit obligations	22	**(2.1)**	(29.5)
Tax related to remeasurement of net defined benefit liability	5	**(4.7)**	5.6
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**(2.5)**	1.0
Change in fair value of cash flow hedges		**(4.2)**	(0.9)
Change in fair value of cash flow hedges transferred to profit or loss		**0.6**	2.1
Income tax relating to components of other comprehensive income	5	**0.2**	(0.1)
Other comprehensive income for the year, net of tax		**(12.7)**	(21.8)
Total comprehensive income for the year		**35.2**	16.4
Comprehensive income for the year attributable to:			
Equity shareholders of the Company		**34.6**	15.4
Non-controlling interests		**0.6**	1.0
		35.2	16.4

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

Group balance sheet at 29 March 2014

	Notes	2014 £m	2013 £m
ASSETS			
Non-current assets			
Property, plant and equipment	8	**184.3**	179.7
Intangible assets	9	**18.1**	26.0
Investments in associates and joint ventures		**0.1**	0.1
Deferred tax assets	14	**37.5**	45.5
Derivative financial assets	12	**0.4**	–
		240.4	251.3
Current assets			
Inventories	10	**77.1**	73.4
Trade and other receivables	11	**105.0**	89.2
Current tax assets		**0.2**	0.3
Derivative financial assets	12	**2.3**	4.9
Cash and cash equivalents	13	**57.9**	24.8
		242.5	192.6
Total assets		**482.9**	443.9
LIABILITIES			
Current liabilities			
Borrowings	16	**(147.8)**	(101.5)
Trade and other payables	15	**(170.9)**	(167.4)
Current tax liabilities		**(27.6)**	(29.1)
Derivative financial liabilities	12	**(5.8)**	(3.9)
Provisions for liabilities and charges	17	**(21.1)**	(26.0)
		(373.2)	(327.9)
Non-current liabilities			
Retirement benefit obligations	22	**(168.0)**	(169.1)
Deferred tax liabilities	14	**(1.3)**	(2.8)
Derivative financial liabilities	12	**(1.5)**	(1.2)
Provisions for liabilities and charges	17	**(2.1)**	(4.5)
Other non-current liabilities	15	**(7.2)**	(5.0)
		(180.1)	(182.6)
Total liabilities		**(553.3)**	(510.5)
Net liabilities		**(70.4)**	(66.6)
EQUITY			
Share capital	18	**46.3**	45.8
Share premium account		**35.3**	31.9
Capital redemption reserve		**5.9**	5.9
Hedge reserve		**(3.2)**	(0.3)
Cumulative translation adjustment		**(3.4)**	(0.4)
Other reserve		**(83.8)**	(83.8)
Retained earnings		**(72.6)**	(70.4)
Total equity attributable to shareholders of the Company		**(75.5)**	(71.3)
Non-controlling interests		**5.1**	4.7
Total equity		**(70.4)**	(66.6)

Approved by the Board on 28 May 2014

Philip Rogerson
Chairman

Colin Child
Group Finance Director

Group statement of changes in equity for the period ended 29 March 2014

	Attributable to equity shareholders							Non-controlling interests	Total equity
	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Cumulative translation adjustment £m	Other reserve £m	Retained earnings £m	£m	£m
Balance at 31 March 2012	45.7	30.7	5.9	(1.2)	(1.4)	(83.8)	(45.4)	3.9	(45.6)
Profit for the year	–	–	–	–	–	–	37.2	1.0	38.2
Other comprehensive income for the year, net of tax	–	–	–	0.9	1.0	–	(23.7)	–	(21.8)
Total comprehensive income for the year	–	–	–	0.9	1.0	–	13.5	1.0	16.4
Transactions with owners of the Company recognised directly in equity:									
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)
Profit for the year	–	–	–	–	–	–	47.3	0.6	47.9
Other comprehensive income for the year, net of tax	–	–	–	(2.9)	(3.0)	–	(6.8)	–	(12.7)
Total comprehensive income for the year	–	–	–	(2.9)	(3.0)	–	40.5	0.6	35.2
Transactions with owners of the Company recognised directly in equity:									
Share capital issued	0.5	3.4	–	–	–	–	–	–	3.9
Employee share scheme:									
– value of services provided	–	–	–	–	–	–	(0.2)	–	(0.2)
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(0.3)	–	(0.3)
Dividends paid	–	–	–	–	–	–	(42.2)	(0.2)	(42.4)
Balance at 29 March 2014	**46.3**	**35.3**	**5.9**	**(3.2)**	**(3.4)**	**(83.8)**	**(72.6)**	**5.1**	**(70.4)**

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 29 March 2014

	Notes	2014 £m	2013* £m
Cash flows from operating activities			
Profit before tax		**59.8**	43.7
Adjustments for:			
Finance income and expense		**12.0**	10.2
Depreciation and amortisation		**28.3**	26.3
Increase in inventory		**(6.1)**	(4.1)
Increase in trade and other receivables		**(11.5)**	(6.9)
Decrease in trade and other payables		**(0.9)**	(3.8)
Decrease in reorganisation provisions		**(6.0)**	(10.4)
Special pension fund contributions		**(11.5)**	(16.2)
(Profit)/loss on disposal of property, plant and equipment and software intangibles		**(4.0)**	0.3
Asset impairment		**14.2**	–
Other non-cash movements		**(0.4)**	1.3
Cash generated from operating activities		**73.9**	40.4
Tax paid		**(11.2)**	(7.5)
Net cash flows from operating activities		**62.7**	32.9
Cash flows from investing activities			
Purchases of property, plant, equipment and software intangibles		**(34.9)**	(37.1)
Development assets capitalised		**(4.7)**	(3.7)
Proceeds from sale of property, plant and equipment		**8.1**	0.2
Net cash flows from investing activities		**(31.5)**	(40.6)
Net cash flows before financing activities		**31.2**	(7.7)
Cash flows from financing activities			
Proceeds from issue of share capital		**3.8**	1.3
Proceeds from borrowings		**47.2**	50.9
Interest received		**0.2**	0.2
Interest paid		**(4.6)**	(3.5)
Dividends paid to shareholders		**(42.2)**	(42.1)
Dividends paid to non-controlling interests		**(0.2)**	(0.2)
Net cash flows from financing activities		**4.2**	6.6
Net increase/(decrease) in cash and cash equivalents in the year		**35.4**	(1.1)
Cash and cash equivalents at the beginning of the year		**21.7**	22.5
Exchange rate effects		**(0.9)**	0.3
Cash and cash equivalents at the end of the year		**56.2**	21.7
Cash and cash equivalents consist of:			
Cash at bank and in hand	13	**55.7**	24.8
Short term deposits		**2.2**	–
Bank overdrafts		**(1.7)**	(3.1)
	20	**56.2**	21.7

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

Accounting policies

The Company
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 108 of this annual report. The consolidated financial statements of the Company for the period ended 29 March 2014 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.

Statement of compliance
European Union (EU) law (IAS Regulation EC 1606/2002) requires that the consolidated financial statements, for the period ended 29 March 2014, 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 accounts have been prepared as at 29 March 2014, being the last Saturday in March. The comparatives for the 2012/13 financial year are for the period ended 30 March 2013.

The Company has elected to prepare its financial statements in accordance with UK generally accepted accounting practice (UK GAAP).

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 years presented, unless otherwise stated.

During the period 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, other than IAS 19 – Employee benefits, which requires retrospective adoption and therefore prior periods have been restated.

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its defined benefit scheme. Under IAS 19 (2011), the Group determines the net interest expense for the period on the net defined liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the defined benefit asset at the beginning of the annual period, taking into account any changes in the net defined benefit asset during the period as a result of contributions and benefit payments. In addition, pension administration charges are now charged against operating profit.

The impact of the change has been to increase operating costs by £1.2m (2012/13: £1.7m), increase the net interest expense by £6.7m (2012/13: £6.1m), reduce taxation by £1.8m (2012/13: £1.9m), with compensating adjustments in other comprehensive income leaving equity unchanged. This has reduced profit after tax by £6.1m (2012/13: £5.9m), and reduced underlying and basic EPS by 6.1p (2012/13: 5.9p).

A number of other new and amended IFRS were issued during the year which do not become effective until after 29 March 2014. None of these are likely to have a material impact on the Group for the 2014/15 year.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 6 to 23 of the strategic report. In addition, pages 84 to 90 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 17 of the strategic report.

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 5, 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 29 March 2014. 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 29 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 2013, results for the period to 29 March 2014 and the balance sheet as at 29 March 2014 have been consolidated.

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

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

Accounting policies continued

Significant accounting policies
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 note, for example foreign exchange, 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 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 12 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 re-translation 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.

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, the timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of products and associated components, when sold separately, the transfer usually occurs on loading the goods onto the relevant carrier or, at an earlier point in time when conditions are met for recognition of revenue on a bill and hold basis.

Revenue on service based contracts is recognised as services are provided. If the services under a single arrangement are rendered in different reporting periods, or under an arrangement that also includes the sale of goods, then the consideration is allocated on a relative fair value basis between the sale of goods and rendering of services and then allocated to the appropriate reporting periods in accordance with the transfer of risks and rewards and the contractual life of the service contract.

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.

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.

Revenue recognition

Customer contracts within the Currency business will often include specific terms that impact the timing of revenue recognition. The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of products and associated components, when sold separately, the transfer usually occurs on loading the goods onto the relevant carrier or, at an earlier point in time when conditions are met for recognition of revenue on a bill and hold basis. Judgement is used in interpreting these terms and conditions in assessing when the risks and rewards have been transferred to the customer especially where they include complex acceptance criteria.

Valuation of work in progress

At any point in time, the Group has significant levels of inventory work in progress. Currency 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.

Intangible 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.

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 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. See page 98 for detail of the relative sensitivity of the value of the scheme liabilities to changes in the discount and inflation rates.

Warranties
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.

Other accounting judgements, estimates and assumptions
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.

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.

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 Group's segments are:

Currency

- Provides printed banknotes, banknote paper and banknote security components

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

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

		Solutions				
2014	Currency £m	Cash Processing Solutions £m	Security Products £m	Identity Systems £m	Unallocated £m	Total £m
Total revenue	342.7	57.4	46.2	77.6	–	523.9
Less: inter-segment revenue	(1.9)	(4.2)	(4.5)	–	–	(10.6)
Revenue	340.8	53.2	41.7	77.6	–	513.3
Underlying operating profit/(loss)	62.0	(4.1)	10.6	22.0	–	90.5
Defined benefit pension administration cost					(1.2)	(1.2)
Exceptional items – operating (note 3)	0.5	(16.9)	1.3	–	(2.4)	(17.5)
Operating profit/(loss)	62.5	(21.0)	11.9	22.0	(3.6)	71.8
Net interest expense					(4.7)	(4.7)
Retirement benefit obligations net finance expense					(7.3)	(7.3)
Profit before taxation						59.8
Segment assets	247.7	35.6	26.4	39.8	133.4	482.9
Segment liabilities	(133.0)	(11.4)	(7.7)	(21.9)	(379.3)	(553.3)
Capital expenditure on property, plant and equipment	35.2	0.6	1.4	1.7	–	38.9
Capital expenditure on intangible assets	1.9	2.5	2.2	0.1	–	6.7
Depreciation of property, plant and equipment	17.1	1.3	2.0	3.4	–	23.8
Impairment of property, plant and equipment	–	3.6	–	–	–	3.6
Amortisation of intangible assets	1.3	2.7	–	0.5	–	4.5
Impairment of intangible assets	–	10.6	–	–	–	10.6

Unallocated assets principally comprise deferred tax assets of £37.5m (2012/13: £45.5m), cash and cash equivalents of £57.9m (2012/13: £24.8m) which are used as part of the Group's financing offset arrangements and derivative financial instrument assets of £2.7m (2012/13: £4.9m) as well as current tax assets, associates and centrally managed property, plant and equipment.

Unallocated liabilities principally comprise retirement benefit obligations of £168.0m (2012/13: £169.1m), borrowings of £147.8m (2012/13: £101.5m), current tax liabilities of £27.6m (2012/13: £29.1m) and derivative financial instrument liabilities of £7.3m (2012/13: £5.1m) as well as deferred tax liabilities and centrally held accruals and provisions.

1 Segmental analysis continued

2013*	Currency £m	Solutions: Cash Processing Solutions £m	Solutions: Security Products £m	Solutions: Identity Systems £m	Unallocated £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
Underlying operating profit	38.0	–	8.9	16.3	–	63.2
Defined benefit pension administration cost					(1.7)	(1.7)
Exceptional items – operating (note 3)	(1.8)	–	(2.1)	–	(3.7)	(7.6)
Operating profit/(loss)	36.2	–	6.8	16.3	(5.4)	53.9
Net interest expense					(3.6)	(3.6)
Retirement benefit obligations net finance expense					(6.6)	(6.6)
Profit before taxation						43.7
Segment assets	220.8	49.3	21.8	45.5	106.5	443.9
Segment liabilities	(112.2)	(21.9)	(8.9)	(23.8)	(343.7)	(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

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

Analysis of revenue by activity

	2014 £m	2013 £m
Goods	**476.2**	446.1
Services	**37.1**	37.6
	513.3	483.7

Geographic analysis of revenue by origin

	2014 £m	2013 £m
UK	**428.1**	386.3
Other countries	**85.2**	97.4
	513.3	483.7

Geographic analysis of non-current assets

	2014 £m	2013 £m
UK	**142.0**	132.5
Malta	**26.7**	31.0
Sri Lanka	**18.5**	20.2
Other countries	**15.2**	22.1
	202.4	205.8

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

Major customers

The Group has no major customer from which it derived revenues of greater than 10 per cent in 2013/14 (2012/13: £52.1m in the Identity Systems operating unit).

Notes to the accounts continued

2 Expenses by nature

	2014 £m	2013 £m
Cost of inventories recognised as an expense	**155.5**	112.0
Net decrease in impairment of inventories	**(1.4)**	(1.1)
Depreciation of property, plant and equipment	**23.8**	23.4
Asset impairment charge	**14.2**	–
Amortisation of intangibles	**4.5**	2.9
Operating leases:		
– Hire of plant and equipment	**1.0**	1.0
– Hire of property	**3.4**	3.8
Amounts payable to KPMG and its associates:		
– Audit of these consolidated financial statements	**0.2**	0.1
– Audit of the financial statements of subsidiaries pursuant to legislation	**0.3**	0.4
– Taxation services	**0.3**	0.1
– Other	**0.1**	–
Research and non-capitalised development expense	**11.1**	10.4
(Profit)/loss on disposal of property, plant and equipment	**(4.0)**	0.3
Employee costs (including Directors' emoluments) (note 23)	**151.0**	158.7
Foreign exchange losses	**0.6**	1.9

3 Exceptional items

Exceptional items are disclosed separately in the financial statements where the Directors consider it necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

	2014 £m	2013 £m
Site relocation and restructuring	**(3.5)**	(7.6)
Legacy indirect tax issues	**(2.2)**	–
Multi year contract bid costs	**(1.1)**	–
Professional fees on aborted acquisition	**(1.0)**	–
Gain on sale of fixed assets	**4.5**	–
Asset impairment	**(14.2)**	–
Exceptional items in operating profit	**(17.5)**	(7.6)
Tax credit on exceptional items	**4.2**	6.5

Exceptional costs of £3.5m have been incurred in 2013/14 in connection with the ongoing costs of implementing the Improvement Plan (2012/13: £7.6m). This brings the cumulative exceptional charges taken in respect of the Improvement Plan to a total of £35.2m.

In addition, £1.1m of charges were incurred in connection with the preparation of bids for the supply of products or services under multi year arrangements, £2.2m of charges with regard to the resolution of an overseas historic indirect tax liability, £1.0m of legal and professional fees incurred in relation to an aborted acquisition and £14.2m in relation to tangible and intangible asset impairments. These costs were partly offset by a gain on sale of fixed assets in the year of £4.5m. The net cash cost of exceptional items in the year was £4.0m.

Following a detailed review of the individual cash generating units within the CPS business and the performance of the business as a whole, impairment charges of £14.2m (£7.4m; development intangibles, £3.2m; goodwill intangibles and £3.6m; tangible assets) have been recognised. This is a consequence of lower expectations of future trading performance, informed by the poor trading result reported in the current financial year. These lower expectations, and hence lower forecast cash inflows, reflect the benefit of the targeted breakeven plan for 2014/15 but also recognise the continuing challenging environment for CPS.

The £3.5m exceptional operating charge with respect to the Improvement Plan reported in 2013/14 (2012/13: £7.6m) comprised £1.5m (2012/13: £0.8m) in staff compensation, £nil (2012/13: £0.2m) of accelerated depreciation on property, plant and equipment, £0.7m credit (2012/13: £4.3m charge) for site exit costs and £2.7m (2012/13: £2.3m) in other associated reorganisation costs.

Tax credits relating to exceptional items arising in the period were £0.9m (2012/13: £2.1m). In addition there was an exceptional credit of £3.3m (2012/13: £4.4m) in respect of the determination of the tax treatment of prior year exceptional items, of which £1.7m credit related to discontinued operations.

4 Interest income and expense

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.

	2014 £m	2013* £m
Recognised in the income statement		
Interest income:		
– Cash and cash equivalents	**0.2**	0.2
Interest expense:		
– Bank overdrafts	**(0.6)**	(0.4)
– Bank loans	**(3.4)**	(2.6)
– Other, including amortisation of finance arrangement fees	**(0.9)**	(0.8)
Total interest expense calculated using the effective interest method	**(4.9)**	(3.8)
Retirement benefit obligation net finance expense (note 22)	**(7.3)**	(6.6)

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

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 (2012/13: £nil).

5 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.

Notes to the accounts continued

5 Taxation continued

	2014 £m	2013* £m
Consolidated income statement		
Current tax		
UK corporation tax:		
– Current tax	**12.4**	8.2
– Adjustment in respect of prior years	**(0.7)**	(3.8)
	11.7	4.4
Overseas tax charges:		
– Current year	**3.6**	3.9
– Adjustment in respect of prior years	**(2.9)**	(1.0)
	0.7	2.9
Total current income tax expense	**12.4**	7.3
Deferred tax:		
– Origination and reversal of temporary differences, UK	**0.9**	(3.1)
– Origination and reversal of temporary differences, overseas	**(1.4)**	1.3
Total deferred tax credit	**(0.5)**	(1.8)
Total income tax expense in the consolidated income statement	**11.9**	5.5
Attributable to:		
– Ordinary activities	**16.1**	12.0
– Exceptional items	**(4.2)**	(6.5)
Consolidated statement of comprehensive income:		
– On remeasurement of net defined benefit liability	**4.7**	(5.6)
– On cash flow hedges	**(0.7)**	0.3
– On foreign exchange on quasi-equity balances	**0.5**	(0.2)
Income tax expense/(credit) reported within other comprehensive income	**4.5**	(5.5)
Consolidated statement of changes in equity:		
– On share options	**0.3**	(0.6)
Income tax expense/(credit) reported within equity	**0.3**	(0.6)

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 23 per cent as follows:

	2014			2013*		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Profit before tax	**77.3**	**(17.5)**	**59.8**	51.3	(7.6)	43.7
Tax calculated at UK tax rate of 23 per cent (2012/13: 24 per cent)	**17.8**	**(4.0)**	**13.8**	12.3	(1.8)	10.5
Effects of overseas taxation	**(1.8)**	**–**	**(1.8)**	(0.7)	–	(0.7)
Expenses/(credits) not allowable for tax purposes	**0.6**	**1.3**	**1.9**	1.3	(0.3)	1.0
Increase in unutilised tax losses	**0.5**	**1.7**	**2.2**	0.3	–	0.3
Adjustments in respect of prior years	**(0.1)**	**(3.3)**	**(3.4)**	(1.1)	(4.4)	(5.5)
Change in UK tax rate	**(0.9)**	**0.1**	**(0.8)**	(0.1)	–	(0.1)
Tax expense/(credit)	**16.1**	**(4.2)**	**11.9**	12.0	(6.5)	5.5

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

The underlying effective tax rate excluding exceptional items was 20.8 per cent (2012/13: 23.4 per cent).

6 Earnings per share

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

	2014 pence per share	2013* pence per share
Earnings per share		
Basic earnings per share	**47.3**	37.4
Diluted earnings per share	**47.0**	36.9
Underlying earnings per share		
Basic earnings per share	**60.7**	38.5
Diluted earnings per share	**60.2**	38.0

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

Earnings

	2014 £m	2013* £m
Earnings for basic and diluted earnings per share	**47.3**	37.2
Exceptional items	**17.5**	7.6
Less: Tax on exceptional items	**(4.2)**	(6.5)
Earnings for underlying earnings per share	**60.6**	38.3

Weighted average number of ordinary shares

	2014 Number m	2013 Number m
For basic earnings per share	**99.9**	99.6
Dilutive effect of share options	**0.7**	1.1
For diluted earnings per share	**100.6**	100.7

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

7 Equity dividends

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

	2014 £m	2013 £m
Final dividend for the period ended 30 March 2013 of 28.2p paid on 1 August 2013	**28.1**	–
Interim dividend for the period ended 28 September 2013 of 14.1p paid on 8 January 2014	**14.1**	–
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
	42.2	42.1

A final dividend per equity share of 28.2p has been proposed for the period ended 29 March 2014. If approved by shareholders the dividend will be paid on 1 August 2014 to ordinary shareholders on the register at 4 July 2014.

8 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 4 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.

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.

	Notes	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	In course of construction £m	Total £m
Cost						
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
Exchange differences		(0.4)	(4.6)	(0.5)	(0.1)	(5.6)
Additions		–	3.0	0.6	35.3	38.9
Transfers from assets in the course of construction		6.1	24.3	3.8	(35.8)	(1.6)
Disposals		–	(8.3)	(1.0)	(0.2)	(9.5)
At 29 March 2014		**65.6**	**352.2**	**29.2**	**18.7**	**465.7**
Accumulated depreciation						
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
Exchange differences		(0.2)	(3.8)	(0.4)	–	(4.4)
Depreciation charge for the year		1.5	19.7	2.6	–	23.8
Impairment	9	2.2	0.5	0.9	–	3.6
Disposals		–	(4.7)	(0.7)	–	(5.4)
At 29 March 2014		**27.8**	**233.9**	**19.7**	**–**	**281.4**
Net book value at 29 March 2014		**37.8**	**118.3**	**9.5**	**18.7**	**184.3**
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

9 Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any impairment losses.

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 not amortised and is stated 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.

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. 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 5 and 10 years, once the product or enhancement is available for use. Product research costs are written off as incurred.

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.

	Goodwill £m	Development costs £m	Software assets £m	Distribution rights £m	Total £m
Cost					
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
Exchange differences	(0.4)	(1.0)	–	–	(1.4)
Additions	–	6.3	0.4	–	6.7
Transfers from assets in the course of construction	–	1.6	–	–	1.6
Disposals	–	(0.2)	(0.6)	–	(0.8)
At 29 March 2014	**8.0**	**29.8**	**9.3**	**0.4**	**47.5**
Accumulated amortisation					
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
Exchange differences	(0.1)	(0.3)	(0.1)	–	(0.5)
Amortisation for the year	–	3.9	0.6	–	4.5
Impairment	3.2	7.4	–	–	10.6
Disposals	–	–	(0.6)	–	(0.6)
At 29 March 2014	**3.7**	**17.3**	**8.0**	**0.4**	**29.4**
Carrying value at 29 March 2014	**4.3**	**12.5**	**1.3**	**–**	**18.1**
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

9 Intangible assets continued

Impairment testing

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.

Goodwill is allocated to the Group's CGUs identified according to business segment and country of operation.

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

	2014 £m	2013 £m
Currency	**4.3**	4.3
Cash Processing Solutions (CPS)	**–**	3.5
	4.3	7.8

The majority of the goodwill relates to the acquisition of CSI Inc in 2001 which was allocated to Currency and CPS on the basis that the acquired business generated synergies for both CGUs.

As a result of the worsening trading performance of the CPS operation reported in 2013/14, in addition to the annual review of the intangible goodwill, the value of the CPS CGU as a whole has been tested for impairment. Following this review, impairment charges of £14.2m were recorded with respect to the CPS operation. Of the total charge, £3.2m related to goodwill, £7.4m to development intangible assets and £3.6m was allocated to property, plant and equipment across the CPS business.

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. Cash flows beyond the period covered by the projections have been held constant. 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 long standing relationships with them

(b) CPS: Unit sales of medium and large sorters and the extent of maintenance service income generated from these sales are based on a combination of orders on hand, past experience and expectations of future demand

The pre-tax discount rate used for Currency was 13 per cent (2012/13: 13 per cent) and for Cash Processing Solutions was 10 per cent (2012/13: 13 per cent). The discount rates applied take into account the Group's weighted average cost of capital, the relative risks associated with the CGUs' operations and the level of risk inherent in the forward projections.

The Directors do not consider there to be any reasonably possible change in assumptions that would result in a different conclusion being reached with regards to the impairment of the CPS CGU, or the recoverable amount being below the carrying amount of the Currency CGU.

10 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.

	2014 £m	2013 £m
Raw materials	**25.7**	27.3
Work in progress	**22.2**	25.7
Finished goods	**29.2**	20.4
	77.1	73.4

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

Provisions of £0.6m recognised in pre-exceptional operating expenses were made against inventories in 2013/14 (2012/13: £1.4m). The Group also reversed provisions of £2.0m (2012/13: £2.5m), being provisions against inventory that was subsequently utilised or sold.

11 Trade and other receivables

Trade and other receivables are measured at carrying value less any impairment, which approximates to fair value.

	2014 £m	2013 £m
Trade receivables	**97.3**	82.6
Provision for impairment	**(3.4)**	(4.5)
Net trade receivables	**93.9**	78.1
Other receivables	**7.1**	6.5
Prepayments	**4.0**	4.6
	105.0	89.2

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 2014 £m	Impairment 2014 £m	Gross 2013 £m	Impairment 2013 £m
Not past due	**66.9**	**–**	62.2	–
Past due 0-30 days	**15.5**	**(0.2)**	13.9	–
Past due 31-120 days	**13.6**	**(0.6)**	8.2	(0.9)
Past due more than 120 days	**8.4**	**(2.6)**	4.8	(3.6)
	104.4	**(3.4)**	89.1	(4.5)

The provision for impairment in respect of trade receivables is 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.

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

	2014 £m	2013 £m
Balance at beginning of year	**(4.5)**	(4.7)
Impairment losses recognised	**(0.9)**	(1.9)
Impairment losses reversed	**2.0**	2.1
Balance at end of year	**(3.4)**	(4.5)

Amounts can go past due before collection in situations where the customer may have raised queries over contractual compliance. Such issues arise in the normal course of business and are routinely addressed to the satisfaction of the customer. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and analysis of customer credit risk, including underlying customers' credit ratings if they are available.

12 Financial risk

Financial risk management

Overview

The Group's activities expose it to a variety of financial risks, the most significant of which are liquidity risk, market risk and credit risk.

The Group's financial risk management policies are established and reviewed regularly to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The use of financial derivatives is governed by the Group's risk management policies approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group's treasury department is responsible for the management of these financial risks faced by the Group.

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

Liquidity risk

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

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

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

(a) Currency risk

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

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

The Group's risk management policy aims to hedge firm commitments 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 have been used to fix the interest rate on a minimum of 50 per cent of the Group's forecast average levels of net debt for a period of at least 12 months.

Credit risk

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

The Group's exposure to credit risk is influenced 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

Financial Instruments

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

Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and are effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the period in which the hedged item also affects the income statement. However, if the hedged item results in the recognition of a non-financial asset or liability, the amounts accumulated in equity on the hedging instrument are transferred from equity and included in the initial measurement of the cost of the asset or liability. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Fair value hedges

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

Embedded derivatives

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

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 2014 £m**	**Carrying amount 2014 £m**	Total fair value 2013 £m	Carrying amount 2013 £m
Financial assets					
Trade and other receivables*		**101.0**	**101.0**	84.6	84.6
Cash and cash equivalents		**57.9**	**57.9**	24.8	24.8
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**0.7**	**0.7**	3.3	3.3
– 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	**1.2**	**1.2**	0.6	0.6
– Embedded derivatives	Level 2	**0.5**	**0.5**	0.9	0.9
– Interest rate swaps	Level 2	**0.2**	**0.2**	–	–
Total financial assets		**161.6**	**161.6**	114.3	114.3
Financial liabilities					
Unsecured bank loans and overdrafts		**(147.8)**	**(147.8)**	(101.5)	(101.5)
Trade and other payables**		**(72.9)**	**(72.9)**	(59.6)	(59.6)
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**(5.0)**	**(5.0)**	(3.5)	(3.5)
– Short duration swap contracts designated as fair value hedges	Level 2	**(0.2)**	**(0.2)**	(0.1)	(0.1)
– Foreign exchange fair value hedges – other economic hedges	Level 2	**(0.1)**	**(0.1)**	(1.3)	(1.3)
– Embedded derivatives	Level 2	**(2.0)**	**(2.0)**	(0.2)	(0.2)
– Interest rate swaps	Level 2	**–**	**–**	–	–
Total financial liabilities		**(228.0)**	**(228.0)**	(166.2)	(166.2)

*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.

12 Financial risk continued

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.

Determination of fair values of non-derivative financial assets and liabilities

Non-derivative financial assets and liabilities

Non-derivative financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest, are recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred. Non-derivative financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Hedge reserves

The hedge reserve balance on 29 March 2014 was (£3.2m), 30 March 2013: (£0.3m). Net movements in the hedge reserve are shown in the Group statement of changes in equity.

Comprehensive income after tax was £2.9m comprising a gain of £4.2m of fair value movements on new and continuing cash flow hedges, and a £0.6m charge to the income statement to match the recognition of the related cash flows in effective cash flow hedge relationships. Deferred tax on the net gain of £3.6m amounted to £0.7m.

Hedge reserve movements in the income statement were as follows:

	Revenue £m	Operating expense £m	Interest expense £m	Total £m
29 March 2014				
– Maturing cash flow hedges	**(0.3)**	**(0.3)**	**–**	**(0.6)**
– Ineffectiveness on de-recognition of cash flow hedges	**–**	**–**	**–**	**–**
	(0.3)	**(0.3)**	**–**	**(0.6)**
30 March 2013				
– Maturing cash flow hedges	0.5	(2.6)	–	(2.1)
– Ineffectiveness on de-recognition of cash flow hedges	–	–	–	–
	0.5	(2.6)	–	(2.1)

The ineffective portion of fair value hedges that was recognised in the income statement amounted to £nil (2012/13: £nil). The ineffective portion of cash flow hedges that was recognised in the income statement was £nil (2012/13: £nil).

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.

29 March 2014	**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	**147.8**	**–**	**–**	**147.8**	**–**	**147.8**
Derivative financial liabilities						
Gross amount payable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	**119.6**	**7.6**	**0.9**	**128.1**	**(123.1)**	**5.0**
– Short duration swap contracts designated as fair value hedges	**34.4**	**–**	**–**	**34.4**	**(34.2)**	**0.2**
– Fair value hedges – other economic hedges	**9.6**	**1.3**	**–**	**10.9**	**(10.8)**	**0.1**
Interest rate swaps	**–**	**–**	**–**	**–**	**–**	**–**
	311.4	**8.9**	**0.9**	**321.2**	**(168.1)**	**153.1**

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

12 Financial risk continued

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

29 March 2014	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 assets						
Cash and cash equivalents	**57.9**	**–**	**–**	**57.9**	**–**	**57.9**
Derivative financial assets						
Gross amount receivable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	**34.9**	**2.8**	**–**	**37.7**	**(37.0)**	**0.7**
– Short duration swap contracts designated as fair value hedges	**14.9**	**–**	**–**	**14.9**	**(14.8)**	**0.1**
– Fair value hedges – other economic hedges	**84.7**	**3.4**	**0.4**	**88.5**	**(87.3)**	**1.2**
Interest rate swaps	**–**	**0.2**	**–**	**0.2**	**–**	**0.2**
	192.4	**6.4**	**0.4**	**199.2**	**(139.1)**	**60.1**

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 assets						
Cash and cash equivalents	24.8	–	–	24.8	–	24.8
Derivative financial assets						
Gross amount receivable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	89.9	0.3	–	90.2	(86.9)	3.3
– Short duration swap contracts designated as fair value hedges	34.0	–	–	34.0	(33.9)	0.1
– Fair value hedges – other economic hedges	30.9	–	–	30.9	(30.3)	0.6
Interest rate swaps	–	–	–	–	–	–
	179.6	0.3	–	179.9	(151.1)	28.8

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 29 March 2014, the Group has a total of undrawn committed borrowing facilities, all maturing in more than one year, of £53.9m (30 March 2013: £93.0m in more than one year). The amount of loans drawn on the £200m facility is £146.1m (30 March 2013: £98.4m). Guarantees of £nil (30 March 2013: £8.9m) have been drawn using the facility.

Forward foreign exchange contracts

The net principal amounts of the outstanding forward foreign exchange contracts at 29 March 2014 are US dollar 20.2m, euro 5.7m, Swiss franc (20.0m), Japanese yen (1.2bn), and Canadian dollar (1.0m).

The net principal amounts outstanding under forward contracts with maturities greater than 12 months are euro 1.4m, US dollar 5.0m and Japanese yen (0.6bn). 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 29 March 2014 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 29 March 2014 was £nil (2012/13: £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 29 March 2014 are US dollar 8.1m, euro 5.4m, Canadian dollar 1.3m, Swiss franc (10.9m), South African rand 9.8m, Australian dollar (1.6m), Singapore dollar 1.0m, and Japanese yen (0.3bn).

(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 29 March 2014 was (£0.1m) (2012/13: £nil). Gains and losses on balance sheet swaps are included in the consolidated income statement.

The principal amounts outstanding under balance sheet swaps at 29 March 2014 are US dollar 23.2m, euro (10.4m), Swiss franc (3.8m), South African rand 11.4m, and Mexican peso (50.2m).

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 29 March 2014 was (£1.5m) (2012/13: £0.7m).

Gains and losses on fair value hedges

The gains and losses recognised in the year on the Group's fair value hedges were (£0.1m) relating to balance sheet hedges (2012/13: £nil), £1.4m relating to other fair value hedges (2012/13: (£0.3m)), and £nil relating to cash management hedges (2012/13: £nil).

12 Financial risk continued

Market risk: Currency risk

Exposure to currency risk

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2014	2013	**2014**	2013
US dollar	**1.59**	1.58	**1.66**	1.52
Euro	**1.19**	1.22	**1.21**	1.18

Sensitivity analysis

A 10 per cent strengthening of sterling against the following currencies at 29 March 2014 and 30 March 2013 would have increased/(decreased) profit or loss by the amounts shown below, based on the Group's external monetary assets and liabilities.

	2014 £m	2013 £m
US dollar	**1.0**	(0.4)
Euro	**(0.8)**	(1.4)

A 10 per cent weakening of sterling against the above currencies at 29 March 2014 and 30 March 2013 would have had the following effect:

	2014 £m	2013 £m
US dollar	**(1.3)**	0.4
Euro	**1.0**	1.7

The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012/13.

Interest rate risk

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

	Carrying amount	
	2014 £m	2013 £m
Variable rate instruments		
Financial assets	**57.9**	24.8
Financial liabilities	**(147.8)**	(101.5)
	(89.9)	(76.7)

During the year ending 29 March 2014 the Group has entered into sterling 39m and US dollar 15m of floating to fixed interest rate swaps with financial institutions and with maturities of January and February 2016.

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)				
29 March 2014	**(0.7)**	**0.8**	**–**	**–**
30 March 2013	(0.5)	0.6	–	–

12 Financial risk continued

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 2014 £m	Carrying amount 2013 £m
Trade and other receivables (excluding prepayments)	11	**101.0**	84.6
Cash and cash equivalents	13	**57.9**	24.8
Forward exchange contracts used for hedging		**2.0**	4.0
Embedded derivatives		**0.5**	0.9
Interest rate swaps		**0.2**	–
		161.6	114.3

The maximum exposure to credit risk for trade and other receivables (excluding prepayments) by geographic region was:

	Carrying amount 2014 £m	Carrying amount 2013 £m
UK and Ireland	**13.3**	19.5
Rest of Europe	**13.4**	9.6
The Americas	**11.7**	6.5
Rest of world	**62.6**	49.0
	101.0	84.6

The maximum exposure to credit risk for trade and other receivables (excluding prepayments) by type of customer was:

	Carrying amount 2014 £m	Carrying amount 2013 £m
Banks and financial institutions	**40.5**	44.0
Government institutions	**34.2**	23.4
Distributors	**4.3**	2.6
Retail customers	**0.1**	0.2
End user customers	**13.9**	6.0
Other	**8.0**	8.4
	101.0	84.6

Fair value adjustment to credit risk on derivative contracts

The impact of credit related adjustments being made to the carrying amount of derivatives measured at fair value and used for hedging currency and interest rate risk have been assessed and considered to be immaterial. These derivatives are transacted with investment grade financial institutions. Similarly, the impact of the credit risk of the Group on the valuation of its financial liabilities has been assessed and considered to be immaterial.

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	2014 £m	2013 £m
Total equity attributable to shareholders of the Company		**(75.5)**	(71.3)
Net debt	20	**(89.9)**	(76.7)
Group capital		**(165.4)**	(148.0)

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 strategic report 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 underlying earnings. The proposed total dividend for the year is covered 1.45 times.

The decision to pay dividends, and the amount of the dividends, will depend on, among other things the earnings, financial position, capital requirements, general business conditions, cash flows, net debt levels and share buyback plans.

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

13 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.

	2014 £m	2013 £m
Cash at bank and in hand	**55.7**	24.8
Short term bank deposits	**2.2**	–
	57.9	24.8

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 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:

	2014 £m	2013 £m
Deferred tax assets	**37.5**	45.5
Deferred tax liabilities	**(1.3)**	(2.8)
	36.2	42.7

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

	2014 £m	2013 £m
Beginning of the year	**42.7**	39.1
Exchange differences	**0.1**	(0.1)
Income statement (charge)/credit	**0.5**	(0.1)
Tax (charged)/credited to equity	**(7.1)**	3.8
End of the year	**36.2**	42.7

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 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
Recognised in the income statement	–	(0.1)	(0.1)	(0.2)	(0.4)
Recognised in equity	–	–	–	–	–
At 29 March 2014	**8.9**	**0.3**	**2.5**	**–**	**11.7**

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
Assets					
At 31 March 2012	(2.5)	(35.0)	(1.4)	(11.5)	(50.4)
Recognised in the income statement	(0.7)	(2.3)	0.6	(0.2)	(2.6)
Recognised in equity	(0.5)	(1.7)	–	0.3	(1.9)
Exchange differences	–	–	–	0.1	0.1
At 30 March 2013	(3.7)	(39.0)	(0.8)	(11.3)	(54.8)
Recognised in the income statement	0.8	(1.9)	0.4	0.6	(0.1)
Recognised in equity	0.9	7.0	–	(0.8)	7.1
Exchange differences	–	–	–	(0.1)	(0.1)
At 29 March 2014	**(2.0)**	**(33.9)**	**(0.4)**	**(11.6)**	**(47.9)**

Other deferred assets and liabilities predominantly relate to tax associated with provisions of £3.7m (2012/13: £4.7m) and overseas tax credits of £4.7m (2012/13: £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 £1.9m (2012/13: £1.7m) in respect of losses amounting to £7.1m (2012/13: £6.6m) that can be carried forward against future taxable income. Similarly, the Group has not recognised deferred tax assets of £13.6m (2012/13: £15.7m) in respect of overseas tax credits that are carried forward for utilisation in future periods.

Unremitted earnings totalled £492m at 29 March 2014 (2012/13: £483m). 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 £330.1m are carried forward at 29 March 2014 (2012/13: £330.2m). No deferred tax asset has been recognised in respect of these losses.

UK tax rate

The main rate of UK corporation tax will be reduced to 21 per cent from April 2014 and 20 per cent from April 2015. These amendments were substantively enacted on 2 July 2013.

This will reduce the UK Group's future current tax charge accordingly. The UK deferred tax assets and liabilities at 29 March 2014 have been calculated based on the rate of 20 per cent substantively enacted at the balance sheet date.

Notes to the accounts continued

15 Trade and other payables

Trade and other payables are measured at carrying value which approximates to fair value.

	2014 £m	2013 £m
Current liabilities		
Payments received on account	**33.4**	42.7
Trade payables	**43.6**	33.5
Amounts owed to associated companies	**0.1**	0.4
Social security and other taxation	**3.2**	2.1
Deferred income	**4.7**	4.8
Accrued expenses	**59.9**	65.3
Other payables	**26.0**	18.6
	170.9	167.4
Non-current liabilities		
Other payables	**7.2**	5.0
	7.2	5.0

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

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.

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 2014 £m	Carrying amount 2014 £m	Face value 2013 £m	Carrying amount 2013 £m
Current liabilities							
Unsecured bank loans and overdrafts	EUR	3.85%	2014	**0.9**	**0.9**	0.6	0.6
Unsecured bank loans and overdrafts	GBP	2.29%	2014	**119.1**	**119.1**	80.2	80.2
Unsecured bank loans and overdrafts	USD	2.05%	2014	**27.1**	**27.1**	18.4	18.4
Unsecured bank loans and overdrafts	Other	–	2014	**0.7**	**0.7**	2.3	2.3
Total interest bearing liabilities				**147.8**	**147.8**	101.5	101.5

In 2013/14, bank overdrafts of £83.5m (2012/13: £97.3m) were pooled for interest purposes against credit balances.

As at 29 March 2014, 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.

As the draw downs on these loans 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.

17 Provisions for liabilities and charges

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.

	Restructuring £m	Business disposals £m	Warranty £m	Other £m	Total £m
At 30 March 2013	11.4	0.6	14.8	3.7	30.5
Exchange differences	–	–	–	(0.1)	(0.1)
Charge for the year	2.1	–	4.7	1.8	8.6
Utilised in year	(3.5)	–	(2.2)	(0.3)	(6.0)
Released in year	(4.1)	(0.6)	(4.8)	(0.3)	(9.8)
Reclassification	–	–	(0.8)	0.8	–
At 29 March 2014	**5.9**	**–**	**11.7**	**5.6**	**23.2**
Expected to be utilised within 1 year	4.5	–	11.7	4.9	21.1
Expected to be utilised after 1 year	1.4	–	–	0.7	2.1

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.

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 £4.7m 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

	2014 £m	2013 £m
Issued and fully paid		
100,718,004 ordinary shares of $44^{152}/_{175}$p each (2012/13: 99,743,705 ordinary shares of $44^{152}/_{175}$p each)	**45.2**	44.7
111,673,300 deferred shares of 1p each (2012/13: 111,673,300 deferred shares of 1p each)	**1.1**	1.1
	46.3	45.8

	2014		2013	
	Ordinary shares '000	**Deferred shares '000**	Ordinary shares '000	Deferred shares '000
Allotments during the year				
Shares in issue at 30 March 2013 / 31 March 2012	**99,744**	**111,673**	99,498	111,673
Issued under Executive Share Option plans	**–**	**–**	2	–
Issued under Savings Related Share Option Scheme	**815**	**–**	159	–
Issued under US Employee Share Purchase Plan	**11**	**–**	14	–
Issued under Deferred Bonus and Matching Share Plan	**–**	**–**	53	–
Issued under Annual Bonus Plan	**75**	**–**	3	–
Issued under Performance Share Plan	**73**	**–**	15	–
Shares in issue at 29 March 2014 / 30 March 2013	**100,718**	**111,673**	99,744	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.

Notes to the accounts continued

19 Share based payments

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

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

At 29 March 2014, 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	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Annual Bonus Plan	**0.5**	0.7	**–**	–
Deferred Bonus and Matching Share Plan	**–**	(1.0)	**–**	–
Performance Share Plan	**(1.4)**	3.6	**–**	–
Recruitment Share Award	**(0.1)**	0.1	**–**	–
Retention Share Award	**(0.1)**	0.1	**–**	–
Savings Related Share Option Scheme	**0.6**	0.3	**–**	–
US Employee Share Purchase Plan	**–**	–	**–**	–
	(0.5)	3.8	**–**	–

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	Performance Share Plan	Savings Related Share Option Scheme	US Employee Share Purchase Plan
Dates of current year grants	04 Dec 2013	23 Dec 2013	01 Jan 2014
Number of options granted	150,059	530,412	12,000 (estimated)
Exercise price	n/a	705.70	See below
Contractual life (years)	3	3 or 5	1
Settlement	Shares	Shares	Shares
Vesting period (years)	3	3 or 5	1
Dividend yield	n/a	5.0%	n/a
Fair value per option at grant date	£8.93	£1.35 for 3 year plan £1.37 for 5 year plan	n/a

An expected volatility rate of 20 per cent (2012/13: 30 per cent) has been used for grants in the period. This rate is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life. The rate applied during the year was 1.1 or 1.9 per cent depending on the vesting period.

Reconciliations of option movements over the period to 29 March 2014 for each class of options are shown below:

Annual Bonus Plan

For details of the Annual Bonus Plan, refer to the directors' remuneration report on pages 41 to 58.

	2014 Number of options '000	2013 Number of options '000
Options outstanding at start of year	**240**	81
Granted	**–**	170
Forfeited	**(30)**	(8)
Exercised	**(65)**	(3)
Expired	**–**	–
Outstanding at end of year	**145**	240
Exercisable at year end	**–**	–

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. At 29 March 2014 there were no remaining options outstanding.

Performance Share Plan

For details of the Performance Share Plan, refer to the directors' remuneration report on pages 41 to 58.

	2014 Weighted average exercise price pence per share	**2014 Number of options '000**	2013 Weighted average exercise price pence per share	2013 Number of options '000
Options outstanding at start of year	**738.80**	**1,453**	729.61	1,096
Granted	**892.90**	**150**	759.80	452
Forfeited	**785.82**	**(259)**	740.48	(82)
Exercised	**559.50**	**(61)**	683.45	(13)
Expired	**–**	**–**	–	–
Outstanding at end of year	**836.95**	**1,283**	738.80	1,453
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, 991.1p for the 10 July 2012 grants, and 892.9p for the 04 December 2013 grants.

Retention and Recruitment Share Award

For details of the Recruitment Share Award and Retention Share Award, refer to the directors' remuneration report on pages 41 to 58.

	Retention Share Award		Recruitment Share Award	
	2014 Number of options '000	2013 Number of options '000	**2014 Number of options '000**	2013 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 shares 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.

	2014		2013	
	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	**1,736**	**522.30**	1,765	510.22
Granted	**530**	**705.70**	229	775.34
Forfeited	**(109)**	**624.13**	(90)	523.65
Exercised	**(815)**	**447.75**	(159)	713.79
Expired	**(10)**	**566.20**	(9)	623.02
Outstanding at end of year	**1,332**	**636.08**	1,736	525.22
Exercisable at year end	**47**	**454.13**	80	522.30

The range of exercise prices for the share options outstanding at the end of the year is 444.14p – 819.55p (2013: 444.14 – 819.55p). The weighted average remaining contractual life of the outstanding share options is 1 September 2016 (2012/13: 1 September 2015).

19 Share based payments continued

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 2013/14, 11,079 shares (2012/13: 14,198 shares) were allotted pursuant to the plan. It is estimated that 12,000 shares will be required to satisfy the Company's 2014/15 obligations in respect of employees' savings under the plan as at 29 March 2014.

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

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

The Trustee held no shares at 29 March 2014.

20 Analysis of net debt

	2014 £m	2013 £m
Cash at bank and in hand	**55.7**	24.8
Short term bank deposits	**2.2**	–
Bank overdrafts	**(1.7)**	(3.1)
Total cash and cash equivalents	**56.2**	21.7
Borrowings due within one year	**(146.1)**	(98.4)
Net debt	**(89.9)**	(76.7)

21 Operating leases

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.

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.

	2014 Property £m	**2014 Plant and equipment £m**	2013 Property £m	2013 Plant and equipment £m
Total commitments due:				
– Within one year	**2.3**	**0.2**	2.9	0.2
– Between one and five years	**1.5**	**0.1**	2.4	0.2
– Over five years	**25.0**	**–**	25.3	–
	28.8	**0.3**	30.6	0.4

22 Retirement benefit obligations

The Group operates retirement benefit schemes, devised in accordance with local conditions and practices in the country concerned, covering the majority of employees. The assets of the Group's plans are generally held in separately administered trusts or are insured. The major schemes are defined benefit pension funds with assets held separately from the Group. The major defined benefit pension funds are based in the UK and are now closed to future accrual, with all members being deferred members or pensioners. 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. The interest income on the plan assets of funded defined benefit pension schemes and the imputed interest on pension scheme liabilities are disclosed as retirement benefit obligation net finance expense respectively in the income statement.

Return on plan assets excluding interest income on the 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.

(a) Defined benefit pension plans

Amounts recognised in the consolidated balance sheet:

	2014 UK £m	**2014 Overseas £m**	**2014 Total £m**	2013 UK £m	2013 Overseas £m	2013 Total £m
Equities	**281.1**	**–**	**281.1**	309.0	–	309.0
Bonds	**89.4**	**–**	**89.4**	169.0	–	169.0
Gilts	**154.1**	**–**	**154.1**	169.7	–	169.7
Diversified Growth Fund	**155.6**	**–**	**155.6**	–	–	–
Liability Driven Investment Fund	**65.8**	**–**	**65.8**	–	–	–
Other	**27.9**	**–**	**27.9**	113.4	–	113.4
Fair value of plan assets	**773.9**	**–**	**773.9**	761.1	–	761.1
Present value of funded obligations	**(931.8)**	**–**	**(931.8)**	(920.2)	–	(920.2)
Funded defined benefit pension plans	**(157.9)**	**–**	**(157.9)**	(159.1)	–	(159.1)
Present value of unfunded obligations	**(7.7)**	**(2.4)**	**(10.1)**	(7.6)	(2.4)	(10.0)
Net liability	**(165.6)**	**(2.4)**	**(168.0)**	(166.7)	(2.4)	(169.1)

Amounts recognised in the consolidated income statement:

	2014 UK £m	**2014 Overseas £m**	**2014 Total £m**	2013* UK £m	2013* Overseas £m	2013* Total £m
Included in employee benefits expense:						
– Current service cost	**–**	**(0.2)**	**(0.2)**	(7.8)	(0.3)	(8.1)
– Administrative expenses and taxes	**(1.2)**	**–**	**(1.2)**	(1.7)	–	(1.7)
Included in interest on retirement benefit obligation net finance expense:						
– Interest income on plan assets	**33.7**	**–**	**33.7**	33.2	–	33.2
– Interest cost on liabilities	**(41.0)**	**–**	**(41.0)**	(39.8)	–	(39.8)
Retirement benefit obligation net finance expense	**(7.3)**	**–**	**(7.3)**	(6.6)	–	(6.6)
Total recognised in the consolidated income statement	**(8.5)**	**(0.2)**	**(8.7)**	(16.1)	(0.3)	(16.4)
Return on plan assets excluding interest income	**3.5**	**–**	**3.5**	42.3	–	42.3
Actuarial (losses)/gains on defined benefit pension obligations	**(5.8)**	**0.2**	**(5.6)**	(72.0)	0.2	(71.8)
Amounts recognised in other comprehensive income	**(2.3)**	**0.2**	**(2.1)**	(29.7)	0.2	(29.5)

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

22 Retirement benefit obligations continued

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

	2014 UK %	2014 Overseas %	2014 Total %	2013 UK %	2013 Overseas %	2013 Total %
Equities	**36.3**	**–**	**36.3**	40.6	–	40.6
Bonds	**11.6**	**–**	**11.6**	22.2	–	22.2
Gilts	**19.9**	**–**	**19.9**	22.3	–	22.3
Diversified Growth Fund	**20.1**	**–**	**20.1**	–	–	–
Liability Driven Investment Fund	**8.5**	**–**	**8.5**	–	–	–
Other	**3.6**	**–**	**3.6**	14.9	–	14.9

All assets have quoted prices in active markets.

The Diversified Growth Fund is a diversified asset portfolio which includes investments in equities, emerging market bonds, property, high yield credit and structured finance and smaller holdings in other asset classes. The Liability Driven Investment (LDI) fund consists of fixed interest bond holdings (approximately 62 per cent), index linked bond holdings (approximately 37 per cent) and cash (approximately 1 per cent). Interest rate swaps and floating rate notes are employed to complement the role of the LDI fund for liability risk management.

Other UK assets comprise cash, interest rate swaps and floating rate notes.

Principal actuarial assumptions:

	2014 UK %	2014 Overseas %	2013 UK %	2013 Overseas %
Future pension increases – past service	**3.70**	**–**	3.70	–
Discount rate	**4.50**	**–**	4.50	–
Inflation rate	**3.40**	**–**	3.40	–

The financial assumptions adopted as at 29 March 2014 reflect the duration of the plan liabilities which has been estimated to be 19 years.

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 29 March 2014 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. This assumption is unchanged from that used as at 30 March 2013. The resulting life expectancies are as follows:

		2014	2013
Aged 65 retiring immediately (current pensioner)	Male	**22.2**	22.2
	Female	**24.6**	24.5
Aged 50 retiring in 17 years (future pensioner)	Male	**21.5**	23.2
	Female	**23.9**	25.7

The defined benefit pension schemes expose the Group to the following main risks:

Mortality risk – an increase in the life expectancy of members will increase the liabilities of the schemes. The mortality assumptions are reviewed regularly, and are considered appropriate.

Interest rate risk – A decrease in bond yields will increase the liabilities of the scheme. Liability driven investment strategies are used to hedge part of this risk.

Investment risk – The pension schemes invest in a range of assets to mitigate the risk of any single asset class, and align growth and returns to the long term funding objectives. The investment strategy is reviewed regularly to ensure it continues to be appropriate.

Inflation risk – The liabilities of the scheme are linked to inflation. An increase in inflation will result in an increase in liabilities. There are caps in place for UK scheme benefits to mitigate the risk of extreme increases in inflation. Liability driven investment strategies are used to hedge part of this risk.

Any increase in the retirement benefit obligation could lead to additional funding obligations in future years. The Group has agreed deficit funding to the scheme of £17.5m for 2014/15, rising by 4 per cent per annum until 2022.

The table below provides the sensitivity of the liability in the scheme to changes in various assumptions:

Assumption change	Approximate impact on liability
0.25% decrease in discount rate	Increase in liability of c£38m
0.25% increase in RPI inflation rate	Increase in liability of c£28m
Increasing the underpin from 1% to 1.5% pa	Increase in liability of c£25m
Increasing life expectancy by one year	Increase in liability of c£13m

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 29 March 2014. 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:

	2014 £m	2013* £m
At 30 March 2013 / 31 March 2012	**761.1**	697.6
Interest income on plan assets	**33.7**	33.2
Plan administration expenses	**(1.2)**	(1.7)
Return on plan assets less interest income	**3.5**	42.3
Employer contributions and other income	**11.9**	22.4
Plan participant contributions	**–**	2.5
Benefits paid (including transfers)	**(35.1)**	(35.2)
At 29 March 2014 / 30 March 2013	**773.9**	761.1

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

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

	2014 £m	2013* £m
At 30 March 2013 / 31 March 2012	**(927.8)**	(840.9)
Current service cost	**–**	(7.8)
Curtailments	**–**	–
Interest cost on liabilities	**(41.0)**	(39.8)
Effect of changes in financial assumptions	**0.2**	(72.6)
Effect of changes in demographic assumptions	**–**	–
Effect of experience items on liabilities	**(6.0)**	0.6
Plan participant contributions	**–**	(2.5)
Benefits paid (including transfers)	**35.1**	35.2
At 29 March 2014 / 30 March 2013	**(939.5)**	(927.8)

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

The Group expects to contribute £19.1m to its UK pension fund, in 2014/15, 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 £9.6m (2012/13: £4.1m).

Notes to the accounts continued

23 Employee information

	2014 number	2013 number
Average number of employees		
United Kingdom and Ireland	**2,196**	2,117
Rest of Europe	**731**	735
The Americas	**221**	246
Rest of world	**885**	855
	4,033	3,953

	2014 number	2013 number
Average number of employees		
Currency	**2,648**	2,563
Cash Processing Solutions	**681**	697
Security Products	**311**	343
Identity Systems	**393**	350
	4,033	3,953

	2014 £m	2013 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	**129.9**	131.2
Social security costs	**11.8**	11.5
Share incentive schemes	**(1.1)**	3.5
Sharesave schemes	**0.6**	0.3
Pension costs	**9.8**	12.2
	151.0	158.7

24 Capital commitments

	2014 £m	2013 £m
The following commitments existed at the balance sheet date:		
– Contracted but not provided for in the accounts	**9.3**	19.9

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 £24.5m (2012/13: £17.4m) for the purchase of security ink and other consumables. At the balance sheet date there were creditor balances of £7.1m (2012/13: £1.7m) 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

	2014 £'000	2013 £'000
Salaries and other short term employee benefits	**5,096.8**	2,968.2
Termination benefits	**200.0**	549.2
Retirement benefits:		
– Defined contribution	**171.7**	149.6
– Defined benefit	**–**	33.2
Share based payments	**(617.1)**	1,959.8
	4,851.4	5,660.0

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.

Notes to the accounts continued

27 Principal subsidiaries and associated companies as at 29 March 2014

The Directors consider that to give full particulars of all subsidiary undertakings would have led to a statement of excessive length. A full list of subsidiary undertakings will be filed with the Company's annual return.

The trading companies listed below include those which principally affect the profits and assets of the Group.

Country of incorporation and operation		Activities	De La Rue interest in ordinary shares %
Europe			
United Kingdom	DLR (No.1) Limited	Holding company	100
	DLR (No.2) Limited*	Holding company	100
	De La Rue Holdings plc	Holding and general commercial activities	100
	De La Rue International Limited	Security paper and printing, sale and maintenance of CPS products and services, identity systems, brand protection and holograms	100
	De La Rue Overseas Limited	Holding company	100
	De La Rue Finance Limited	Internal financing	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

Company balance sheet at 29 March 2014

	Notes	2014 £m	2013 £m
Fixed assets			
Investments in subsidiaries	4a	**152.4**	152.4
		152.4	152.4
Current assets			
Debtors receivable within one year	5a	**120.0**	161.3
Cash at bank and in hand		**3.6**	0.9
		123.6	162.2
Creditors: amounts falling due within one year			
Borrowings	6a	**(27.1)**	(32.3)
Other creditors	7a	**(13.4)**	(9.3)
		(40.5)	(41.6)
Net current assets		**83.1**	120.6
Total assets less current liabilities		**235.5**	273.0
Net assets		**235.5**	273.0
Capital and reserves			
Share capital	8a	**46.3**	45.8
Share premium account	9a	**35.3**	31.9
Capital redemption reserve	9a	**5.9**	5.9
Retained earnings	9a	**148.0**	189.4
Total shareholders' funds		**235.5**	273.0

Approved by the Board on 28 May 2014

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 included 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 29 March 2014, being the last Saturday in March. The comparatives for the 2012/13 financial year are for the period ended 30 March 2013.

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.

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.

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 19R basis) can be found in note 22 to the consolidated financial statements.

Financial guarantee contracts
Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes to the accounts – Company

1a Employee costs and numbers

Employee costs are borne by De La Rue Holdings plc. For details of Directors' remuneration, refer to disclosures in the directors' remuneration report on pages 41 to 58.

	2014 Number	2013 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

Investments are stated at cost or valuation in the balance sheet, less provision for any permanent diminution in the value of the investment.

	2014 £m	2013 £m
Investments comprise:		
Investments in subsidiaries	**152.4**	152.4

	£m	£m
Cost		
At 29 March 2014 and 30 March 2013	**152.4**	152.4

For details of investments in Group companies, refer to principal subsidiaries and associated companies on page 102.

5a Debtors

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.

	2014 £m	2013 £m
Amounts due within one year		
Amounts owed by Group undertakings	**120.0**	161.3

6a Borrowings

	2014 £m	2013 £m
Short term borrowings		
Bank loans and overdrafts	**27.1**	32.3

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

	2014 £m	2013 £m
US dollar	**27.1**	18.5
Euro	**–**	–
Sterling	**–**	13.8
Other currencies	**–**	–
	27.1	32.3

7a Other creditors

	2014 £m	2013 £m
Amounts falling due within one year		
Amounts due to Group undertakings	**13.1**	8.2
Accruals and deferred income	**0.3**	1.1
Other creditors	**13.4**	9.3

Notes to the accounts – Company continued

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 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
Share capital issued	0.5	3.4	–	–	3.9
Profit for the financial year	–	–	–	1.0	1.0
Dividends paid	–	–	–	(42.2)	(42.2)
Employee share scheme:					
– value of services provided	–	–	–	(0.2)	(0.2)
At 29 March 2014	**46.3**	**35.3**	**5.9**	**148.0**	**235.5**

10a 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 inter-company loan account.

For details of share based payments, see note 19 to the consolidated financial statements and the directors' remuneration report on pages 41 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.

Five year record

Income statement

	Notes	2010 £m	2011 £m	2012 £m	2013* £m	2014 £m
Revenue		561.1	463.9	528.3	483.7	**513.3**
Operating profit						
– Underlying operating profit		109.2	40.4	63.1	61.5	**89.3**
– Exceptional items – operating		(7.5)	(15.6)	(24.8)	(7.6)	**(17.5)**
Total		101.7	24.8	38.3	53.9	**71.8**
Share of profits of associated companies		6.3	–	–	–	**–**
Exceptional items – non-operating		–	55.1	–	–	**–**
Profit before interest		108.0	79.9	38.3	53.9	**71.8**
Net interest expense		(5.1)	(3.8)	(4.1)	(3.6)	**(4.7)**
Retirement benefit obligation net finance expense		(6.3)	(3.3)	(1.3)	(6.6)	**(7.3)**
Profit before taxation		96.6	72.8	32.9	43.7	**59.8**
Taxation		(26.2)	(5.4)	(0.7)	(5.5)	**(11.9)**
Profit after taxation		70.4	67.4	32.2	38.2	**47.9**
Equity non-controlling interests		(0.5)	(0.5)	(0.6)	(1.0)	**(0.6)**
Profit for the year		69.9	66.9	31.6	37.2	**47.3**
Dividends		(40.9)	(41.9)	(42.0)	(42.1)	**(42.2)**
Retained profit/(loss) for the period		29.0	25.0	(10.4)	(4.9)	**5.1**
Earnings per ordinary share		71.0p	67.6p	31.8p	37.4p	**47.3p**
Diluted earnings per share		70.5p	67.2p	31.5p	36.9p	**47.0p**
Underlying earnings per ordinary share		76.2p	24.0p	43.5p	38.5p	**60.7p**
Dividends per ordinary share	(a)	42.3p	42.3p	42.3p	42.3p	**42.3p**
Underlying profit before taxation		104.1	33.3	57.7	51.3	**77.3**

Balance sheet

	£m	£m	£m	£m	£m
Non-current assets	222.3	213.5	225.6	251.3	**240.4**
Net current liabilities	(67.2)	(58.6)	(90.9)	(58.6)	**(40.8)**
Net debt	(11.0)	(31.2)	(24.8)	(76.7)	**(89.9)**
Other liabilities	(134.6)	(106.9)	(155.5)	(182.6)	**(180.1)**
Equity non-controlling interests	(3.2)	(3.5)	(3.9)	(4.7)	**(5.1)**
Total equity attributable to shareholders of the Company	6.3	13.3	(49.5)	(71.3)	**(75.5)**

Notes

*Restated to reflect the amendments to IAS 19R Employee benefits – see accounting policies

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

Shareholders' information

Registered office
De La Rue House
Jays Close
Viables
Basingstoke
Hampshire
RG22 4BS

Telephone: +44 (0)1256 605000
Fax: +44 (0)1256 605336

Registered number: 3834125
Company Secretary: Mr E H D Peppiatt

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Telephone: +44 (0)870 703 6375
Fax: +44 (0)870 703 6101

Annual general meeting
The AGM will be held at 10:30am on Thursday 24 July 2014 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

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.

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 'De La Rue dial and deal service'. Please note that these services are not available in the US.

Financial calendar

Ex-dividend date for 2013/14 final dividend	2 July 2014
Record date for final dividend	4 July 2014
Payment of 2013/14 final dividend	1 August 2014

Warning to shareholders – boiler room fraud
We are aware that some shareholders might have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares or investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive. You should always check any firm calling you about investment opportunities is properly authorised by the FCA. You will find useful advice and information about protecting yourself from investment scams on the FCA website www.fca.org.uk/consumers

Analysis of shareholders at 29 March 2014

	Shareholders		Shares	
By range of holdings	Number	%	Number	%
0 – 1,000	5,074	75.60	1,718,294	1.71
1,001 – 5,000	1,251	18.64	2,422,331	2.41
5,001 – 10,000	111	1.65	775,100	0.77
10,001 – 100,000	182	2.71	6,166,950	6.12
100,001 – 500,000	65	0.97	14,337,338	14.24
500,001 and above	29	0.43	75,297,991	74.75
Total	**6,712**	**100.00**	**100,718,004**	**100.00**

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