DeLaRue

Shaping a more secure future

De La Rue plc
Annual Report 2017

Inside this report

2 Strategic report

50 Corporate Governance

97 Accounts

* This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on pages 153 to 154.

4 Our business at a glance

Currency
£350.6m Revenue £50.3m Adjusted operating profit*

Identity Solutions
£80.6m Revenue £11.4m Adjusted operating profit*

Product Authentication & Traceability
£34.6m Revenue £9.0m Adjusted operating profit*

18 Our business model

What we have to deliver our business model

What value we create

22 CEO's review

"We delivered a good performance and strategic progress in the year."

30 How we performed

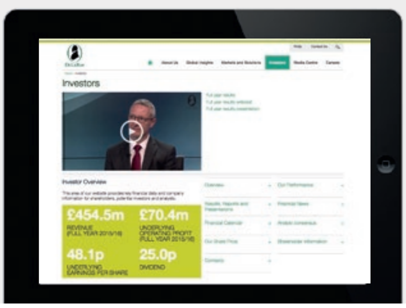
Revenue[1]
£m

£461.7m

[1] Continuing operations only.

Visit us online

www.delarue.com



Our purpose

To enable every citizen to participate securely in the global economy.

As a trusted partner of governments, central banks and commercial organisations, we provide a fully integrated range of security products, software solutions and specialist services that underpin the integrity of trade, personal identity and the movement of goods.

The world's largest commercial producer of currency, we design and manufacture banknotes, banknote substrates, security features and the associated technology platforms for over 140 countries.

We produce more passports than anybody else, providing identity documents and software solutions for governments worldwide.

We are also one of the leading product authentication specialists. Our secure labels and track and trace software solutions help governments and businesses tackle the challenge of illicit trade and counterfeit goods.

A solid performance
Financial highlights

Revenue
£461.7m
2016: £454.5M

Dividend per share
25.0p
2016: 25.0P

Adjusted EBITDA*[1]
£97.4m
2016: £96.4M

Reported EBITDA[4]
£96.0m
2016: £92.8M

Adjusted operating profit*[2]
£70.7m
2016: £70.4M

Reported operating profit
£70.2m
2016: £66.8M

Adjusted basic earnings per share*[3]
47.1p
2016: 48.1P

Reported basic earnings per share from continuing operations
47.2p
2016: 46.8P

* This is an non-IFRS measure. See further explanations and reconciliations to the comparable IFRS measures on pages 153 to 154. 'Reported' measures are on an IFRS basis.

1 Adjusted EBITDA represents earnings from continuing operations before the deduction of interest, tax, depreciation, amortisation and exceptional items.

2 Adjusted operating profit represents operating profit from continuing operations adjusted to exclude exceptional items and amortisation of acquired intangible assets.

3 Adjusted earnings per share are the earnings attributable to equity shareholders, excluding exceptional items, amortisation of acquired intangible assets and discontinued operations divided by the weighted average number of ordinary shares outstanding during the year excluding those held in the employee share trust.

4 Continuing operations only.

Transforming the business
Introduction from the Chairman

Philip Rogerson
Chairman

"The Group delivered good results in 2016/17. The strategic plan set out by the management team in May 2015 is progressing well. Identity Solutions and Product Authentication businesses delivered strong revenue and operating profit growth, further improving and diversifying our business mix."

I am delighted to report that the Group has delivered good results in 2016/17.

Strategic progress

The strategic plan set out by the management team in May 2015 is progressing well. Identity Solutions and Product Authentication businesses delivered strong revenue and operating profit growth, further improving and diversifying our business mix, while the currency business performed with resilience.

In January 2017, we completed our first acquisition in 14 years, adding DuPont Authentication to the De La Rue family. With a strong intellectual property portfolio, global blue-chip customers and a committed and experienced workforce, it is an excellent strategic fit and will be a great addition to the Group.

The banknote manufacturing footprint restructuring programme is progressing to plan. Our continuous focus on improving efficiency and careful allocation of capital has provided a solid platform to support further growth.

We completed the sale of the underperforming Cash Processing Solutions business in May 2016.

Financial performance

Revenue grew 2% overall, reflecting the strong volumes from the Currency segment and the good progress made in the Identity Solutions and Product Authentication businesses during the year. Adjusted operating profit* was similar to last year at £70.7m despite the conclusion of a material security features contract last year. On an IFRS basis operating profit was £70.2m, up from £66.8m last year, reflecting lower exceptional charges in the current year.

Adjusted basic earnings per share* decreased by 2% due to the benefit of a non-recurring tax benefit in the prior year.

Cash generated from operating activities, which includes the impact of discontinued operations, was up 9% at £64.3m. The benefit of higher profits in the year was offset by adverse working capital movements due to the timing of shipments and a reduction in advanced payments. Following the $25m acquisition of DuPont Authentication, which was funded from the existing credit facility, net debt as at 25 March 2017 increased by £14.8m to £120.9m.

Dividend

In order to deliver long term shareholder value and maintain financial flexibility to sustain future growth, the Board proposes to leave the dividend unchanged and is recommending a final dividend of 16.7p per share (2015/16: 16.7p per share). This, together with the 8.3p paid in January 2017, will make a full year dividend of 25.0p per share.

The Board

The Board and I feel that we have the right balance of skills and experience to support the management team. The appointment on 21 July 2016 of Nick Bray, Chief Financial Officer of Sophos Group plc, as a Non-executive Director and Chair of the Audit Committee, has further strengthened the Board. Nick brings extensive experience in the technology and information security industries and we welcome him on board.

Rupert Middleton, Chief Operating Officer and Executive Director, has informed the Board of his intention to step down from the Board after the AGM on 20 July 2017. We are grateful for his contribution and wish him well for his future. The position will be replaced by the newly created role of Chief Operations Director which will not be a Board position. A search has commenced to identify suitable internal and external candidates.

Culture and people

We are committed to fostering a dynamic, agile and high performing culture that drives the growth of the business. Our people are critical to the successful execution of our strategy and to fulfilling our purpose. We continue to engage with and invest in our people through training and development.

In December 2016, we undertook an employee survey and were delighted that 85% of our colleagues participated and provided us with their feedback. While the results of the survey were highly encouraging, we recognise we have more to do in a number of areas and the survey provides us with invaluable insights to act upon.

Our people are committed to serving our customers and are often the difference between De La Rue and our competitors. In 2016/17, they managed to deliver high volumes in both print and paper despite the disruptions from the footprint restructuring programme. On behalf of the Board, I would like to thank them for their continued commitment and dedication.

Corporate responsibility

I am proud that we have signed the UN Global Compact, aligning our strategy and operations with the principles on human rights, labour, environment and anti-corruption. In line with our core values, we are committed to the integration of broader social, ethical, and sustainable practices across our day-to-day business. Further information can be found in our corporate responsibility section on pages 42 to 49.

Outlook

We started the year with good momentum and a strong order book of £387m. While the sustained weakness of sterling gives us a competitive advantage in the export market, most of our sales are invoiced in sterling and therefore do not automatically result in higher margins. We will continue to increase investments in R&D, product management and sales capability. Taking this into account, as well as the increased costs of raw materials, the Board is confident of continued progression and its expectations for the financial year of 2017/18 remain unchanged.

Philip Rogerson
Chairman

142

Countries exported to in the last three years.

3,150

We employ around 3,150 people worldwide.

Our business at a glance

We provide governments, central banks and businesses with a range of security products, software solutions and specialist services that underpin the integrity of trade, personal identity and the movement of people and goods.

What we do

Innovate

We offer our customers cutting edge technology and products and best in class design. We plan to double our R&D investment in the years to 2020 and focus on technology-led product and service development.

Research and development
Enhancing our capability in high growth areas such as security features, polymer and digital solutions.

Design Centre
An essential part of product development, we work closely to match our customers' individual needs.

Software development
Improving our digital offering through partnerships and acquisitions.

Grow

Our Innovation capabilities means we can reliably solve our customers' unique challenges through tailored products and services. It will enable us to extend the range of services to existing customers and to attract new customers.

WORKING IN PARTNERSHIP WITH OUR CUSTOMERS

Central and commercial banks
need a supplier they can trust to design and manufacture secure currency.

Governments
increasingly need to monitor and control identity to improve security, social inclusion and global trade.

Brand owners/governments/ tax authorities
need to protect tax revenues and brand equities from illicit trade and counterfeit goods.

How our business is managed

Currency
£350.6m Revenue £50.3m Adjusted operating profit*

Banknote Print
We design, manufacture and deliver banknotes to customers around the world.

7.1bn
Banknotes produced in 2016/17 – notes

Banknote Paper
We manufacture banknote paper for use by commercial and state manufacturers.

11.8k
Paper produced in 2016/17 – tonnes

Polymer
We are the only vertically integrated producer of polymer substrate and banknotes.

380
Polymer substrate produced in 2016/17 – tonnes

Security Features
We create features that are combined with banknotes to make them secure from counterfeits.

1.3m
Security threads produced in 2016/17 – kms

Deliver

Our world class manufacturing capability, together with outstanding operational expertise, strong supply chain and secure logistics network, offer our customers cost effective quality and reliability.

TO SOLVE THEIR UNIQUE CHALLENGES

Enable secure authentication and tracing of currency, people and products

Help people and goods move freely and securely around the world

Help governments identify their citizens and protect tax revenues

Help organisations fight counterfeiting and protect brand and reputation

Provide tailored solutions

Help countries form and trade

Product blueprint

Identity Solutions

£80.6m Revenue £11.4m Adjusted operating profit*

Product Authentication

£34.6m Revenue £9.0m Adjusted operating profit*

Identity Solutions

We create and deliver passports and identity solutions for governments.

13.7m

Passports printed in 2016/17

Product Authentication

We create and deliver secure labels and track and trace solutions for governments and commercial customers.

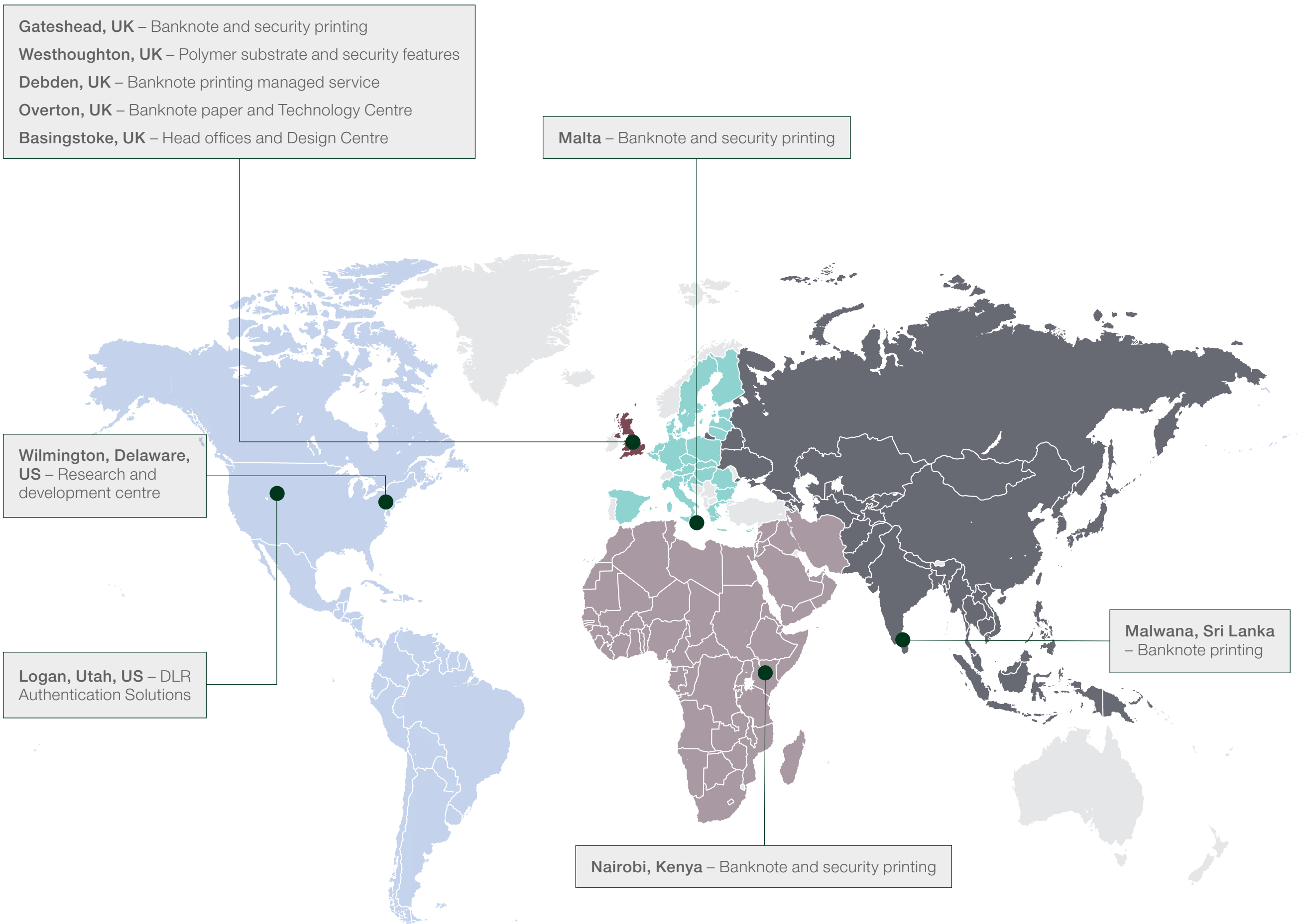
1.7bn

Security labels printed in 2016/17

* This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on pages 153 to 154.

Our global footprint

We have a global footprint and work with governments, central banks and commercial organisations in over 140 counties.



No. 1

In banknote and passport markets by volume.

157 years

Longest customer relationship (with Mauritius) dating back to 1860.

40%

Of the world's total banknote denominations in circulation in 2016 were designed by De La Rue.

40 countries

For whom we produce passports.

Revenue by region*

%

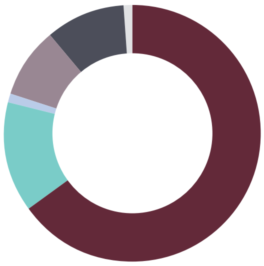
- UK 21%
- Rest of Europe 6%
- Americas 16%
- Middle East & Africa 35%
- Asia 20%
- Rest of world 1%

* Numbers do not add up to 100% due to rounding.

Employee by region

%

- UK 65%
- Rest of Europe 14%
- Americas 1%
- Middle East & Africa 9%
- Asia 10%
- Rest of world 1%



Securing the future

08

A CASHLESS SOCIETY?
The role of cash.
A less-cash society, but not a cashless society.

10

REALITY CHECK?
The challenge of product authentication.
Protecting revenues, brands and people.

12

IDENTITY CRISIS?
Towards a digital ID.
Who are you?

Securing the future

A cashless society?

THE ROLE OF CASH

A LESS CASH SOCIETY, BUT NOT A CASHLESS SOCIETY

Reports of the death of cash have been greatly exaggerated. With qualities that include portability, divisibility and durability, cash is forecast to grow and remain central to the world's economy. A cashless society is about as likely as the paperless office that some insisted was within touching distance a decade or more ago. Just as new technologies such as email and cloud computing came to co-exist alongside paper, innovations including credit cards, digital wallets and crypto currencies are complementing – not replacing – cash.

Although the world is absolutely right to welcome any technology that has the potential to drive choice and social inclusion, we should not lose sight of the facts: 38% of the world's population don't have bank accounts[1]; the demand for ATMs continues to grow worldwide[2], with numbers set to increase by c5% a year; December 2016 saw more cash withdrawn from ATMs in the UK than any month in history[3]; and even Sweden, probably the most cashless society in the world, has had to backtrack on its policy of removing ATMs[4], due to public outcry. All of which support our own analysis that while the proportion of transactions carried out in cash will decline, the total volume of cash in circulation globally will rise by 3–4% a year over the next 10 years[5]. (see chart on correlation between cash in circulation and GDP).

So what's behind our planet's enduring preference for cash?

The world's most socially inclusive payment method

Access to financial services is one of the UN's principal Sustainable Development Goals for 2030. Due to cost, the technology infrastructure to support cashless transactions simply doesn't exist across vast tracts of the world. And where it does exist, even a temporary glitch in availability can cause major problems. In October 2016, one of the UK supermarket chains, for example, incurred the wrath of its customers when the loss of internet connection meant that electronic payments could not be processed.

Added to this, the UNHCR[6] reports that one million children per week are born without their births being registered – no birth certificate, no proof of identity, no bank account or access to financial tools. With 1.8 billion people without bank accounts, cash is the world's most socially inclusive payment method – and will remain so for the foreseeable future.

Changing demographics further complicate the issue. Ageing populations are less digitally savvy than younger generations – and even in Western Europe there's a real risk that any pronounced shift to a cashless society would further highlight the differences between the haves and the have-nots.

It may come as a surprise to those of us who think nothing of tapping in and out of the public transport network or buying groceries online, but cash is here to stay. Cash will continue to co-exist alongside the digital economy. And in the absence of infrastructure that is both 100% available and reliable, it will remain the foundation for the majority of the world's transactions.

Paper production continues to rise

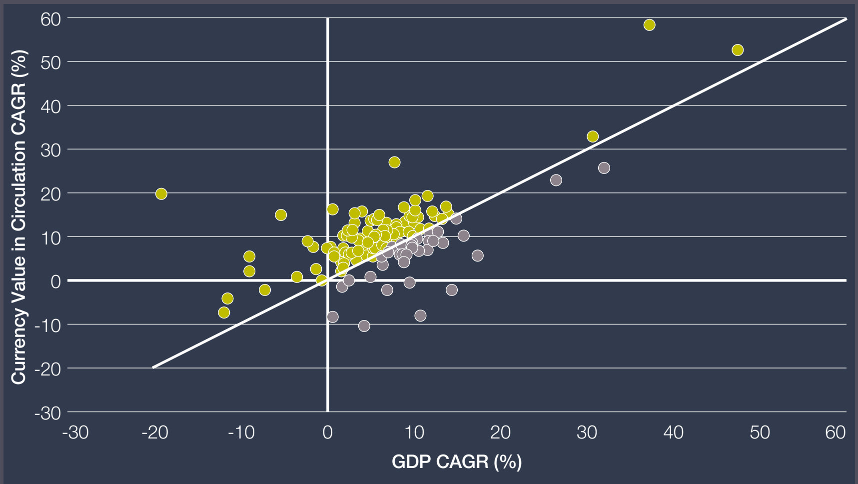
Whatever happened to the paperless office and the paper-free world? Global paper production[7] still shows positive growth, despite the impact of email and other technologies – a clear indication that the digital and the physical can and do co-exist.

Source: RISI 2016 Global paper and pulp production.

Cash means growth

There is a strong correlation between cash in circulation and GDP growth. While Norway, Sweden and Japan have particular circumstances that have led to them bucking the trend, almost every major economy follows this rule.

The value of money circulating has increased at a rate higher than GDP growth in 70% of countries since December 2012.



Source: IFS series, IMF Data API and IMF World Economic Outlook database October 2016

Watch more online at
www.delarue.com/about-us/our-strategy

1 World Bank Global Findex database.
2 The ATM market expected to grow at a CAGR of 5.49% in the period 2016–2021 according to Research and Markets report: Global ATM Market – Insights and Analysis: Growth, Penetration and Demand Forecast to 2021.
3 LINK press release.
4 The World Bank, Data Bank (2004–2015).
5 De La Rue estimates, excluding overspill orders.
6 United Nations High Commissioner for Refugees.

Securing the future continued

Reality check?

THE CHALLENGE OF PRODUCT AUTHENTICATION PROTECTING REVENUES, BRANDS AND PEOPLE

Counterfeiting, smuggling and tax evasion currently cost the world US$1.8 trillion[1] – enough to lift around 1.4 billion people out of poverty for six years. If this was a country, it would have the tenth largest economy in the world by GDP – and it's growing fast, driven by globalisation and increases in consumer spending. It's common to find counterfeit goods produced on one continent, trafficked across another and sold on a third.

Let's examine what this means for economies and citizens, as well as for the brands being counterfeited.

Firstly, it reduces government revenue. Illicit trade perpetuates the grey and black economies, reduces the amount of tax available to governments and corrodes a country's ability to drive economic and social wellbeing. Potentially, this is a huge global trade issue. It's not far-fetched to imagine governments using tariffs against countries that fail to combat counterfeiting.

Secondly, counterfeiting supports crime and terrorism. According to the World Health Organisation, trade in fake tobacco funds human and arms trafficking as well as supporting armed insurgent groups.

For brands, the dangers are two-fold. Counterfeiting not only reduces the sales of legitimate goods – at the same time, it can also undermine a brand's reputation by undermining hard-won customer relationships. Estimates suggest that 10% of cigarettes[2] and 25% of alcohol drinks are fake[3], and that at least 24% of consumers have unwittingly bought counterfeit goods online[4]. In October 2016 Apple reported that up to 90% of its products purchased via a well-known online marketplace are counterfeit.

Staying one step ahead

Effective product authentication, from source to consumption, can combat this surge in illicit trade. In fact this is the most effective way to ensure that governments can collect tax revenue, consumers can make safe purchasing choices and businesses can protect their brands.

Overt and covert product authentication technology can take many forms, including secure features that can be embedded in a document or packaging to enable a business to track and trace a product anywhere in the world. Printed features, holograms and uniquely encoded materials known as taggants all have a part to play.

However, technology alone cannot combat counterfeiting. The political and regulatory environments must now get to grips with the challenges of globalisation and e-commerce.

To succeed, governments must deploy the same three-pronged approach that led to cash counterfeiting becoming a relatively minor issue – for example, the Bank of England reports fewer than 0.006% of the UK banknotes in circulation today are fakes. That means combining technology and law enforcement with public education, ensuring that people can recognise fakes and understand the threat they pose to lives and economies.

Counterfeiting will not go away. But the right joined-up approach, with multiple stakeholders working together to address issues such as cross border pricing and complex supply chains, will go a long way to ensuring that governments, brands and consumers stay one step ahead of the criminals.

> **Illicit trade increases access to often cheaper tobacco products, which in turn fuels the tobacco epidemic and undermines existing tobacco control policies. In fact, eliminating illicit trade in tobacco is estimated to generate an annual tax windfall of US$ 31bn for governments.**

Dr Vera da Costa e Silva
Head of the Convention Secretariat,
The WHO Framework Convention on Tobacco Control

Watch more online at
www.delarue.com/about-us/our-strategy

Consumers in danger

Illicit trade is far from a mere inconvenience for consumers. It places them in genuine danger – from poisonous baby powder and cyanide in make-up to fake malaria tablets that are estimated to have caused the deaths of half a million people. Analysis by the World Health Organisation suggests that 30% of medicines on sale in some parts of Africa, Asia and Latin America are counterfeit.

Self-funding tax stamps

Tax stamps such as those often found on cigarettes provide strong physical tokens that help consumers choose authenticated products and governments to collect revenue. Such schemes can quickly become self-funding – in the Philippines, for example, the 'sin tax' has been very successful in raising tax revenue from tobacco and alcohol to fund the health service.

1 OECD/EUIPO (2016) Trade in Counterfeiting and Pirated Goods, Mapping the Economic Impact.

2 World Health Organisation Framework Convention on Tobacco Control.

3 World Health Organisation, Global status report on alcohol and health 2014.

4 MarkMonitor, Thomson Reuters – The Global Consumer Shopping Habits Survey (2015).

Securing the future continued

Identity crisis?

WHO ARE YOU?
TOWARDS A DIGITAL ID

It's well known that investment in health, education and infrastructure will lead to an increase in GDP and the growth to which all countries aspire. But rarely governments can realistically make such investments without a reliable, demonstrable understanding of its population base. How many people... where do they live... what do they need in terms of healthcare, education and infrastructure?

Civil registration is the anchor of an effective global ID system – the starting point that can build valuable, practical knowledge around the who, where, how and what. Yet, despite the best efforts of the World Bank and others, the UNHCR reports that one million births per week are not being registered. The task of ensuring that everybody on the planet has a legal and secure ID by 2030 – one of the UN Sustainable Development Goals – looks a distant goal.

It's natural to think that as we move towards a digital world, technology will step in to enable births to be recorded and citizens validated with ease. Unfortunately, the infrastructure that drives internet communication is simply not up to the task – even in developed countries, system resilience is not sufficient to deliver total reliability. For example, the International Civil Aviation Organisation (ICAO), which sets the standards for the ID documentation required for air travel, recognises that even if a mobile network is running at 99.95% availability, it's likely to be down for over four hours per year. It's not hard to imagine the chaos if immigration control was closed for several hours because digital passports couldn't be checked.

Similarly, using iris recognition to verify ID in a refugee camp is rendered impractical once somebody leaves the camp and the technology is no longer available – no technology can quickly equate to no ID. So although the world is certainly on the path to a digital ID it will have to wait until the infrastructure is in place to support it.

Co-existence of the physical and the digital

In the meantime, governments and citizens will continue to rely extensively on physical documentation for ID purposes. For example, the comprehensive and innovative security measures within physical passports cannot be replicated electronically – and this is unlikely to change in the near or mid term.

However, discussions around the future of ID remain focused almost exclusively on digital solutions. Yes, these will undoubtedly have a key part to play – for example, capturing birth data offline in remote areas and then uploading once connection is available can potentially transform civil registration.

But we know from the growth in coins and banknotes that new technologies complement rather than replace the demand for physical items. What the world needs is a balanced debate on the physical and the digital, between policymakers and solution providers as well as between public bodies and private organisations. The solution is going to require a mix of innovation, trust and partnership, combining the best of the physical and digital worlds to create an effective ID system – and therefore drive growth and prosperity.

> **Data allow your political judgements to be based on fact, to the extent that numbers describe realities.**
>
> Hans Rosling
> Statistician and Public Educator

The changing nature of tokens

We're all accustomed to using physical items (known in our industry as tokens) to prove we are who we say we are, whether in the form of a passport, ID card or birth certificate. However, the use of digital tokens can transform the customer experience and reduce costs – supporting online applications, accelerating verification and even enabling emergency replacement documents following loss or theft.

The challenge of sharing data

Significant barriers remain before we can welcome an era characterised by a single customer-centric view underpinned by data captured digitally. In the UK, for example, ID data is owned by the organisation – from the NHS to the DVLA and HMRC – not the individual. Encouraging and enabling these organisations to share data will be a major challenge.

No address, no inclusion

An address enables people to exercise their rights and responsibilities. Governments can provide services and infrastructure investment when they know where their citizens live. However, around 75% of the world has an inadequate addressing system. New technologies and systems might help governments achieve UN SDG 16, building strong institutions. For instance, the location-based service what3words has divided the world into a grid of 3m x 3m squares and assigned each one a unique three word address. This means that everyone, everywhere, can now have an address and therefore play their full part in society.

Watch more online at
www.delarue.com/about-us/our-strategy

Our markets

We operate in three main markets – currency, identity and product authentication, all of which have strong prospects for long term sustainable growth.

> The total amount of cash in circulation has been growing at c4% a year globally over the past decade and is expected to continue to increase at a similar rate in future years.

Currency market

The total amount of cash in circulation has been growing at c4% a year[1] globally over the past decade and is expected to continue to increase at a similar rate in future years. GDP and population growth are the main drivers for cash growth.

Most banknotes and the substrates on which they are printed are produced by state print works (SPWs) and state paper mills (SPMs) of the respective issuing countries. The rest of the demand is met by commercial banknote printers and paper makers. This situation has remained relatively stable over the past decade.

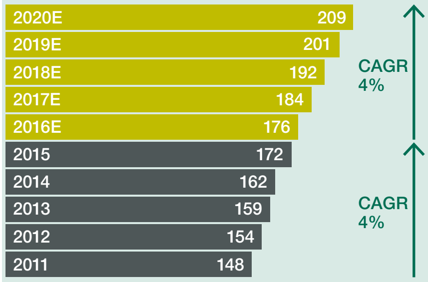
While many customers buy finished banknotes from one supplier, some follow a multi-supplier model which involves disaggregating their note buying into individual components: substrate, security features and printing.

Around 11% of the c172bn banknotes issued globally[2] in 2016 were printed by a handful of commercial printers. De La Rue is the clear market leader, with 27% market share.

While the increase of cash in circulation drives growth in the commercial banknote printing market, the timing of orders can be unpredictable. The degree of uncertainty is exacerbated by overspill caused by the SPWs being unable to meet internal demand. Overspill orders typically account for 1% to 3% of the total banknote market and therefore have a noticeable effect on the commercial print and paper markets.

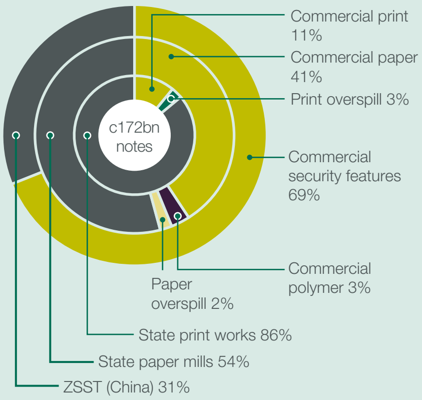
Of the banknotes in circulation, 97% are printed on cotton-based paper with the remainder on next generation substrates such as polymer. Including overspill orders, around 45–50% of the substrate market is supplied by commercial paper or polymer manufacturers. The commercial paper market is highly competitive, with more than a dozen

Global banknote issuance
Billions of notes



Source: De La Rue estimates

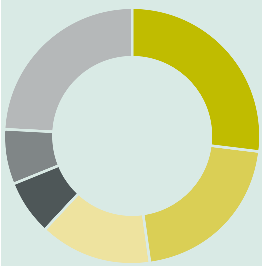
Commercially available markets
%



Source: De La Rue estimates

Commercial print market by volume %

- De La Rue – 27%
- Peer 1 – 21%
- Peer 2 – 14%
- Peer 3 – 7%
- Peer 4 – 7%
- Other – 24%

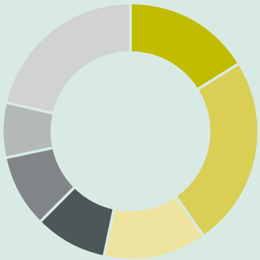


Source: De La Rue estimates. Excluding overspill orders

[1] De La Rue estimate.
[2] De La Rue estimate.

Commercial substrate market* by volume %

- De La Rue – 16%
- Peer 1 – 24%
- Peer 2 – 13%
- Peer 3 – 9%
- Peer 4 – 9%
- Peer 5 – 7%
- Other – 21%

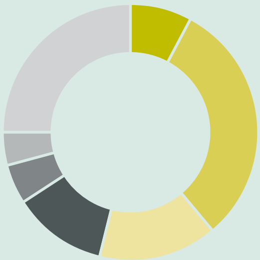


Source: De La Rue estimates

* Numbers do not add up to 100% due to rounding.

Commercial security features market by volume %

- De La Rue – 8%
- ZSST (China) – 31%
- Peer 1 – 15%
- Peer 2 – 12%
- Peer 3 – 5%
- Peer 4 – 4%
- Generic/Other – 25%



Source: De La Rue estimates

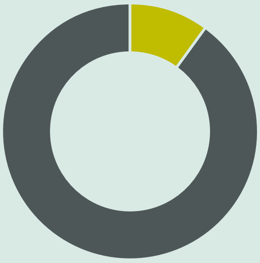
well-established suppliers. De La Rue is one of the top three commercial paper makers with market share ranging between 12% and 15%. In recent years, there has been a persistent overcapacity in the market due to some countries switching to insourcing. Although the gap between supply and demand has narrowed in the last 12 months, we expect oversupply to remain a feature of the market in the long run.

Polymer currently accounts for 3% of the substrate market. As central banks seek to reduce the 'cost of cash', polymer is becoming more popular due to its durability and greater security[3]. More economies are switching or considering switching paper banknotes to polymer notes, and we expect the market to double in size in the next five years[4]. We entered the market in 2012, with our polymer substrate Safeguard®. This has allowed us access to the entire substrate market, including the part of state manufacturing sector that was previously unavailable.

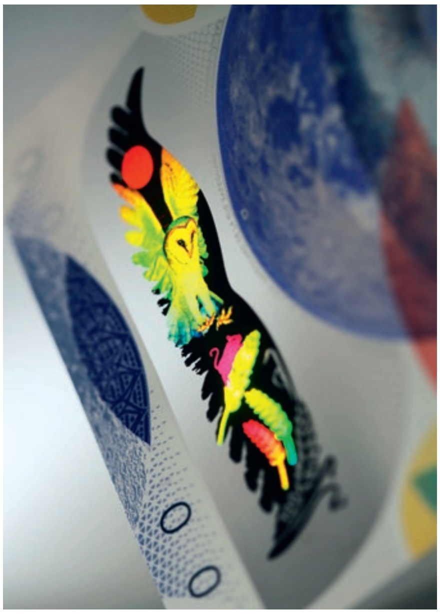
While pricing in print and paper remains stable, customers are increasingly seeking to access the benefits of added-value security features such as threads and holograms and this is making the ownership of such innovations an attractive opportunity. Almost all countries buy security features or IP licences on the commercial market. Some 90% of the c172bn banknotes issued in 2016 incorporated security threads, while only 13% included features such as holographic patches and stripes. However, we believe growth in holographic features will accelerate as the polymer market expands. De La Rue is the third largest commercial supplier for security threads and the fourth largest for holographic features.

Polymer market share by volume %

- De La Rue – 10%
- Competitor – 90%



Source: De La Rue estimates



3 According to the Bank of England's study in 2013, polymer notes are more secure and last 2.5 times longer than cotton-based banknotes.

Our markets continued

> The global identity market is valued at around £3.7bn today and expected to grow at c6% a year.

Identity market

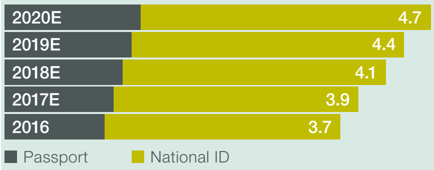
Against a background of increasing population and greater globalisation, demand for identity products and services continues to rise as governments increasingly focus on improving border security and their citizens' access to services. While physical tokens such as passports and ID cards are important, there is a growing emphasis on end-to-end solutions that combine secure tokens with systems and services.

The global identity market, including passports, ID cards, and the associated digital solutions, is valued at around £3.7bn today and expected to grow at c6% a year[1]. Although many countries have in-house security print capabilities, many still choose to source printing or individual components from the commercial market. More than half of the identity market is available to commercial manufacturers.

With an annual growth of c8%, the passport market remains attractive, although market drivers and customer preferences are changing. Customers increasingly value security features and the systems and services surrounding the physical product. While we believe demand for physical passports will remain for the long term, the market is transitioning from Machine Readable Passports to chip-based ePassports. This further drives demand for full integration of end-to-end solutions.

Globally, around 100 countries have compulsory identity card schemes. The national ID market is expected to grow at 5%. Today, over 70% of the national IDs in circulation globally are chip-based. Technological advances in recent years have enabled new types of ID schemes, combining traditional ID functionality with payment methods.

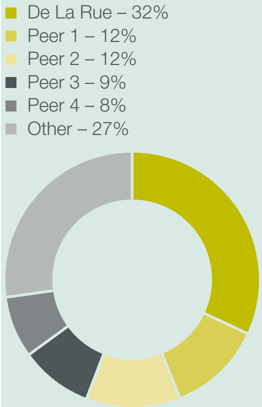
Global identity market
£bn



Passport: 8% CAGR **National ID: 5% CAGR**

Source: De La Rue estimates

Commercial passport market by volume %



Source: De La Rue estimates

[1] De La Rue estimate.

> Globally, the significant increase in counterfeit goods and illicit trade means that governments are losing billions of dollars in tax revenues.

Product authentication market

Globally, the significant increase in counterfeit goods and illicit trade means that governments are losing billions of dollars in tax revenues. At the same time, legitimate businesses and brand owners are being undermined and consumer confidence is being eroded.

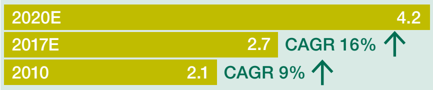
Excisable fast moving consumer goods such as tobacco and alcohol are widely recognised to be among the most illegally traded products in the world. The UK Government estimated that £3.6bn was lost to illicit trade in alcohol and tobacco in 2014–15[1]. The need for protecting tax revenue, together with continuing changes to government policy worldwide, remain the key drivers for growth in the tax stamp market.

The rise of counterfeit goods, unauthorised production and sales channel diversion also means that businesses and brand owners are losing revenue and brand equity. The rapid growth of eCommerce and easy global shipping have exacerbated the problem, with 90% of online retailers having experienced up to a 10% loss of revenue due to online counterfeit sales[2]. In 2015, the total recorded loss due to fake goods amounted to $1.2bn. The global market for brand protection is forecast to grow at c9% a year, rising to $4.2bn in 2020[3].

Both the tax stamp and brand protection markets are highly fragmented, with most operators offering only partial solutions such as serialised labels and tamper-evident packaging. However, there is a growing trend towards integrated, end-to-end solutions that provide a combination of highly secure labels and unique ID together with systems that can track, trace and authenticate products throughout the supply chain. As technologies advance and costs reduce, features such as printed electronics and RFID[4] tags in packaging and labels are gaining popularity. Online shopping is also driving authentication through a touchpoint of consumer smartphones.

Global brand protection market

$bn



Source: The Future of Anti-Counterfeiting, Brand Protection and Security Packaging to 2020, Smithers Pira

1 Measuring tax gaps 2016 edition.
2 Global Online Shopping Report.
3 The future of anti-counterfeiting, brand protection and security packaging to 2020, Smithers Pira.
4 Radio Frequency Identification.

Our business model
How we create value

We support governments and businesses by providing them with products and services that underpin the integrity of trade, personal identity and the movement of people and goods.

WHAT WE HAVE TO DELIVER OUR BUSINESS MODEL

7 centres of excellence
Manufacturing excellence
Our seven centres of excellence give us a global presence with consistent operating experience at the highest standards.

1,000+ patents
Shared knowledge
Our knowledge of anti-counterfeiting measures is applied across brand and tax revenue protection, identity solutions and currency.

3,150 employees
Our people
We have 3,150 dedicated and passionate employees across four continents. And we are moving to be closer to our customers.

100% increase
Research and development investment
Our leading position in defeating counterfeiting is underpinned by 200 years of innovation. We plan to double our investment in research and development in the five years to 2020.

1 global supply chain
Suppliers and partners
We work with suppliers and partners all over the world to ensure sustainability and reliable delivery to our customers. And we hold these suppliers and partners to the same high ethical standards that we adopt ourselves.

£64.3m cash flow[1]
Financial strength
We generated cash flows from operating activities of £64.3m in 2016/17. This allows us to invest in new technology and machines, fund potential strategic acquisitions and support business operations to secure long term value for shareholders.

[1] Includes continuing and discontinued operations.

WHAT OUR CUSTOMERS BUY FROM US

Intellectual property
We have invented over 100 security features for currency and register around 30 patents per year. Our security features are embedded in more than 25% of the world's circulating denominations.

Digital solutions
Our end-to-end digital solutions for identity management and product track and trace give our customers easy access to information and peace of mind.

Innovate

Customers

Currency

Identity Solutions

Product Authentication Solutions

Innovate

Data analytics
We use analytics and intelligence derived from our database to support customers' decision-making.

Design
Our 50 strong design team is recognised as the best in class. Its banknote and passport designs have won 14 international awards since 2007.

The values which underpin our business

drive change and innovate

act with integrity

See our fundamental plan on page 20

Partnerships

We work with an extensive group of trusted partners to provide our customers with advanced technology, greater flexibility and better services.

Grow **Deliver**

- Banknote printing
- Paper and polymer substrate
- Security features
- Cash cycle analytics

Read more on pages 25 to 27

- Physical identity documents
- Software systems

Read more on page 27

- Tax revenue protection
- Brand protection
- Software systems

Read more on page 29

Grow **Deliver**

Global expertise

We work with over 150 countries on designing and producing banknotes and passports, more than any competitor.

Scale manufacturing

We are the world's largest integrated commercial banknotes and security printer and the only one that produces and prints polymer and paper banknotes.

take responsibility

excel in what we do

work together

WHAT VALUE WE CREATE FOR

The world around us

Enabling citizens' secure participation in the economy

Helping deliver confidence in the economy by ensuring a secure cash cycle

Supporting social and financial inclusion by securing citizen identity and providing currency

Contributing to economic growth by protecting tax revenues and tackling illicit trade

Our business

£70.7m
Adjusted operating profit*

47.1p
Adjusted basic earnings per share*

25.0p
Dividend

Our people

Engaging and developing a world class workforce

Building local skills and capabilities with strong partnerships in key countries

* This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on pages 153 to 154.

Our fundamental plan

We set a clear plan to grow the business in May 2015. We have completed the first two years of the five year journey.

Optimise and Flex

Improve efficiency and drive flexibility in the business lines that face unpredictable markets or slow growth prospects, specifically Banknote Print and Banknote Paper

Invest and Build

Invest in the business lines that are exposed to high growth markets, specifically Polymer, Security Features, Identity Solutions and Product Authentication

Currency

Banknote Print
Banknote Paper

Polymer
Security Features

Identity Solutions

Product Authentication

Business focus

Innovate

Grow

Deliver

Strategic priorities

1 Address key issues

2 Drive efficiency

3 Diversify revenues

4 Invest in innovation

5 Strengthen financial position

6 Drive culture change

Values

Demonstrate our five key values

- drive change and innovate
- act with integrity
- take responsibility
- excel in what we do
- work together

A five year journey

2015–17	2017–19	2019–20
Set foundations	**Accelerate transformation**	**Establish leading positions**
• Address key issues • Optimise banknote manufacturing footprint and create operational flexibility • Reduce costs • Increase R&D investment and introduce product management • Focus on cash management • Reorganise and drive culture change	• Accelerate product development • Continue to invest in new capabilities • Broaden customer base • Digital strategy • Strengthen partnerships • Continue culture change • Improve cash flow	• Balanced business portfolio • Sustainable financial returns • Dynamic and high performing culture • Cash positive • Cement #1 position in Currency • Become one of the major players in our chosen markets in Identity Solutions and Product Authentication

Strategic priorities

Strategic focus see pages 22 to 24	Principal risks see pages 32 to 37	Strategic measures see pages 30 to 31
1 Address key issues		
• Volatility in Banknotes • Overcapacity in Banknote Paper	• Failure to secure strategic partnerships to address key issues • Failure to win or renew a material contract • Unpredictability in the timing and size of substantial contract awards	• Return on capital employed (ROCE) • Percentage of revenue from long term agreements (LTA)
2 Drive efficiency		
• Operational Excellence programme • Manufacturing restructuring programme • Systems upgrade and process improvement	• Loss of a key site • Failure in health and safety • Quality management failure	• Adjusted EBITDA margin • Adjusted operating profit
3 Diversify revenues		
• Grow polymer • Grow recurring revenues • Grow non-Currency revenues • Grow wholesale market • Maximise internal synergies	• Unpredictability in the timing and size of substantial contract awards • Failure to win or renew a material contract • Supply chain failure	• Identity Solutions revenue growth • Product Authentication revenue growth
4 Invest in innovation		
• Technology platforms • Digital strategy • Services for state print works	• Failure to maintain and exploit competitive and technologically advanced products and services	• Revenue growth • Total number of patents granted
5 Strengthen financial position		
• Disciplined capital investment • Proactive working capital management • Proactive pension management	• Pension fund deficit • Unpredictability in the timing and size of substantial contract awards	• Cash conversion ratio • Net debt/EBITDA ratio
6 Drive culture change		
• Upgrade sales skills • Leadership and succession planning programme • Inculcate high ethical standards	• Breach of legal and regulatory requirements • Failure to adopt performance driven culture	• Adjusted basic earnings per share • Group 12 month order book

Chief Executive Officer's review

Martin Sutherland
Chief Executive Officer

In May 2015, we announced a five year strategic plan to transform De La Rue from a banknote and passport manufacturer into a technology-led security product and service provider. The plan aims to deliver:

- Better business mix
- Higher quality earnings
- Improved profitability
- Improved cash flow
- Better return on capital
- High performing culture

1 to 6 Strategic priorities, see page 20

1 to 17 UN Sustainable Development Goals (SDGs), see page 43

Watch the interview with CEO Martin Sutherland
www.delarue.com/about-us/our-strategy

1 Address key issues

In a constantly changing market, we must be more flexible and agile in managing our customer relationships, product pipelines and delivery. We face a number of risks that could have material impacts to the business. These include volatility of earnings which is caused by unpredictable demand in the banknote print and paper markets. Working with third party partners gives us added flexibility, helping reduce risk and manage surge in demand. At the same time, we use the insights and analytics we have gathered over decades to help our customers improve their forecasting.

The banknote paper market has been oversupplied for a number of years and we expect this to continue. In the short term, cutting production costs and driving efficiency will help to maintain profitability. For the longer term, we continue to explore our strategic options.

We completed the sale of the underperforming Cash Processing Solutions business on 22 May 2016.

2 Driving efficiency

Driving down costs enables us to remain price competitive while protecting margins. We are working hard to improve manufacturing efficiency. In 2012, we launched our Operational Excellence programme to modernise banknote production and deliver continuous improvement through best practice. We successfully completed Level 2 of the programme during the year.

To optimise our cost base, we are restructuring our manufacturing footprint to ensure it is aligned with long term average demand, while also benefiting from the greater flexibility delivered by changes in working practices. Launched in December 2015, this programme will complete in 2018/19 and is expected to generate c£13m cash savings per year.

We are also creating a leaner and more agile organisation. We began changing our systems and processes in 2015/16 and are now upgrading our finance and management information systems to increase efficiency and improve decision-making. We have also significantly improved a number of commercial processes which have shortened our timescales to submit bids and win new business.

3 Diversifying revenues

More than half of the Group's revenue is generated from Banknote Print and Paper. In order to diversify our revenue streams and benefit from a more balanced product mix, we have increased investment in areas with potential for high growth – such as Polymer and Identity Solutions – or high profitability, including Security Features and Product Authentication & Traceability (PA&T). We also aim to increase recurring revenues from software solutions and services. In addition, our focus on long term agreements will help to reduce volatility in banknote earnings caused primarily by unpredictable demand.

To grow our sales pipeline, we are targeting direct sales of product components to state print works (SPWs), system integrators and other commercial printers. Our renewed focus on direct sales will not only increase our addressable market, but also even out the peaks and troughs we experience in orders for finished products.

We aim to maximise internal synergies by leveraging our existing products. In addition, we also aim to build stronger customer relationships via a network of new regional offices and a direct sales force, reducing reliance on third party partners. During the year, we set up sales hubs in Dubai and Miami and relocated sales staff to be closer to our customers in Africa and Asia. These changes will help us better understand customer needs, ensuring we offer the right products and services.

4 Investing in innovation

Innovation drives product differentiation and is therefore the engine for our growth. We plan to double our investment in R&D in the years to 2020, prioritising product development in high growth and high margin businesses.

Our product development programme is based on a number of technology platforms we have developed in material science. This approach allows us to maximise our technology know-how and create various platform-based applications for different products.

> "Innovation drives product differentiation and is therefore the engine for our growth."

Cash Supply Chain
DLR Analytics™

1 3 4 10 16

Although some industries have been using big data for many years, the central banking sector is just beginning to realise its power. Based on our know-how and vast database of cash cycle management, our DLR Analytics tool is a proprietary software solution that enables central banks to monitor the movement, utilisation rate and inventory of cash. The data generated helps central banks better manage their cash cycle at lower cost, guides their decision-making and shapes policies, while also reducing the risk of running out of cash.

Find out more about our innovations
www.delarue.com

Chief Executive Officer's review continued

We aim to accelerate technology development through partnerships and acquisitions – and in December 2016 we acquired the US-based brand protection company, DuPont Authentication, for $25m. Not only does DuPont Authentication develop and own the highly specialised Lippmann holographic technology[1], but it is one of the very few companies worldwide that can mass-produce 3D Lippmann holograms.

In addition to our ongoing work to enhance our two proprietary software solutions – DLR Identify™ and DLR Certify™ – we have initiated a digital strategy with a number of initiatives, with the objective of modernising the business and improving competitiveness.

The fact that around 40% of denominations in circulation globally and 60% of denominations issued in 2016/17 were designed by De La Rue endorses our design capability as one of our core strengths and differentiators. During the year, we have changed our approach to increase interaction between the design team and customers.

5 Strengthening our financial position

One of our key objectives is to focus on strengthening our financial position by increasing profit and prudent cash management. In April 2017, we extended the maturity date of our existing £250m committed revolving credit facility by two years to December 2021.

We have also created a joint working group with the pension trustees to explore ways to proactively improve the management of our pension obligations.

6 Driving culture change

We continue to foster a dynamic, agile and results-focused culture that will drive business growth in the years to 2020 and beyond.

To encourage a high performing culture, we have implemented performance management and all employees now have a set of individual objectives aligned to Group strategy.

To ensure that we have the right skills and capabilities to take our business forward, we have changed 50% of the senior leadership team over the last two years and continue to upgrade the skill set of our sales force.

We continue to invest in extensive training, development and recognition programmes. In June 2016 we launched the second phase of the Leadership Development Programme. This focuses on developing the agility and capability to lead and inspire colleagues in a matrix organisation, and is helping to build a strong pipeline for succession planning.

Being ethical and always acting with integrity is at the heart of our ability to work with more than 140 countries, and we use regular ethics training and assessment to reinforce this approach across the company.

We are proud to join the 12,000+ participants of the United Nations Global Compact (UNGC), a voluntary initiative based on the principles of human rights, labour rights, the environment and anti-corruption. These principles will guide how we function across our business and how we engage with our local communities. De La Rue has been helping to create inclusive, sustainable societies for 200 years and we will continue to do so. UNGC will provide us a framework to report our progress. Read more about our progress on pages 42 to 49.

Cash Supply Chain

Bank of England £5 note design

2 4 9

We were exceptionally proud to work in partnership with the Bank of England on the ground-breaking new £5 note. We collaborated with the Bank and its other suppliers to create the highly secure and iconic new design, which we are now printing. We are also working closely with the Bank on the designs for the new £10 and £20 notes and look forward to their issue in the near future.

Find out more about our innovations
www.delarue.com

[1] Lippmann holographic technology, also called 3D holographic, is a type of hologram that projects volume or a 3D image of the object. Compared with the conventional embossed holograms which produce colourful 2D images, it requires advanced replication technology. Only a handful of companies worldwide are capable of producing 3D holograms.

Product Authentication

DuPont Authentication

4 9

In line with our 2020 Strategic Plan, our acquisition of DuPont Authentication for $25m in January 2017 has given us access to new capabilities. DuPont Authentication produces photopolymer holographic films and 3D holograms based on the highly specialised Lippmann technology. Headquartered in Utah, USA and with operations in Delaware, the business has a well-established global customer base in brand protection and identity authentication. Its flagship product, Izon®, is used on a number of globally recognised brands, such as Lenovo and Brother, as well as on one of the world's most secure passports.

Find out more about our innovations
www.delarue.com

Operational review

Our 2020 Strategic Plan has a dual focus. Based on the market dynamics of each business line, we have identified two different strategic priorities:

Invest and Build

Invest in the business lines that are exposed to higher growth markets and enhance our capabilities in order to deliver sustainable growth, specifically Polymer, Security Features, Identity Solutions (IDS), and Product Authentication & Traceability (PA&T).

Optimise and Flex

Drive efficiency and flexibility in the business lines that are facing markets with unpredictability or slower growth, specifically Banknote Print and Banknote Paper.

Reclassification of results between Product Authentication & Traceability and Identity Solutions

Historically the results of one of the Group's manufacturing sites have been included in the PA&T segment as this segment represented the majority of its business. However, due to growth in IDS business within this site, we have started reviewing information including the results of this site split between IDS and PA&T. In order to align the Group's external reporting segments to the information reviewed internally, the results of this site have been split in the current year between the IDS and PA&T segment. The 2015/16 figures have also been adjusted for comparability. See note 1 in the accounts for further details.

Currency

Currency comprises Banknote Print, Banknote Paper, Polymer, and Security Features. Each business line faces different market dynamics and growth prospects.

Banknote Print

While overall volumes of cash are growing globally at c4% a year, issuances and orders of cash remain lumpy. This creates unpredictability in our production schedule and, in turn, profitability. We aim to reduce this unpredictability by optimising production capacity and by using outsourcing to create extra flexibility to deal with surge in demand.

Our manufacturing footprint restructuring programme, designed to optimise our capacity, has now completed its first phase. Two print lines have been decommissioned in Malta and machine upgrades in other sites are going to plan. In November 2016, we refined the plan to improve our blend of outsourcing and in-house production, and this led to a decision to retain the remaining banknote print line in Malta. The plan to deliver c£13m annual cost savings from FY18/19 remains unchanged, although some of these savings are expected to be reinvested in the business.

Chief Executive Officer's review continued

In August, we agreed to enter into a joint venture that would see the Government of Kenya acquire a 40% interest in our wholly-owned Kenyan subsidiary for £5.0m. This will further strengthen our ties with the country and secure our position as a supply hub of currency and security solutions in East Africa. We expect this to complete in the current financial year.

We seek to build outsourcing partnerships in banknote print to provide added flexibility, reduce risk and manage surge demand. At the same time, we aim to increase earnings visibility through LTAs with customers. We also look to smooth demand by helping our customers improve their cash requirement forecasting. In May 2017, we launched DLR Analytics™ – a software solution that helps central banks manage their cash cycle by drawing on insights and intelligence from the collected data and our database. It is currently piloted with 26 customers.

Banknote Paper ∞

Although demand for banknote paper has increased in recent months, we believe that the long term market dynamics remain unchanged.

We are focusing on driving direct sales to SPWs in order to increase machine utilisation.

During the year, we launched a cost reduction programme which aims to reduce the spoilage rate and improve throughput. While total volume grew by 18%, unit production cost also increased due to the increased cost of imported raw materials such as cotton.

In the meantime, we continue to engage in complex and constructive dialogue with a number of paper-makers in order to identify a long term solution for the business.

Polymer ↑

This business has gained significant traction since the launch of our polymer substrate, Safeguard®, in 2012. Today, as the only integrated polymer provider, we are well positioned to achieve further growth.

We aim to grow our market share by targeting existing polymer customers as well as paper and coin customers looking to switch to polymer. In 2016/17, we increased our production volumes from 100 tonnes to 380 tonnes.

The number of Safeguard® customers reached 15, representing c40% of total polymer banknote issuers. We also won our first coin-to-note customer.

We continue to invest in developing security features suitable for both polymer and paper substrates to increase differentiation. For customers who issue both polymer and paper notes in different denominations, substrate agnostic features provide a degree of consistency which helps to build public confidence.

We are also working closely with suppliers to reduce production costs, an initiative that will combine with our increased scale to further improve profitability.

Security Features ↑

As security features tend to last the lifetime of the banknote design, they provide a reliable revenue stream. The most versatile product in our portfolio, security features can be applied across all other product lines.

We aim to grow revenue by cross-selling banknote features to IDS and PA&T customers. At the same time, our 50%+

Cash Supply Chain

4 9

Seychelles new currency

We worked closely with the Central Bank of Seychelles to produce fully integrated designs for a new four-note series that explores the unique bio-diversity of the Seychelles. The new notes incorporate a suite of world class security features, including Depth™ image holograms, Kinetic StarChrome® and Optiks® security threads.

Find out more about our innovations
www.delarue.com

Identity Solutions

3 16 9

Kenya ePassport

Building on a long term partnership, we have recently delivered a new ePassport solution and document with polycarbonate bio-data page for the Republic of Kenya. Part of the Government's Vision 2030 programme, this complete solution means that Kenya is the first member of the East African Community to launch a fully compliant ePassport that meets both international and regional specifications.

Find out more about our innovations
www.delarue.com

market share in commercial banknote design provides an ideal platform to increase direct sales of security features to SPWs.

A rolling programme of investments in R&D maintains our competitiveness and creates high barriers to market entry. In September 2016, we launched holographic foil on polymer with the issue of the Gibraltar £100 note – and holographic technology is also being applied to laminate features for the ID market. We launched six new products in May 2017, including four security features that were developed using our existing technologies.

We aim to accelerate technology development through partnerships and bolt-on acquisitions, such as the purchase of the Lippmann technology. While its main applications are authentication labels and anti-tampering packaging, this 3D hologram technology can also be applied to identity documents and, with modification, to banknotes.

Overall, the Currency business benefited from an improved mix in Banknote Print and higher volumes in Banknote Paper, which partially offset the impact of the security features contract that concluded in the prior year. Revenue fell by 1% year on year to £350.6m (2015/16: £353.3m). The lower revenue and change in sales mix resulted in a 9% decline in adjusted operating profit.

We achieved good volumes in Banknote Print of 7.1bn notes (2015/16: 7.1bn) in the year despite the decommissioning of two print lines as part of the footprint restructuring programme. This demonstrated not only our sales capability, but also the flexibility of our manufacturing capacity following the restructuring.

Banknote Paper volumes increased by 18% to 11,800 tonnes (2015/16: 10,000 tonnes), primarily driven by stronger external sales. Prices of raw materials such as cotton and ink have increased substantially in recent months and are expected to remain high throughout the coming year.

Polymer almost quadrupled in volume to 380 tonnes in the year, demonstrating continuing good momentum. Margins are expected to improve over time as we continue to reduce production costs and build scale.

Security features were adversely impacted by the material contract which concluded in the prior year. Both revenue and operating profit were lower than the prior year. However, underlying performance, i.e. excluding the impact of the concluded contract, was encouraging. We launched four new features in May 2017 – TrueImage™, TextMark™, enhanced Gemini™, Kinetic StarChrome® Portrait – further strengthening our product portfolio.

At the year end the 12 month order book for Currency including estimated call-off orders for contracts was £311m (2015/16: £278m).

Identity Systems

We are the world's largest commercial passport producer, with 32% market share by volume. At the same time, we are looking to grow digital and service revenues via two separate initiatives: firstly, by selling more to existing customers, using our end-to-end identity management solution, DLR Identify™, to help them migrate from MRP to ePassport; and secondly, by offering full eBorder solutions including biometrics verification and border control via partnerships. In addition, we plan to re-enter the national ID market by leveraging our relationships with existing customers.

In 2016/17, we won a new multi-year contract, renewed three service contracts and gained three new customers for passport books. We also continued to drive direct sales of individual passport components, such as passport paper and laminate, to SPWs and other commercial operators.

In June 2016, we launched DLR Identify™ CRVS[2] – an extension of DLR Identify™, which enables governments to record life events of their citizens such as births, deaths and marriages. These data establish the rights of individuals to services such as education and health care while also enabling governments to plan ahead with greater confidence.

Chief Executive Officer's review continued

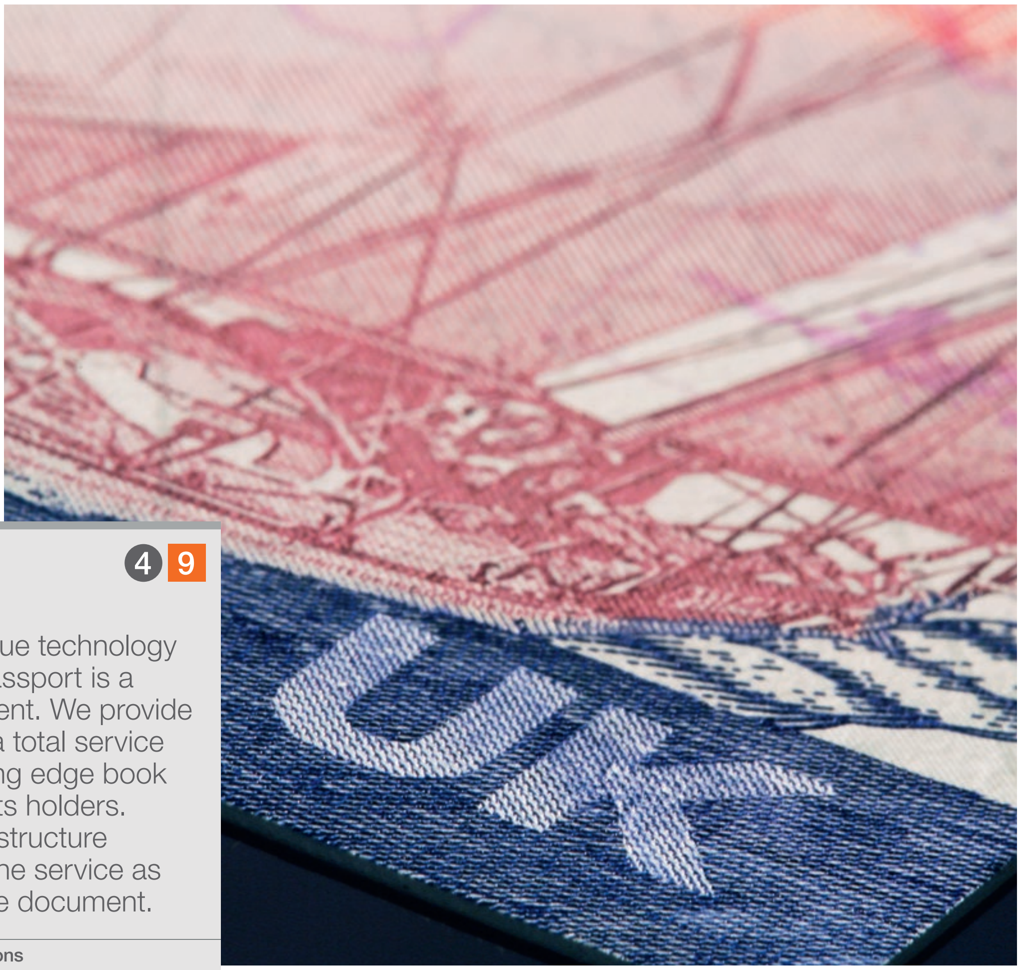
Identity Solutions

Rwanda eID

3 3 10 16

A key strength of our eGovernment Solutions team lies in helping governments create a better future for their citizens, with improved service delivery. We are working with the Government of Rwanda to create and implement a multi-functional smart card – this will not only enable Rwandans to prove their identity, but also help them gain access to government services.

Find out more about our innovations
www.delarue.com



Identity Solutions

UK HM Passport Office

4 9

Based on proven De La Rue technology and know-how, the UK passport is a universally trusted document. We provide HM Passport Office with a total service solution, delivering a cutting edge book that fosters pride among its holders. Complex and secure infrastructure maintains the integrity of the service as well as the resilience of the document.

Find out more about our innovations
www.delarue.com

Product Authentication

Microsoft Certificate of Authenticity

3 12

In the face of ever more sophisticated counterfeiting operations, the task of proving the legitimacy of products is a key challenge for modern businesses. For the last 20 years, our secure label designs have helped Microsoft ensure that customers benefit from genuine products. Combining attractive visuals with state-of-the-art security features, these labels enable Microsoft and our teams to track a product around the world, thereby helping to maintain product integrity.

Find out more about our innovations
www.delarue.com

As part of the manufacturing footprint restructuring programme, we have created a centre of excellence for identity and security print in Malta, which includes the installation of a new polycarbonate line. This new capability has further strengthened our product offering for both passport and national ID.

Identity Solutions performed well in the year. Revenue grew by 5% to £80.6m (2015/16: £76.5m), with an improved margin of 14.1% (2015/16: 10.8%) from better mix of orders. This reflected an increased proportion of revenues from software and services, as well as increased focus on component sales. Adjusted operating profit in the period increased by 37% to £11.4m (2015/16: £8.3m).

We continue to invest in skills and capabilities. During the year, we more than doubled our R&D investment and added seven new sales people. This increase in investment was paid for by overhead reduction and efficiency in the Currency business.

Product Authentication & Traceability

Product Authentication & Traceability (PA&T) operates in two main markets: tax revenue protection for governments; and brand protection for private enterprises. We aim to grow recurring revenues in both markets by increasing solution sales.

As one of the largest tax stamp providers, we continue to strengthen our position by leveraging existing relationships and expanding our offering with service and digital solutions. Cameroon became the first customer for our track and trace system DLR Certify™ during the year, and we are now pursuing a number of other opportunities.

We have renewed our focus on the fast growing but fragmented enterprise brand protection market. Our objective is to expand by targeting international brands with complex supply chains and distribution networks which require close monitoring. We also aim to accelerate growth through partnerships and acquisitions. For example, DuPont Authentication's flagship product Izon® is recognised as the premier anti-counterfeiting technology for brand protection and is used on a number of well-known brands such as Lenovo and Brother.

Furthermore, we are driving direct sales of components, such as security labels and security features IP licensing, to system integrators and packaging companies.

PA&T delivered an excellent performance in the year. Revenue increased by 20% to £34.6m (2015/16: £28.8m), driven by growth in tax revenue protection. The segment benefited from lower production cost, which was partly offset by increased investment in R&D and sales. Adjusted operating profit in the period was up 29% to £9.0m (2015/16: £7.0m).

We completed the acquisition of DuPont Authentication on 6 January 2017. Integration of the business was completed in April 2017. Excluding the acquisition, revenue in the segment grew by 13% and adjusted operating profit was up 24%.

Martin Sutherland
Chief Executive Officer

[2] Civil Registration, Vital Statistics.

How we performed

We measure our performance using both financial KPIs and strategic indicators that we believe provide a meaningful assessment of our performance against our strategy.

Financial KPIs

Revenue[1]
£m

£461.7m

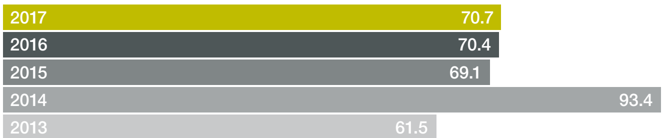
Revenue demonstrates our ability to deliver growth. Revenue from continuing operations grew 2% in the year, reflecting good growth in the Identity Solutions and Product Authentication and Traceability product lines, as well as the £2.2m from De La Rue Authentication Solutions acquired in January 2017.

Adjusted EBITDA[2]
£m

£97.4m

Adjusted EBITDA provides an underlying picture of our performance by excluding the non-operating factors such as financing and changes to tax environments.

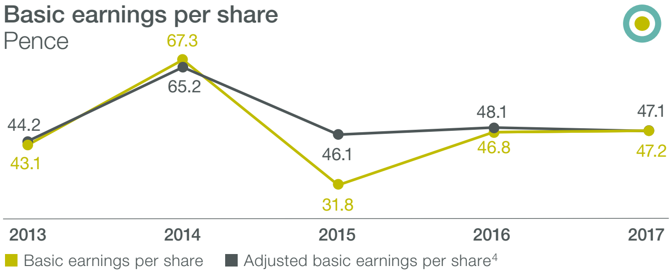
Adjusted operating profit[3]
£m



£70.7m

Adjusted operating profit was flat year on year as good growth in the Identity Solutions and Product Authentication and Traceability product lines was offset by higher central costs and lower adjusted operating profit from the Currency business, partly due to the conclusion of an important contract in December 2015.

Basic earnings per share
Pence



Growth in earnings per share demonstrates our ability to create value for our shareholders. It is one of the performance metrics for executive management remuneration. The year on year decrease was due to a lower tax charge in the prior year benefited from a non-recurring tax benefit arising on the release of a provision.

Return on capital employed[5]
%

39%

Return on capital employed shows how efficiently and effectively we use our assets and resources to generate return for shareholders. It is the ratio of operating profit before exceptional and adjusting items over capital employed, where capital employed equals net assets, excluding pensions, tax, interest and long term liabilities. The decline in the current year was due to an increase in capital employed following the recognition of intangible assets relating to the acquisition of De La Rue Authentication Solutions Inc.

Cash conversion[6]
%

114%

We are focusing on better managing our cash through effective inventory planning and credit control, as well as being disciplined on capital expenditure. The decrease against the prior year was due to an adverse movement in working capital between years which was driven by the timing of large accounts receivable and advanced payments receipts after 25 March 2017.

1 Revenue is from continuing operations and excludes discontinued operations which relate to the Cash Processing Solutions business that was sold on 22 May 2016.

2 Adjusted EBITDA represents earnings from continuing operations before the deduction of interest, tax, depreciation, amortisation and exceptional items.

3 Adjusted operating profit represents operating profit from continuing operations adjusted to exclude exceptional items and amortisation of acquired intangible assets.

4 Adjusted basic earnings per share are the earnings attributable to equity shareholders, excluding exceptional items and discontinued operations divided by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust.

5 ROCE is calculated as the ratio of operating profit before exceptional items and adjusted items over capital employed (where capital employed equals net assets excluding liabilities for pension, tax interest and long term liabilities).

6 Cash conversion is the ratio of underlying operating cash flow divided by the adjusted operating profit.

See pages 153 to 154 for further explanations of Non-IFRS measures and reconciliations to comparable amounts.

Linking to performance

Performance measures which directly affect the remuneration of our Directors.

See directors' remuneration report on pages 74 to 92

Strategic measures

Adjusted EBITDA margin[1]
%

	%
2017	21.1
2016	21.2
2015	22.2
2014	25.6
2013	20.1

21.1%

This measurement provides an underlying picture of our performance by excluding the non-operating factors such as financing and accounting decisions or tax environments. Adjusted EBITDA margin has declined marginally in the year due to the effect of 2% growth in revenue combined with only marginally higher adjusted operating profit.

Net debt/EBITDA covenant ratio
Times

	Times
2017	1.27
2016	1.25
2015	1.23
2014	0.83
2013	0.97

1.27

The increase in 2017 primarily reflects the $25m acquisition of De La Rue Authentication Solutions, which was funded from our existing credit facility.

Identity Solutions revenue
£m

	£m
2017	80.6
2016	76.5
2015	75.9
2014	87.1
2013	91.3

£80.6m

Identity Solutions is one of our key growth product lines in which we are investing to build capabilities and focusing resources. Good revenue growth in 2016/17 was delivered by favourable margins and strong service revenues.

Product Authentication & Traceability revenue
£m

	£m
2017	34.6
2016	28.8
2015	32.7
2014	36.7
2013	38.2

£34.6m

Product Authentication & Traceability is one of our key growth product lines in which we are investing to build capabilities and focusing resources. The higher revenue in 2016/17 was primarily driven by growth in tax protection revenue.

Percentage of revenue from long term agreements (LTA)
%

	%
2017	44
2016	35

44%

One of our strategic priorities is to reduce the volatility of earnings. Increasing long term recurring revenues as a proportion of total sales enables us to improve the visibility as well as the quality of earnings. LTAs are contracts that have a duration of two or more years and a regular call-off value. This is a new measure and therefore historic data are not available.

Total number of patents granted
Number

	Number
2017	26
2016	22
2015	29
2014	18
2013	17

26

We have a strong track record of innovation, with more than 1,000 granted patents and 500 pending applications. Our commitment to double our R&D investment in the five years to 2020 will ensure a strong product pipeline and enhance differentiation.

Group 12 month order book
£m

	£m
2017	387
2016	365
2015	226
2014	283
2013	250

£387m

Group 12 month order book is a record of received customers' orders that are due to be shipped in the next 12 months following the reporting date. The numbers include committed orders and regular call-off orders on contracts.

1 Adjusted EBITDA margin represents adjusted EBITDA as a percentage of sales from continuing operations.

Risk and risk management

How we manage our principal risks and uncertainties

How we manage risk

Risk management is the responsibility of the Board, supported by the Risk Committee which comprises members of our Executive Leadership Team. The Risk Committee is accountable for identifying, mitigating and managing risk. Further details about the Committee can be found on page 69. We have a formal risk identification process which evaluates and manages our significant risks in accordance with the requirements of the UK Corporate Governance Code. Our Group risk register identifies the risks, their potential impact and likelihood of occurrence, and the key controls and management processes we have established to mitigate these risks.

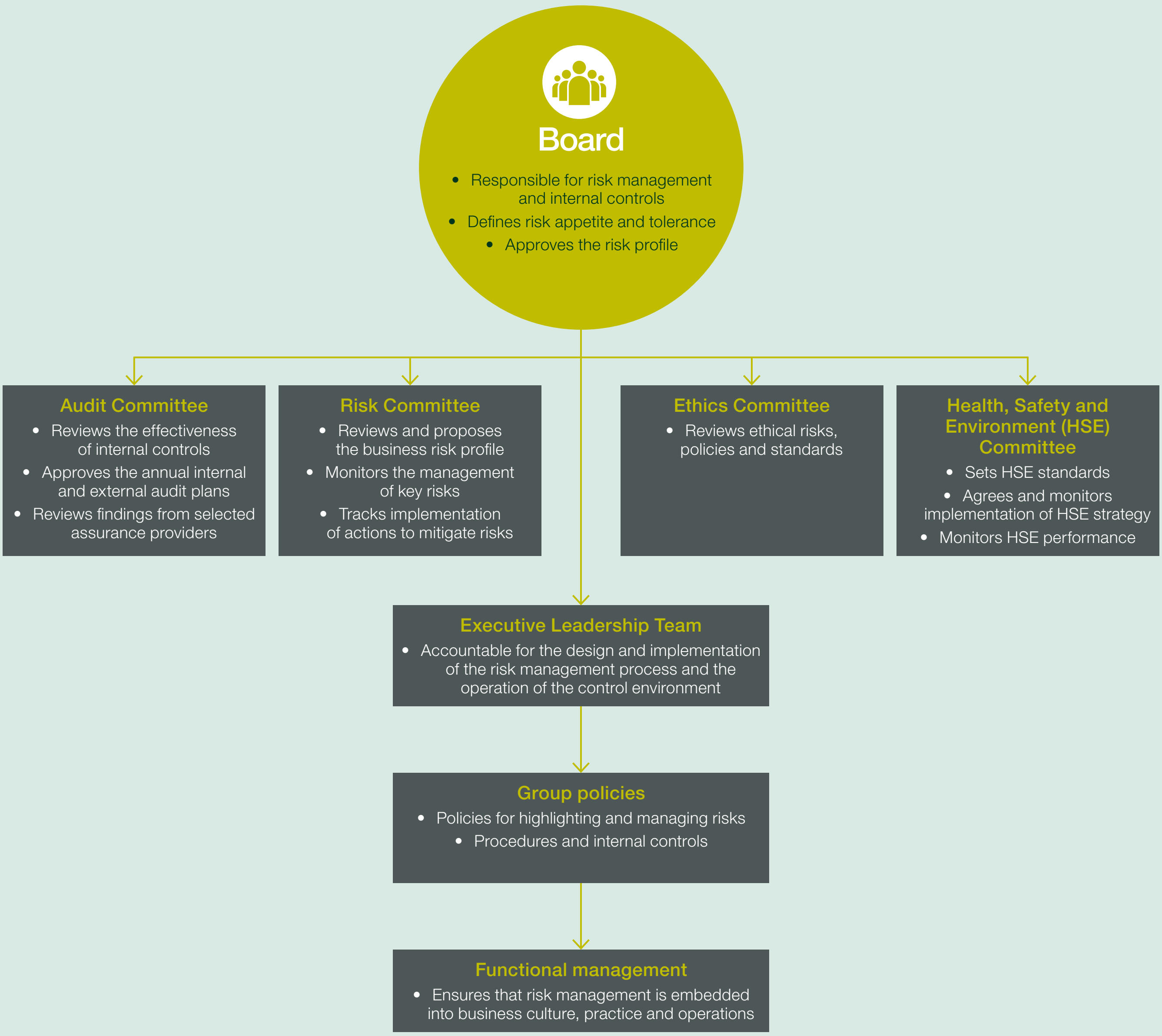
The Risk Committee meets twice a year to review risk management and monitor the status of key risks as well as the actions we have taken to address these at both Group and functional level. Any material changes to risk are highlighted at the monthly Executive Leadership Team meetings, while the Audit Committee also reviews the Group's risk report.

Management is responsible for implementing and maintaining controls, which have been designed to manage rather than eliminate risk. These controls can only provide reasonable but not absolute assurance against material misstatement or loss. See page 62 for further information regarding internal controls.

Principal risks and uncertainties

The following pages set out the principal risks and uncertainties that could crystallise over the next three years. The Board has undertaken a robust risk assessment to identify these risks, which are listed in order of potential impact. There may be other risks that we currently believe to be immaterial. These could become material, either individually or simultaneously, and significantly affect our business and financial results. We have modelled potential scenarios of these risks crystallising to support the disclosures in the Viability Statement. See page 37 for further details. Due to the nature of risk, the mitigating factors stated cannot be viewed as assurance that the actions taken or planned will be wholly effective.

De La Rue's risk management framework



Risk appetite

The Board has reviewed our principal risks and considered whether they reflect an acceptable level of risk. Where this is not the case, the Board has also considered what further investment is being made to reduce the likelihood and potential impact of the risk. The Board either approves the level of risk being taken, or requires management to reduce the risk exposure.

For core areas of the business, the Board uses a number of methods to ensure that management operates within an accepted risk appetite. These include delegated authority levels, the approval of specific policies and procedures and the approval of the annual insurance programme. The Board receives regular feedback on the degree to which management is operating within acceptable risk tolerances.

This feedback includes regular operational and financial management reports, internal audit reports, external audit reporting and any reports to the whistle blowing hotline. All members of the Executive Leadership Team have individual ownership for one or more of the principal risks. Management of those risks forms part of their personal objectives.

Key for strategic focus

1. Addressing key issues
2. Driving efficiency
3. Diversifying revenues
4. Investing in innovation
5. Strengthening financial position
6. Driving culture change

Key for risk outlook

- ↑ Increasing
- → No change
- ↓ Decreasing

Principal risks and uncertainties ranked by net predicted impact

Risk	Exposure	Impact	Mitigation	Impact on strategy	Outlook
Breach of legal and regulatory requirements	It is possible that our employees or overseas representatives, either individually or in collusion with others, could act in contravention of our stringent requirements in relation to bribery and corruption, anti-competitive behaviours and management of third party partners (TPPs).	Major reputational and financial damage.	We are accredited to the Banknote Ethics Initiative, which provides governments and central banks with assurance regarding our ethical standards and business practices. Our commitment to ethical standards is articulated in the Code of Business Principles. This is supported by underlying policies which are reviewed regularly and enforced robustly. Where necessary, non-compliances is dealt with through disciplinary procedures. We have a particular focus on raising awareness as well as training on anti-bribery and corruption, and competition law. Our policies and processes are independently audited. Our process for the appointment, management and remuneration of TPPs operates independently of the sales function. The behaviours of TPPs are strictly monitored and the TPP process is overseen by the General Counsel and Company Secretary, who reports directly to the Board on these matters. Our whistle blowing policy and associated procedures are integral aspects of the compliance framework.	6	→
Failure to win or renew a material contract	While we operate globally and have a diversified geographic, product and customer profile, we rely heavily on a small number of medium and longer term material contracts.	Failure to win or renew a key contract could restrict growth opportunities and have a material impact on our financial performance and reputation.	Our track record of delivering product innovation and our commitment to quality, combined with a commercial approach to tendering, means we are well positioned to win or renew strategic or significant contracts. We are focused on retaining key contracts, as and when they fall due for renewal, and on winning new opportunities as they arise.	1 3	→
Pension fund deficit	The Group's UK defined benefit pension scheme (the Scheme) is in deficit. As at 25 March 2017 the post-tax deficit as accounted for under IAS 19 was £196.7m (26 March 2016: £178.4m).	We have created a joint working group with the pension trustees to proactively manage our pension obligations. If at the next triennual valuation in 2018 the deficit increases further under actuarial valuation, the future cash flow commitments may put future capital investment and dividends at risk.	We are working with the pension trustees to explore methods of improving the return of the Scheme's assets and reducing the Scheme's liabilities.	5	↑

Risk and risk management continued

Principal risks and uncertainties ranked by net predicted impact continued

Risk	Exposure	Impact	Mitigation	Impact on strategy	Outlook
Failure to maintain and exploit competitive and technologically advanced products and services	We operate in competitive markets. Our products and services are characterised by continually evolving industry standards and changing technology, driven by the demands of our customers. Longer term threats could include the growth of eCommerce, the emergence of cashless societies and lower barriers to manufacturing.	Failure to maintain and exploit technical innovation and intellectual property may result in lower demand, loss of market share and lower margins.	We maintain sustained levels of investment in research and development to ensure a steady flow of ideas into our innovation pipeline. Our product roadmaps are designed to meet our customers' needs. Our materials science expertise and software science team are centralised in the UK. These teams follow defined technology management processes, which include regular pipeline and portfolio reviews. We continue to invest in new technologies to enable us to advance our R&D capabilities, and have increased our focus on digital technologies since the strategy review in 2015. We aim to double our R&D investment in the five years to 2020.	4	→
Failure to adopt performance driven culture	In order to ensure our continued success and growth, we carried out an internal organisational redesign in 2015/16. The focus for this programme is to achieve sustained cultural change in order to enable us to adapt to a rapidly changing market environment.	Without a change in our culture, we may not be able to execute the strategy laid out in May 2015.	In 2016/17 we delivered leadership training to build on the achievements of the 2015/16 strategic leadership skills programme. The new training focused on cross-functional working, especially in the areas of influencing and managing competing interests. We have set specific targets for performance appraisal and employee engagement. The results of the employee engagement survey in late 2016 have been cascaded throughout the business, and we have developed appropriate response plans. The strategic plan envisaged a three year programme of training, communication and recruitment to fill capability gaps. This plan is on track – and the outcome is expected to be a change in behaviours and skills that will enable us to be a more dynamic, agile and high performing organisation.	6	↓
Failure to secure strategic partnerships to address key issues	Our ability to address the key issues of volatile demand in banknotes and over capacity in the paper business depend on third party agreements.	The predictability of future revenue streams and our ability to increase the return on capital employed may be compromised.	If third party agreements cannot be concluded, we will continue to use existing strategic initiatives to mitigate this risk. These are: continue to drive efficiency; diversify revenues; innovate; and strengthen the overall financial position of the Group.	1	→
Information security 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 by the breakdown of IT control processes.	Any compromise in the confidentiality of information could impact our reputation with current and potential customers.	Our corporate information systems are accredited to the ISO27001 Information Security standard. We maintain a strict control environment to enforce disciplined information security practices and behaviours. A number of key technical controls are in place to manage this risk, including network segregation, access restrictions, system monitoring, security reviews and vulnerability assessments of infrastructure and applications. We regularly review all aspects of information security arrangements, and our employees undertake mandatory information security e-learning.	1 2 3 4 5	→
Loss of a key site	A number of our manufacturing sites are exposed to business interruption risks.	The total loss of any one of these key sites could have a major financial impact, particularly where the site represents a single source of supply.	Our head office and the banknote production operations in Debden, UK are both accredited to the ISO22301:2012 Business Continuity standard. We maintain a high degree of interoperability across our banknote production and security printing sites. We aim to minimise risk by adopting the highest standards of risk engineering in our production processes. In recognition of our customers' increasingly high requirements regarding business continuity, we continue to enhance the resilience of our major facilities in line with the ISO standard.	1 2 3 4 5	→

Risk	Exposure	Impact	Mitigation	Impact on strategy	Outlook
Health, safety or environmental failure	All of our activities are subject to extensive internal health, safety and environmental (HSE) procedures, processes and controls. Nevertheless, there is a risk that any failure of an HSE management process could result in a serious incident.	Failure of an HSE management process could lead to a serious injury or an environmental breach.	At all major facilities, we have a robust HSE management system which is internally audited and certified to the OHSAS18001 and ISO14001 standards. All of our activities are subject to extensive internal HSE procedures, processes and controls. The Group HSE Committee regularly reviews HSE performance. This is also monitored by the Chief Operating Officer's leadership team and reported to the Board monthly. Each manufacturing facility has clear HSE action plans which are prioritised, monitored and subject to review by local senior management to ensure that health and safety standards are maintained.	1 2 3 4 5	→
Quality management failure	Each of our contracts has a unique specification on product quality and delivery. Some of these contracts demand a high degree of technical specification.	A shortfall in quality management may expose us to additional cost to remake as well as to any associated warranty costs.	We operate an established quality management system across all production sites. All major sites are certified to ISO9001 quality management standards. In 2012, we introduced an Operational Excellence programme to further drive continuous improvement across our manufacturing sites. This programme is well established and continues to deliver operational enhancements.	2	→
Supply chain failure	We have close trading relationships with a number of key suppliers, including unique producers of specialised components that we incorporate into our finished products.	Failure of a key supplier, the inability to source critical materials or poor supplier performance in terms of quality or delivery could disrupt our supply and ability to deliver on time and in full.	Our exposure is reduced because we source many components from within our own organisation. Where we rely on external supply, we have established procedures for identifying possible risks for each supplier. Key suppliers are managed through a supplier relationship management programme. This incorporates checks on their financial strength and their ability to deliver to our quality standards and security, as well as their business continuity arrangements. Key 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.	3	→
Unpredictability in the timing and size of substantial contract awards	Political and other factors can delay government procurement decisions for sensitive products such as banknotes and passports.	The timing and size of contract awards is often uncertain. Delays lead to volatility in our order book and financial performance.	We maintain close and regular contact with customers so that any changes in timing and requirements are recognised promptly. We monitor our sales activity, order pipeline and forward order book to optimise production planning and ensure that delivery to customers is on time and in full. We also monitor any delays in order confirmation on a weekly basis. This enables us to maintain flexibility in the supply chain and to accommodate any changes to production planning. To minimise future unpredictability, we proactively pursue longer term commitments from customers. We also aim to grow recurring revenues by expanding our digital and service offerings.	1 5	→

Risk and risk management continued

Principal risks and uncertainties ranked by net predicted impact continued

Risk	Exposure	Impact	Mitigation	Impact on strategy	Outlook
Product security	Loss of product or high security components from a manufacturing site could occur 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.	Any loss of product or high security components has the potential to cause reputational and financial damage. In certain circumstances, customer contracts may mean that we are liable for those losses.	We have robust physical security and materials control procedures at our production sites, which reduce the risk of inadvertent loss or theft during manufacturing. We apply stringent operational procedures – and use carefully selected carriers and personnel – to handle movements of security materials between our sites and onward delivery to customers. All movements are risk managed and monitored globally on a 24/7 basis. We also maintain a comprehensive global insurance programme.	1 2 3 4 5	→

Risks and uncertainties where the net impact has reduced since prior year, and which are no longer regarded as principal risks and uncertainties

Risk	Exposure	Impact	Mitigation	Impact on strategy	Outlook
Political risk	A number of the countries that we sell to have a history of unstable government or conflict. There is an ongoing risk that orders may be unexpectedly cancelled or cannot be fulfilled, that outstanding debts do not get paid, or that performance guarantees do not get cancelled because of local political issues, which could lead to financial loss.	Losses from cancelled orders and non-payment of debt could lead to a reduction in operating profit. Where performance guarantees remain outstanding, credit facilities will be tied-up, restricting our ability to utilise such facilities to support new contracts or investment.	We assess the overall risk of all contracts pre-tender, including credit risk. We have defined approval limits for management and the Board regarding material contracts. These are based on risk as well as contract size. In higher risk situations, we negotiate payment terms and request substantial down-payments, and in 2016/17 negotiated credit insurance from UK Export Finance. All performance guarantees are approved by the treasury department prior to contract signature. As a result of the mitigations in place, the exposure to this risk has decreased sufficiently for the Board to consider that it is not currently a principal risk.		↓

Risks and uncertainties where the net impact has increased since prior year, and which are now considered principal risks and uncertainties.

The Board has decided, after review by the Audit Committee, that the continuing pension fund deficit and the challenges experienced in concluding strategic partnerships to address key issues now constitute principal risks and uncertainties in achieving the Group's strategic objectives.

Viability statement

The Directors have considered the longer term viability of De La Rue plc in line with the recommendations under the UK Corporate Governance Code.

Period of review

The Directors have considered the longer term viability of De La Rue plc in line with the recommendations under the UK Corporate Governance Code.

While the Group has a five year strategic planning horizon, the financial performance of the Group is inherently less predictable in years four and five because good visibility of the order book is over a shorter term horizon. Therefore, the Directors believe that an appropriate period to consider the Group's viability is over three years.

In assessing the viability of the Group, the Directors have reviewed the principal risks as set out in pages 33 to 36 and considered foreseeable scenarios of one or more of the principal risks crystallising in the same time period in the context of its strategic plan.

Eight of the principal risks were modelled to test the impact on the viability of the Group. The Directors have focused on principal risks that could more plausibly occur and result in the Group's future operational results, financial condition and future prospects to differ materially from current expectations. These include the ability to maintain a dividend, meet current investment plans, and comply with liquidity ratios.

Scenarios that the Directors view as implausible (or outside the Group's control, such as a terrorist attack or an event of nature) have not been modelled, nor have all potential mitigating responses. The Directors have assumed that the current revolving credit facility remains in place with the same covenant requirements through to December 2021.

Even with all the principal risks above crystallising in a plausible combination, the Group's credit facilities were not exhausted. The Board also considered a reverse stress test; the extent of cash the Group would have to lose against its strategic plan forecast in order to breach its net debt/EBITDA and interest cover covenants.

The result of reviewing plausible scenarios and the reverse stress test is that the Directors have a reasonable expectation that the Group is viable and will be able to meet its obligations as they fall due up to March 2020.

Financial review

Jitesh Sodha
Chief Financial Officer

The Group has delivered a good performance this year, with full year adjusted operating profit* of £70.7m (2015/16: £70.4m). We also completed our first acquisition in 14 years with the purchase of DuPont Authentication Inc (subsequently renamed as De La Rue Authentication Solutions) on 6 January 2017. We are pleased with the performance of this business post acquisition.

* This is a non-IFRS measure. See further explanations and reconciliations to the comparable IFRS measure on pages 153 to 154.

This section is for continuing operations only unless otherwise stated.

Financial performance

Revenue and profit

Group revenue was £461.7m, representing a 2% increase over the prior year (2015/16: £454.5m), resulting in good growth in the Identity Solutions and Product Authentication and Traceability product lines. Adjusted operating profit* at £70.7m was marginally higher than the prior year as higher adjusted operating profit generated by the Identity Solutions and Product Authentication and Traceability product lines was offset by lower adjusted operating profit from the Currency business, partly due to the conclusion of a material contract in December 2015.

Adjusted EBITDA* was £97.4m (2015/16: £96.4m).

Operating profit on an IFRS basis was higher than last year at £70.2m, compared to £66.8m in 2015/16 due to lower exceptional charges (see commentary below for further details on exceptional items).

Adjusted profit before tax* was consistent with the prior year at £58.7m (2015/16: £58.5m), resulting from adjusted operating profits which were flat on the prior year and marginally lower net finance charges at £4.6m (2015/16: £4.8m), and a higher IAS 19 related finance cost of £7.4m (2016/15: £7.1m). Profit before tax on an IFRS basis was £58.2m (2015/16: £54.9m) and was higher than last year due to a lower net charge for exceptional items at £0.4m compared to £3.6m in 2015/16.

Strategic report
Corporate governance
Accounts

Profit from continuing operations on an IFRS basis was £49.5m compared to £48.6m in the prior year as the impact of lower net charges for exceptional items was partly offset by a higher tax charge.

Finance charge

The Group's net interest charge was £4.6m, a slight decrease on the prior year (2015/16: £4.8m). The IAS 19 related finance cost, which represents the difference between the interest on pension liabilities and assets, was £7.4m (2015/16: £7.1m).

Exceptional items

During the period, exceptional net charges on continuing operations amounted to £0.4m, compared to £3.6m in 2015/16.

Exceptional net charges comprise: site relocation and restructuring costs of £0.2m (2015/16: £9.2m); gains on sale of land of £0.2m (2015/16: £9.5m); a credit relating to the release of warranty provisions of £0.5m (2015/16: credit of £1.3m); asset impairment charges of £nil (2015/16: £5.2m) and acquisition related costs of £0.9m (2015/16: £nil).

Site relocation and restructuring costs were lower in 2016/17.

The significant gain on sale of land in 2015/16 related to the sale of surplus land in Overton which generated a profit of £9.5m. A few small land assets were sold in the current year.

Costs of £0.9m have been incurred following the acquisition of De La Rue Authentication Solutions Inc. This included £0.5m of professional advisor fees in addition to the non-cash unwind of the fair value adjustment recorded against inventory of £0.4m.

See note 4 in the accounts for further details.

Taxation

The net tax charge for the year was £8.7m (2015/16: £6.3m). The effective tax rate before exceptional items was 15.8% (2015/16: 14.7%). The tax rate was lower in 2015/16 due to a non-recurring tax benefit arising on the release of a provision.

Net tax credits relating to exceptional items, on continuing operations, arising in the period were £0.6m (2015/16 £2.3m).

Earnings per share

Adjusted basic earnings per share* was 47.1p compared to 48.1p in 2015/16. The decrease was caused by a higher tax charge in the current year.

Reported basic earnings per share on an IFRS basis was 47.2p, higher than the prior year (2015/16: 46.8p) due to lower net exceptional charges.

Loss from discontinued operations

The loss from discontinued operations in the year was £8.0m, including two months of Cash Processing Solutions' trading loss prior to disposal of £2.2m and exceptional charges net of tax of £5.8m.

Dividend

The Board is recommending a final dividend of 16.7p per share (2015/16: 16.7p per share). Together with the interim dividend paid in January 2017 of 8.3p per share, this will give a total dividend for the year of 25.0p per share (2015/16: 25.0p per share). Subject to approval by shareholders, the final dividend will be paid on 3 August 2017 to shareholders on the register on 30 June 2017.

Financial position

Cash flow and borrowings

Cash generated from operating activities was £64.3m (9% higher than the prior year (2015/16: £58.9m)), including a £5m inflow relating to discontinued operations. There was an adverse working capital movement in the current year due to the timing of cash receipts from debtors because of a high level of sales in the last month of the year and lower advanced payments compared to the prior year. Cash generated from operating activities included £3.3m (2015/16: £12.5m) of payments relating to exceptional items.

Cash conversion ratio was 114% (2015/16: 160%). Cash conversion is the ratio of adjusted operating profit plus depreciation, amortisation and the movement in working capital over adjusted operating profits.

The cash conversion ratio was adverse to the prior year due to the movement in working capital.

Net debt increased by £14.8m to £120.9m (2016/17: £106.1m) primarily due to the $25m acquisition of De La Rue Authentication Solutions Inc.

The Group utilises a £250.0m revolving credit facility and has operated well within the key financial covenants. On 27 April 2017, the Group extended the maturity date of this facility by two years to December 2021. It is subject to the same financial covenants which 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 period end the specific covenant tests were as follows: EBIT/net interest payable of 16.1 times, net debt/EBITDA of 1.27 times.

Financial review continued

Working capital

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

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

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

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

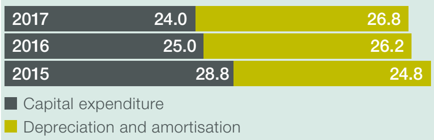
Pension deficit and funding

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

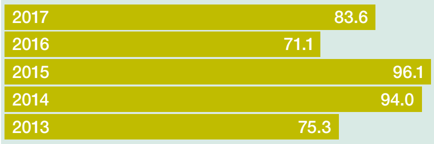
The Group will continue to pay annual fees of £1.6m for managing the Scheme in addition to the cash contributions. In the year ended 25 March 2017, the Group made funding payments and management fees totalling £14.6m. The next triennial funding valuation is due in April 2018.

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

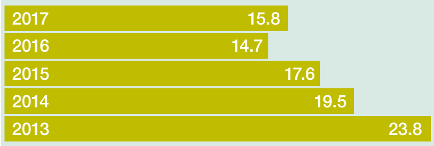
Capital expenditure relative to depreciation
£m



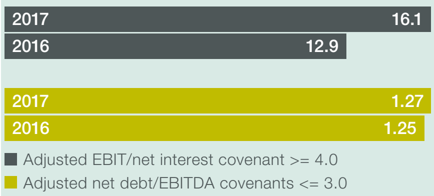
Group trade working capital*
£m



Underlying effective tax rate (before exceptional items)
£m



Bank covenants
Times



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

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

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

Capital structure

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

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

Jitesh Sodha
Chief Financial Officer

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

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

* Excluding non-controlling interest.

Principal exchange rates used in translating the Group's results

	2016/17 Average	2017 Year End
US dollar	1.32	1.25
Euro	1.20	1.16

	2015/16 Average	2016 Year End
US dollar	1.50	1.41
Euro	1.36	1.27

A responsible business
De La Rue in the global context

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

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

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

The UNGC business principles

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

Human rights

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

Labour rights

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

Environment

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

Anti-corruption

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

Why we have joined the UN Global Compact

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

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

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

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

UN Sustainable Development Goals (SDGs)

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

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

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

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

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

Lead

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

Focus and Improve

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

Maintain Momentum

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

Maintain Foundations

SDGs which we continue to support

Not directly applicable

SDGs where we have no direct impact

A responsible business continued

SDGs

Lead

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

SDG 16
Peace, justice and strong institutions

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

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

- Supporting governments in two-thirds of the world's countries to tackle counterfeit cash, identities and goods
- Recognising the importance of improving business practices in the banknote industry, as a founding member of the Banknote Ethics Initiative (BnEI)
- Maintaining membership of the International Chamber of Commerce's Corporate Responsibility and Anti-Corruption Committee
- Relaunching our Code of Business Principles in 2016, with every member of staff attending a video presentation and receiving an updated Code booklet
- Embedding our values in our daily operations
- Launching an initiative to reduce risk by examining the role of third party partners
- Delivering anti-bribery and corruption training to all relevant staff, sales consultants and suppliers
- Requiring employees to declare all gifts and hospitality given or received in excess of £100
- Encouraging global grievance and whistleblowing processes

Our employee survey

3,000

Employees participated worldwide.

88%

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

SDG 4
Quality education

- Our Civil Registration and Vital Statistics (CRVS) systems help governments to plan for the educational needs of their population
- We run a range of training courses for central banks and law enforcement agencies on anti-counterfeiting technology and currency programmes
- We work with the UK National Document Fraud Unit to support its advanced training programme
- We provide thought leadership at multiple international technical workshops, sharing best practice
- We continue to run our successful scholarship programme in the Caribbean, which was established in 2002

Central bank public awareness

4 16

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

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

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

Centre for learning 4

Educating and training our people

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

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

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

SDGs

Focus and Improve

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

SDG 3 Health and wellbeing

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

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

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

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

SDG 5 Gender equality

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

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

SDG 9 Industry innovation and infrastructure

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

Read more about our innovations on page 23

New solution 9 16

Providing security, building trust

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

A responsible business continued

SDGs

Maintain Momentum

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

SDG 6
Clean water and sanitation

SDG 7
Affordable and clean energy

Making progress

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

Our emissions intensity was 224 net tCO_2e per £m turnover (2015/16: 206 net tCO_2e), an increase of 9% which was largely driven by the 5% decrease in revenue. In real energy terms, natural gas consumption emissions were up 0.8%, while electricity emissions increased by 0.7%, primarily due to increased production.

Environmental objectives 2016/17:

- To continue with our ISO14001 certification alignment for all manufacturing sites so that they are all covered by one central certificate and audit process
- To reduce our greenhouse gas emissions in tCO_2e related to output by 3% per annum over a three year period ending 2017/18
- To reduce solid waste sent to landfill by 2% related to output per cent per annum over a three year period ending 2017/18

Achieved In progress

New energy efficient water treatment plant in Kenya

6

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

Environmental objectives 2017/18:

- To continue with our ISO14001 certification alignment for all manufacturing sites so that they are all covered by the central certificate and one external audit process and to meet the new ISO14001:2015 standard
- To reduce our greenhouse gas emissions in tCO_2e related to output by 2% per annum over a three year period ending 2017/18
- To aim to reduce solid waste sent to landfill by 2% related to output per annum over a three year period ending 2017/18
- To develop a wider sustainability programme covering HSE with key performance indicator tracking

Managing water usage

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

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

How we gather and report data

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

Using an operational control approach, we collected activity data and reported on all material GHG emissions including Scopes 1 and 2 and a wider range of Scope 3. Data was checked both internally and by Carbon Clear, with the internally assured data being used to calculate GHG emissions. Our external auditor, KPMG, reviewed the process used for collecting and analysing the data in 2014; this has not changed.

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

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

Bathford paper mill

12 15

Sustainable raw materials

PEFC

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

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

8 DECENT WORK AND ECONOMIC GROWTH

SDG 8 – Decent work and economic growth

Human rights

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

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

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

Labour rights

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

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

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

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

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

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

Our employee survey

87%

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

A responsible business continued

An inclusive organisation

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

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

Modern Slavery Act

8

Implementing the Modern Slavery Act 2015

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

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

Our health and safety objectives for 2016/17:

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

Achieved In progress

Our health and safety objectives for 2017/18:

- To maintain a world class lost time injury frequency rate per 200,000 worked hours below 0.62 (LTIFR)
- To continue to demonstrate manufacturing site improvements within our internal HSE audit levels programme
- To continue driving a good level of health and safety training across all employee levels within our business, including NEBOSH certificates, IOSH Managing Safely and more Making Good Safety Decisions modules
- To ensure that all new machinery meets good machinery safety standards prior to use. In addition, ensure that all machines being moved or refurbished as a result of the footprint restructuring project undergo independent safety assessments, with safety upgrades as required
- To bring all the manufacturing sites under the central OHSAS18001 certification over two years

Greenhouse gas emissions year on year comparison

See SDG 6 and 7 on page 46

		2017[2]		2016		
Type of emissions	Activity	tCO_2e	% of total	tCO_2e	% of total	% change
Direct (Scope 1)	Natural gas	**39,240**	**37.9**	38,936	38.3	0.8
	Other fuels	**466**	**0.4**	488	0.5	(4.6)
	Process emissions	**1,197**	**1.2**	1,048	1.0	14.3
	Fugitive emissions	**5**	**–**	24	–	(77.8)
	Owned vehicles	**77**	**0.1**	160	0.2	(52.3)
	Subtotal	**40,985**	**39.5**	40,656	40.0	0.8
Indirect (Scope 2)	Electricity	**36,084**	**34.8**	35,819	35.3	0.7
	Subtotal	**36,084**	**34.8**	35,819	35.3	0.7
Indirect other (Scope 3)	Rail travel	**5**	**–**	0	–	–
	Air travel	**7,425**	**7.2**	6,985	6.9	6.3
	Non-owned vehicles	**0**	**–**	0	–	–
	Water	**1,900**	**1.8**	2,034	2.0	(6.6)
	WTT all scopes[1]	**17,273**	**16.7**	16,066	15.8	7.5
	Subtotal	**26,603**	**25.7**	25,085	24.7	6.1
Total gross emissions (tCO_2e)		**103,672**		101,560		2.1
Renewable electricity (tCO_2e)		**0**		0		–
Electricity exported to grid (tCO_2e)		**88**		756		(88.4)
Total net emissions (tCO_2e)		**103,584**		100,804		2.8

Intensity metric

	2017	2016	% change
Total gross emissions (tCO_2e)	**103,672**	101,560	2
Total net emissions (tCO_2e)	**103,584**	100,804	3
Revenue[3] (£m)	**462**	488	(5)
Tonnes of gross CO_2e per £m	**224**	208	8
Tonnes of net CO_2e per £m	**224**	206	9

1 Standard ‘well to tank’ carbon calculation.
2 Figures for the last period are estimates.
3 Pre-disposal.
The numbers have been re-based following best practice.

SDGs

Maintain Foundations

SDG1 – No poverty

SDG10 – Reduce inequalities

SDG17 – Partnerships for the Goals

SDGs which we continue to support.

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

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

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

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

Corporate governance
Chairman's introduction

Philip Rogerson
Chairman

Dear Shareholder

This corporate governance statement describes how the Group is governed and managed, and how De La Rue plc applied the Principles of the UK Corporate Governance Code (the Code) throughout the year. The Board continues to ensure it upholds the highest governance standards. We recognise the need to lead on values and conduct in order to encourage the right behaviours throughout the Group. We believe that our culture and the quality of our people are critical to the success of the Group. You can read more about how we have developed our culture in the Chief Executive Officer's review on page 24.

Board changes

Victoria Jarman stepped down as a Non-executive Director at the conclusion of last year's AGM after serving six years. We were pleased to welcome Nick Bray to the Board as a Non-executive Director on 21 July 2016. Nick Bray is Chairman of the Audit Committee. Rupert Middleton has informed the Board of his decision to step down after the AGM in July 2017. Rupert's replacement will report to the Chief Executive Officer and will not be a Board position. The Board composition, biographies and skills and experience are contained on pages 52, 53 and page 55.

Non-executive Director engagement

An important part of my role is to ensure that our Non-executive Directors offer both support to and challenge of the executive management team. The Non-executive Directors meet with the wider executive management team and regularly visit different sites.

Succession planning

Succession planning is an important element of good governance, ensuring that we are fully prepared for planned or sudden departures from key positions throughout the year. The Nomination Committee has reviewed the succession plans for the Board, the Executive Leadership Team and other key roles within the organisation. This review also provided visibility of the Group's talent pipeline and the leadership development programme in place to ensure we are maximising the potential of our people.

Board effectiveness

We conducted our annual externally facilitated Board evaluation during the year, the outcome of which was very positive and confirmed that the Board and its Committees operate to a high standard. The Board discussed the findings in detail at one of its meetings. See page 61 for further details of this process.

As part of our performance evaluation process, I met with each of the Directors individually in respect of their own performance and to obtain their views on what was working well and what could be improved.

The smooth operation of the Board and effective relationships between the Non-executive Directors and Executive Directors is critical and firmly in place at De La Rue. Frequent and open conversations with the Chief Executive Officer enable me and the Board to understand and debate both what is going on in the business and the challenges that lie ahead.

The Board agenda will continue to balance the need to improve oversight and governance of all aspects of the business with the ability to debate and examine forward-looking strategy, including changes to the business environment and markets in which we operate and compete.

Remuneration policy

The Remuneration Committee conducted a full review of our remuneration policy during the period. You can read more about this in the directors' remuneration report on page 75. The directors' remuneration policy will be put to shareholders for approval at the forthcoming AGM.

Disclosure Committee

During 2016, the new EU Market Abuse Regulation (MAR) was implemented to ensure the smooth functioning of the market for financial securities by curbing behaviours that distort the price of securities and harm investor confidence. We have formalised the way in which we meet our obligations under MAR and established a Disclosure Committee, comprising three or more Directors, one of whom must be the Chairman, or in his absence, a Non-executive Director, to oversee the implementation of the governance and procedures associated with the assessment, control and disclosure of inside information. The Committee will meet as necessary or appropriate.

Board Committees

The Board delegates certain of its responsibilities to the Board Committees to enable it to carry out its functions effectively. The membership of the Board and Board Committees as at 23 May 2017 can be found on page 59.

Audit tender

During the year, the Audit Committee led a tender process for external audit services, following which the Audit Committee agreed to recommend that the Board propose to shareholders at the forthcoming AGM the appointment of Ernst and Young LLP as auditor of the Company for the 2017/18 audit. Further information on the tender process is contained in the Audit Committee report on page 67.

Structure of the corporate governance statement

The corporate governance statement that follows is intended to give shareholders an understanding of the Company's corporate governance arrangements and how they operated during the period. The corporate governance statement provides details of our governance policies and practices and includes reports from each of the Committee Chairs to provide details on key matters addressed by the Committees during the period. A diagram of the Board governance structure is set out on page 58.

Compliance with the UK Corporate Governance Code (the Code)

The Board considers that it and the Company has, throughout the period to 25 March 2017, complied in all respects with the provisions of the Code issued in September 2014 which is the version of the Code which applies to the financial period. The Code is issued by the FRC and is available for review on the FRC website: https//www.frc.org.uk

Philip Rogerson
Chairman
23 May 2017

The Board encourages a culture of strong governance across the business, and continues to adopt the principles of good governance and adhere to requirements of the UK Corporate Governance Code.

The Board is collectively responsible to the Company's shareholders for creating and preserving the long term success and performance of the business. The key Principles of the Code are outlined below:

Leadership

The Board provides leadership either directly or through the operation of its Committees. The Chairman is ultimately responsible for the make-up and composition of the Board to best deliver the business strategy.

Find out more on leadership
see pages 52 to 60

Accountability

The Board is responsible for establishing and maintaining the risk management and internal controls and has delegated responsibility to ensure compliance with the Code to the Ethics Committee, Audit Committee and Risk Committee.

Find out more on accountability
see pages 65 to 72

Effectiveness

The Board sets the strategic objectives and approves and monitors performance against budgets and forecasts. An evaluation process is regularly undertaken to ensure Board members have the necessary skills in place.

Find out more on effectiveness
see pages 61 to 64

Relations with shareholders

Maintaining strong relationships with both private and institutional shareholders is crucial in helping us achieve our aims. We hold events throughout the year to maintain an open and transparent dialogue with them.

Find out more on relations with shareholders
see page 73

Remuneration

The role of the Remuneration Committee is to determine and maintain a fair reward structure that attracts the right talent and incentivises Executive Directors to deliver strategic objectives and maintain stability of management.

Find out more on remuneration
see pages 74 to 92

Corporate governance continued
Leadership
Board of Directors

1. Philip Rogerson
Chairman

Appointment to the Board
Appointed to the Board on 1 March 2012 and became Chairman on 26 July 2012.

Committees
- Ethics Committee (Chairman)
- Nomination Committee (Chairman)
- Remuneration Committee

Current directorships and business interests
- Bunzl plc, chairman
- Blancco Technology Group plc, non-executive director (senior independent director)
- Advisory Board of the North and East London Commissioning Support Unit (NELCSU) of the NHS, chairman

2. Martin Sutherland
Chief Executive Officer

Appointment to the Board
Appointed to the Board on 13 October 2014.

Committees
- Nomination Committee
- Risk Committee

Current directorships and business interests
- International Currency Association, board member
- Forterra plc, non-executive director (with effect from 23 May 2017)

3. Jitesh Sodha
Chief Financial Officer

Appointment to the Board
Appointed to the Board on 10 August 2015.

Committee
- Risk Committee

4. Sabri Challah
Independent Non-executive Director

Appointment to the Board
Appointed to the Board on 23 July 2015.

Committees
- Audit Committee
- Ethics Committee
- Nomination Committee
- Remuneration Committee (Chairman)

Current directorships and business interests
- CogitalGroup Limited, deputy chairman
- Robert Kime Limited, chairman
- Contemporary Art Society, trustee

5. Maria da Cunha
Independent Non-executive Director

Appointment to the Board
Appointed to the Board on 23 July 2015.

Committees
- Audit Committee
- Ethics Committee
- Nomination Committee
- Remuneration Committee

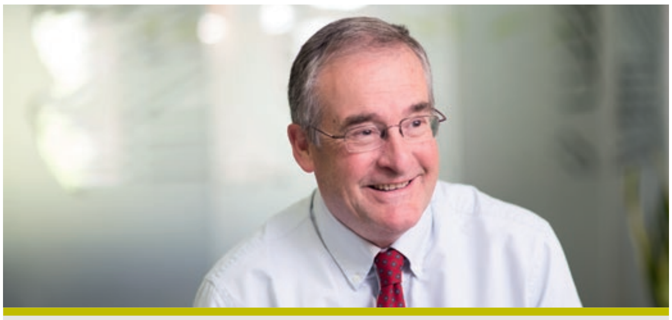
Current directorships and business interests
- British Airways, director of people and legal
- Community Integrated Care, trustee

6. Nick Bray
Independent Non-executive Director

Appointment to the Board
Appointed to the Board on 21 July 2016.

Committees
- Audit Committee (Chairman)
- Ethics Committee
- Nomination Committee
- Remuneration Committee

Current directorships and business interests
- Sophos Group plc, chief financial officer



7. Rupert Middleton
Chief Operating Officer

Appointment to the Board
Appointed to the Board on 23 July 2015 and will step down from the Board after the 2017 AGM.

Committee
- Risk Committee

8. Andrew Stevens
Senior Independent Non-executive Director

Appointment to the Board
Appointed to the Board on 2 January 2013.

Committees
- Audit Committee
- Ethics Committee
- Nomination Committee
- Remuneration Committee

Current directorships and business interests
- CAE Inc., non-executive director
- Hèroux-Devtek Inc., non-executive director
- Pattonair Ltd, non-executive director

9. Edward Peppiatt
General Counsel and Company Secretary

Appointment to the Board
Appointed as General Counsel on 1 March 2009 and as Company Secretary with effect from 1 April 2009.

Committee
- Risk Committee (Chairman)

Corporate governance continued
Leadership
Board of Directors continued

Governance principle

The Board is collectively accountable to the Company's shareholders for good corporate governance and all Directors are responsible for complying with their legal and fiduciary obligations. The Board is committed to ensuring the highest standard of corporate governance which is critical to creating value. The diverse range of experience offered by the Chairman and the Non-executive Directors means that they are well qualified to scrutinise performance, assess the Group's risk management and control processes, provide constructive challenge and to support the Executive Directors.

Board composition and independence

The Board composition is set out on pages 52 to 53. The Directors have a range of experience and can bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. Details of each Director's skills and experience are set out on page 55. This experience and judgement is considered vital to our success. It is the balance of skills, experience, independence and knowledge which ensures the duties and responsibilities of the Board and its Committees are discharged effectively.

The Board conducts a review of the independence of the Non-executive Directors annually based on the criteria in the Code and following consideration by the Nomination Committee. The Board concluded that all Non-executive Directors remained independent in character and judgement. Philip Rogerson was considered independent at the date of his appointment. His external appointments are set out on page 52.

There is a clear division between the management of the Board and the Executive Directors' responsibility for managing the Group's business. However, no individual or small group can dominate decision-making.

Executive and Non-executive Director balance

	%
Executive Directors	37.5
Independent Non-executive Directors	50.0
Chairman	12.5

Board tenure

	%
More than 5 years	12.5
3 to 5 years	12.5
1 to 3 years	62.5
Less than 1 year	12.5

Gender of Board

	Number
Male	7
Female	1

Diversity

The Board has due regard for the benefits of diversity in its membership and strives to maintain the right diversity balance, while maintaining the over-arching aim of recruiting the best candidate based on merit. The Chairman seeks to ensure that the composition of the Board includes individuals with deep knowledge and experience, bringing a wide range of perspectives to the business.

Following the departure of Victoria Jarman, and as at 25 March 2017, the percentage of women on the Board has fallen to 12.5%.

The Group's inclusion strategy is discussed further on pages 45 and 47.

1. Philip Rogerson
Chairman

Career, skills and experience

Philip was formerly chairman of Aggreko plc and Carillion plc. He was an executive director of BG plc (formerly British Gas plc) from 1992 to 1998, latterly as deputy chairman.

2. Martin Sutherland
Chief Executive Officer

Career, skills and experience

Martin joined De La Rue from BAE Systems Applied Intelligence, where he was managing director since its acquisition by BAE Systems in 2008. At BAE Systems Applied Intelligence (formerly Detica), Martin was responsible for the strategic expansion of the business internationally through both organic growth and acquisitions. Prior to joining Detica in 1996, Martin worked for Andersen Consulting (now Accenture) and British Telecom.

3. Jitesh Sodha
Chief Financial Officer

Career, skills and experience

Jitesh is a CIMA qualified accountant and has worked in a range of businesses with an international footprint, most recently Greenergy International, one of the largest private companies in the UK, where he served as chief financial officer from 2008 until May 2015. His previous roles included chief financial officer of Mobilestreams Plc, where he played a key role in the IPO, and chief financial officer of T-Mobile International UK.

4. Sabri Challah
Independent Non-executive Director

Career, skills and experience

Sabri was a Partner at Deloitte from 1991 to 2013, where he had a varied career. He served as a member of both the Deloitte UK board, where he acted as chairman of the remuneration committee, and the Deloitte Global board, where he was chairman of the succession planning committee. Sabri was also chairman of Igneus UK Limited, a leading provider of welfare to work services. Sabri has significant and wide ranging experience in organisational design, change management, strategy, and corporate development.

5. Maria da Cunha
Independent Non-executive Director

Career, skills and experience

Maria has spent her career in a range of legal roles as a solicitor and in-house at Lloyds of London and since 2000, with British Airways where she is director of people and legal and is a member of the executive board, corporate security board and pensions strategy board. Maria is experienced at working with international regulators and governments and has a deep understanding of operational risk, including cyber security, data and mobile risk. She also has significant geo-political, multi-channel distribution, acquisition and post-merger integration experience.

6. Nick Bray
Independent Non-executive Director

Career, skills and experience

Nick has extensive international experience in the technology and information security industries and for the last six years has been chief financial officer of security software firm, Sophos Group plc. Before joining Sophos, he was chief financial officer at Micro Focus International plc, Fibernet Group plc, and Gentia Software plc. Prior to that, he held various senior financial positions at Comshare Inc. and Lotus Software.

7. Rupert Middleton
Chief Operating Officer

Career, skills and experience

Rupert joined De La Rue in October 2011 as Managing Director, Supply Chain before being appointed Chief Operating Officer in April 2015. Rupert has extensive experience of manufacturing with particular emphasis on printing. His previous role was group director of manufacturing at Trinity Mirror, responsible for the integrated manufacturing division that prints all Trinity Mirror newspaper titles. Prior to joining Trinity Mirror, Rupert was integration director at Transport for London, managing director of a division within The Stationery Office and managing director of Westferry Printers.

8. Andrew Stevens
Senior Independent Non-executive Director

Career, skills and experience

Andrew has extensive international experience in the technology and engineering sectors, having spent over thirty years operating across the globe, including in North America, Europe, the Middle East and Asia. He was a director of Cobham plc between 2003 and 2012, where he held a range of positions, becoming chief executive in 2010 until stepping down from that role in June 2012. Before that he held senior positions in Rolls Royce, Messier Dowty International and Spirent plc.

9. Edward Peppiatt
General Counsel and Company Secretary

Career, skills and experience

Edward has many years of experience as a general counsel and company secretary in publicly quoted businesses and his roles in the past have included responsibility for risk, security, insurance, HSE and HR. He was previously general counsel and corporate secretary of Christian Salvesen PLC and prior to that practised as a corporate lawyer at Stephenson Harwood. He is a qualified solicitor and holds an MBA from Cranfield School of Management.

Corporate governance continued

Leadership

Board roles

Board composition and roles

As at 25 March 2017, our Board comprised of the Chairman, three Executive Directors and four independent Non-executive Directors. Their key responsibilities are:

Chairman Philip Rogerson	• Providing leadership to the Board, setting its agenda, style and tone to promote constructive debate and challenge between Executive Directors and Non-executive Directors • Ensuring good information flows from the Executive Directors to the Board, and from the Board to its key stakeholders • Supporting and advising the Chief Executive Officer, particularly in the development of strategy • Chairing the Nomination Committee and building an effective and complementary Board, regularly considering its composition and balance, diversity and succession planning • Ensuring high standards of corporate governance and probity throughout the Group are established and maintained
Senior Independent Director Andrew Stevens	• Providing a point of contact for those shareholders who wish to raise issues with the Board other than through the Chairman or if they consider that their concerns are not being addressed through normal channels • Responsibility for appraising the Chairman's performance in discussions with the other Non-executive Directors and Executive Directors in the absence of the Chairman • Leading recruitment of a new Chairman other than when being considered for the position himself
Chief Executive Officer Martin Sutherland	• Maintaining a senior leadership team with the appropriate knowledge, experience, skills, attitude and motivation to manage the Group's day-to-day activities • Exercising personal leadership and developing, on an ongoing basis, a management style which encourages excellent and open working relationships at all levels within the Group • Ensuring, through the Chief Financial Officer, the implementation, control and coordination of the Group's financial and funding policies approved by the Board • Ensuring that the Group has in place appropriate risk management and control mechanisms • Setting the operating plans and budgets required to deliver the agreed strategy • Implementing and reviewing health, safety and environment policy and, supported by the Executive Leadership Team, overseeing improvements and performance • Identifying acquisitions and monitoring competitive forces
Chief Financial Officer Jitesh Sodha	• Supporting the Chief Executive Officer in developing and implementing strategy • Overseeing the financial delivery and performance of the Group • Leading the development of the Finance function to provide insightful financial analysis that informs key decision-making • Leading treasury activities • Leading investor activities • Working with the Chief Executive Officer to develop budgets and medium term plans to support the agreed strategy
Chief Operating Officer Rupert Middleton	• Overseeing operational excellence programme and manufacturing footprint • Responsibility for IS infrastructure and security • Responsibility for physical security • Responsibility for environment, health and safety • Overseeing Group procurement activity

Independent Non-executive Directors Nick Bray Sabri Challah Maria da Cunha	• Constructively challenging management and decisions taken at Board level • Constructively challenging and helping to develop proposals on strategy • Scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of their performance • Upholding high standards of integrity and probity, and supporting the Chairman and Executive Directors in instilling appropriate culture, values and behaviours in the Boardroom and across the Group • Ensuring they receive high quality information sufficiently in advance of Board meetings and challenging the adequacy and quality of such information
General Counsel and Company Secretary Edward Peppiatt	• Acting as Secretary to the Board • Drafting and distributing Board and Committee agendas and papers • Advising on corporate governance and ensuring compliance with Board procedures • Advising on legal matters • Facilitating induction programmes • Organising the AGM • Making himself available to all Directors for advice

Our governance framework

Board responsibilities

- Collectively responsible for the long term success of the Group
- Setting strategy and being accountable to shareholders for delivery of value
- Monitoring management activity and performance against targets
- Delivering value to shareholders and other stakeholders
- Maintaining the Group's reputation for integrity as the Company's foundation of its relationship with shareholders, customers, employees, suppliers and other stakeholders
- Building long term success through innovation, quality and sound management
- The Board has delegated authority to manage the business to the Chief Executive Officer, who delegates specific responsibilities to members of the Executive Leadership Team
- To enhance its effectiveness, the Board also delegates some matters to its Committees and to management as appropriate

Matters reserved for the Board's decision

- Group strategy, long term objectives, annual budgets
- Approval of the annual and interim results
- Acquisitions, disposals
- Approval of risk appetite
- Ensuring that a sound system of internal control and risk management is maintained
- Changes to the Group's capital structure
- Approval of dividend policy
- Changes to Board composition

Corporate governance continued

Leadership

Our governance framework

Certain Board responsibilities are delegated to formal Board Committees which play an important governance role through the work they carry out:

Remuneration Committee
- Sets the remuneration framework and policy for the Company
- Sets the individual remuneration of the Chairman, Executive Directors and other senior executives

See pages 74 to 92

Risk Committee
- Oversees the risk management framework for the Group
- Identifies, evaluates and monitors principal risks facing the Group

See page 69

Audit Committee
- Reviews the Group's financial reporting and recommends to the Board that the report and accounts should be approved
- Reviews internal financial controls
- Assesses the independence and effectiveness of the external auditor

See pages 65 to 68

Nomination Committee
- Reviews the composition of the Board and its Committees
- Ensures that appropriate procedures are in place for the nomination, selection and appointment of Directors
- Ensures that there is an effective framework for succession planning

See pages 63 to 64

Board

Ethics Committee
- Makes recommendation to the Board on ethical matters
- Reinforces the Group's commitment to ensuring business ethics are a fundamental and enduring part of the Group's culture
- Scrutinises whistleblowing reports
- Monitors TPP programme

See pages 70 to 72

Disclosure Committee
- Oversees the implementation of the governance procedures associated with the assessment, control and disclosure of inside information in accordance with the Market Abuse Regulation

See page 50

Chief Executive Officer

Executive Leadership Team
- Operates under the direction and authority of the Chief Executive Officer
- Manages the day-to-day running of the Group
- Develops and implements strategy, monitoring the operating and financial performance and the prioritisation and allocation of resources

See page 61

Group Health, Safety and Environment Committee
- Makes recommendations on HS&E strategy
- Monitors compliance with HS&E obligations
- Reports on key HS&E KPIs
- Recommends appropriate training

See pages 42 to 49

Board attendance

Operation of the Board

The Board has a programme of meetings during the year and 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.

Key aspects of the Board's role include:

- Determining the responsibilities of Directors, in particular those of the Chairman and the Chief Executive Officer
- Reviewing the effectiveness of internal control processes
- Setting authority levels
- Approving the terms of reference and membership of Board Committees

Matters reserved to the Board and delegated authorities

In order to retain control of key decisions and ensure there is a clear division of responsibilities at the head of the Company between the running of the Board and the running of the Company's business, the Board has identified certain 'reserved matters' that only it can approve. Other matters, responsibilities and authorities have been delegated to its Committees. The matters reserved to the Board and the terms of reference for each of its Committees, which are reviewed on an annual basis, can be found on the Company website at www.delarue.com. These were last reviewed on 30 March 2017. Any matter outside of these falls within the Chief Executive Officer's responsibility and authority within specific delegated authorities. He reports on the activities through his (and the Chief Financial Officer's) regular reports to the Board. The Board and each Committee receives sufficient, reliable and timely information in advance of meetings and are provided with access to all necessary resources and expertise to enable them to fulfil their responsibilities and undertake their duties in an effective manner.

Board and Board Committee meetings

The Board and Board Committee attendance during the year is shown in the table below. In addition to the schedule of Board meetings, the Board meets for dinners that give the Directors additional time together to discuss issues more broadly. For further information regarding when the Board members joined or stepped down from Committees during the year, please refer to the relevant Board Committee report. If a Director is unable to attend a Board or Board Committee meeting, the absent Director is encouraged to communicate comments and opinions on the matters to be considered.

Directors' attendance 2016/17[1]	Board[2]	Nomination Committee	Ethics Committee	Audit Committee	Remuneration Committee
Nick Bray (appointed 21 July 2016)	6(8)	1(2)	1(1)	3(3)	2(3)
Sabri Challah	11(12)	4(4)	2(2)	5(5)	5(5)
Maria da Cunha	12(12)	4(4)	2(2)	5(5)	5(5)
Victoria Jarman (stepped down from the Board 21 July 2016)	2(4)	2(2)	1(1)	2(2)	0(2)
Rupert Middleton	12(12)	–	–	–	–
Philip Rogerson	12(12)	4(4)	2(2)	–	5(5)
Jitesh Sodha	12(12)	–	–	–	–
Andrew Stevens	10(12)	3(4)	2(2)	4(5)	4(5)
Martin Sutherland	12(12)	4(4)	–	–	–

Notes

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

2 Of the meetings detailed within the table, four meetings were convened on an ad hoc basis to consider matters in between scheduled Board meetings.

Corporate governance continued

Leadership

The Board's area of focus

Board activity during the year

In the period under review, the Board's focus has been on progress with strategy and ensuring that the structures, capabilities and reports are in place to support the Group strategy. The Board has received regular reports from both the Chief Executive Officer and the Chief Financial Officer.

In particular the Board:

Strategy

- Received presentations from different parts of the business on progress with agreed strategy and opportunities
- Held the annual strategy review meeting in October 2016
- Approved updated budget and medium term plans in the context of the agreed strategy
- Reviewed progress with implementation of the strategy through regular reports from the Chief Executive Officer
- Approved the acquisition of the authentication business of Dupont Authentication Electronics & Communications
- Approved the divestment of the Cash Processing Solutions business
- Refined the manufacturing footprint restructuring programme
- Considered the Kenya joint venture
- Received a presentation on digital strategy

For more information on our strategy:
See pages 20 to 21

Shareholder engagement

- Consulted with shareholders and proxy voting bodies on the remuneration policy
- Reviewed reports from brokers on shareholder feedback following meetings with the Chief Executive Officer and Chief Financial Officer
- Received presentations from brokers on the market perception of De La Rue plc
- Consulted with shareholders and proxy voting bodies on resolutions put to the AGM

For more information:
See page 73

Performance monitoring

- Reviewed performance reports from the Chief Executive Officer and Chief Financial Officer
- Reviewed reports on the Group's financial position
- Reviewed the year end and interim results

For more information:
See pages 30 to 31

People

- Visited the Bathford site during the Board meeting in March 2016
- Reviewed progress on the culture change journey
- Received presentations from the Group Director of Human Resources on succession planning

Governance and risk

- Received reports from the Director of Audit, Risk and Assurance
- Received a presentation on cyber security
- Approved principal risks and the risk appetite for those risks
- Received a presentation on the external review and testing of information security
- Discussed the results of the Board performance evaluation
- Received reports from the Chairs of the Audit, Remuneration, Ethics and Nomination Committees
- Received briefing on the Market Abuse Regulation
- Carried out the annual corporate governance review

For more information on principal risks:
See pages 32 to 36

For more information on Board Committee reports:
See pages 63 to 92

Other

- Approved the appointment of a new Director
- Approved the 2016 annual report and accounts and the 2016 notice of AGM
- Approved the 2016 annual budget
- Reviewed the Group's insurance programme renewal
- Reviewed HSE performance
- Approved capital expenditure projects
- Approved Non-executive Directors' fees
- Received an update on the pension fund triennial valuation

Effectiveness

Conflicts of interests and independence

The Board has established a process to review at least annually and, if 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.

Culture and values

The Board considers leadership, culture and good governance as essential considerations in the Group's ongoing transformation. As the business seeks to build a high performance culture across the Company to deliver on our strategy, the Board recognises the role it plays in providing leadership and tone from the top. The Board is developing a framework through the Executive Leadership Team for regular oversight of the culture within the Company. The intention is to ensure the De La Rue values are integral to the performance management of the senior leadership group and other employees and that the incentive structure in place supports and encourages behaviours consistent with those values.

Board effectiveness

The Board and its Committees undertake an annual evaluation of their effectiveness. In 2016, the performance evaluation involved the use of an external independent facilitator, Lintstock Limited.

The review process involved completion of online questionnaires which focused on Board composition, expertise and dynamics, quality of decisions made, Board support and processes, 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 Lintstock. The results of the questionnaire as they applied to the Board were discussed collectively and objectives for the coming year agreed.

The Chairman and each Committee Chairman have 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 and the Executive Directors in the absence of the Chairman. The Chairman holds one-to-one meetings with all Directors.

The reviews undertaken in the year have concluded that the performance of the Board, its Committees and individual Directors was effective. A number of positive points were noted as well as areas of focus for the coming year, which will be monitored and progressed at the Board meetings scheduled for the year.

Induction and professional development

Newly-appointed Directors follow a tailored induction programme, facilitated by the Company Secretary, which includes dedicated time with Group executives and scheduled trips to a variety of business operations. All Directors are encouraged to undertake additional training and to visit the Group's facilities.

Whistleblowing

A whistleblowing telephone hotline service allows De La Rue employees to raise concerns in relation to dishonesty or malpractice on an entirely confidential basis. The hotline is operated by a third party which is independent of De La Rue. Incoming reports are provided to the General Counsel and Company Secretary who ensures that the matters are appropriately investigated. The Ethics Committee and the Audit Committee receive regular reports on any matters raised through the hotline and monitor the use throughout De La Rue.

Executive Leadership Team (ELT)

A clearly defined organisational structure exists within which individual responsibilities are identified. The management of the Group as a whole is delegated to the Chief Executive Officer and the ELT as discussed on page 59. The ELT is an executive-level forum of the Group's most senior leaders, chaired by the Chief Executive Officer. It comes together to communicate, review and agree on issues and actions of Group-wide significance. It develops, implements and monitors strategic and operational plans, and considers the continuing applicability, appropriateness and impact of risk. It leads the Group's culture and aids decision-making of the Chief Executive Officer in managing the business in the performance of his duties. The ELT members ensure that reports on their respective business areas are made to the Board through the Chief Executive Officer.

Corporate governance continued

Effectiveness continued

Risk management and internal control

The Board retains overall responsibility for setting De La Rue's risk appetite, and for risk management and internal control systems. The Board has carried out a robust assessment of the principal risks of the Company and how those risks affect the prospects of the Company. Further details on the ongoing risk management and internal control systems can be found in both the risk management section of this annual report and the Audit Committee report on pages 32 to 37 and pages 65 to 68 respectively.

The Board confirms:

- There is an ongoing process for identifying, evaluating, and managing the principal risks faced by the Group
- The systems have been in place for the period under review and up to the date of approval of the annual report and accounts
- They are regularly reviewed by the Board
- The systems accord with the FRC guidance on risk management, internal control and related financial and business reporting

The Board is satisfied that the risk management and internal control systems in place remain effective.

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

Assessment of the prospects of the Company and its viability statement

In accordance with provision C.2.2 of the Code, the Directors set out on page 37 how they have assessed the prospects of the Company, over what period the prospects have been assessed, and the Company's formal viability statement.

Annual general meeting

All holders of ordinary shares may attend the Company's AGM at which the Chairman presents a review of the key business developments during the year. This year's AGM will be held at 10:30 on Thursday 20 July 2017 at The Hampshire Court Hotel, Centre Drive, Great Binfields Road, Chineham, Basingstoke, RG24 8FY. The notice of AGM accompanies this annual report. Shareholders can ask questions of the Board on the matters put to the meeting, including the annual report and the running of the Company generally. All Directors are invited to attend each AGM and all Committee Chairmen will be present to take questions at the AGM.

The Company sends the notice of AGM and relevant related papers to shareholders at least 20 working days before the meeting. The notice of AGM is available to view on the Group's website.

A poll is conducted on each resolution at all Company general meetings. All shareholders have the opportunity to cast their vote in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and are made available on our website.

Information in the directors' report

Information fulfilling certain requirements of the corporate governance statement can be found in the directors' report and is incorporated into this corporate governance section by reference.

For reference, relevant sections of the directors' report are:

- Substantial shareholdings
- Deadlines for voting rights
- Amendment of the Company's articles of association
- Appointment and replacement of Directors
- Powers of Directors
- Authority to issue shares
- Repurchase of shares

By order of the Board

Edward Peppiatt
Company Secretary
23 May 2017

Nomination Committee

Philip Rogerson
Chairman of the Nomination Committee

"The Nomination Committee ensures that the Board and its Committees maintain the appropriate balance of skills, knowledge, experience and diversity to ensure compliance with all legal and fiduciary obligations and to deliver value to shareholders and other stakeholders."

Dear Shareholder

I am pleased to present the 2017 Nomination Committee report.

Composition of the Committee

Member	Date of appointment to Committee	Directors' attendance 2016/17
Philip Rogerson (Chairman)	1 March 2012	4(4)
Martin Sutherland	13 October 2014	4(4)
Nick Bray	21 July 2016	1(2)
Sabri Challah	23 July 2015	4(4)
Maria da Cunha	23 July 2015	4(4)
Victoria Jarman (stepped down from the Board 21 July 2016)	22 April 2010	2(2)
Andrew Stevens	2 January 2013	3(4)

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

Biographical details of the members of the Board who held office up to the date of this report can be found on pages 52, 53 and 55.

Activities during the period

This year the Committee's main activity was focused on Board succession planning, which it did over formal meetings and frequent informal exchanges.

Other areas of focus included:

- Review of the composition of the Board and the range of skills and experience on the Board
- Recommended appointment of Nick Bray to the Board
- Board and management succession
- Review of Board diversity
- Non-executive Directors' periods of appointment and confirmation that all should stand for election and re-election at the AGM following a formal performance appraisal process
- Review of senior leadership talent, succession and development
- Review of the composition of Board Committees
- Evaluation and effectiveness review
- External commitments

Principal responsibilities

The key areas of responsibility of the Committee are:

- To review the structure, size and composition of the Board and its Committees, to ensure they remain appropriate, and to make recommendations to the Board
- To consider succession plans for Directors and senior executives
- To review the time commitment required of Non-executive Directors at least once a year
- To review the independence of the Non-executive Directors

The Chairman and the independent Non-executive Directors together with the Chief Executive Officer are members of the Committee.

Corporate governance continued
Effectiveness continued

Committee meetings
The Committee is required, in accordance with its terms of reference, to meet at least twice a year. During the year, the Committee met four times.

The Committee's annual evaluation involved the use of an external independent facilitator, Lintstock Limited. It was concluded that the Committee continued to operate effectively.

Diversity
In considering appointments to the Board and to senior executive positions, it is the policy of the Committee to evaluate the skills, experience and knowledge required by a particular role with due regard for the benefit of diversity including gender diversity on the Board and at senior management level. The aim will continue to be the recruitment of the best candidate on merit regardless of gender.

As at 25 March 2017, the Company has one female Non-executive Director on the Board. The Board and the Committee have noted the recommendations of the Hampton-Alexander Review in November 2016 to increase female board representation to at least 33% by 2020 and the recommendations of the Parker Review on board ethnic diversity.

The Company has established a formal process, led by a member of the Executive Leadership Team, to review and make recommendations on our inclusion strategy programme, including gender, representation of women within management and leadership roles. Our theme for International Women's Day this year was 'Be Bold for Change' and we held a meeting for employees at our Viables site, where our female role models and leaders in the business shared their leadership journey and explored what inclusion intervention would look like and how to overcome challenges in a period of change.

The Company's policy on diversity applies across all levels of the Group, and further details on the approach to diversity are set out on pages 45 and 48.

Succession planning and talent
The Committee has continued to work to put appropriate succession plans in place in order to ensure the right mix of skills and experience of Board members now and in the future. In addition, the Board recognises the focus on strengthening the pipeline of executive talent in the Company. An effective talent model supporting organisational development has been in operation for three years. Our high potential programme is designed to develop a pipeline of talent of future leaders and rising stars. A comprehensive talent review was presented to the Board, mapping successional candidates across all areas within the business. The skills and experience of those senior leaders were also reviewed to ensure there is the right mix in place to help deliver the strategic objectives of the Company and to build a high performance culture and pool for future growth.

Our Leading Through Complexity programme is an essential part of De La Rue's ambition to enhance leadership capability at both senior leadership group and managerial levels and drive culture change through the organisation. The programme is designed to encourage robust and honest debate to help lead more effectively in a matrix organisation leading to more dynamic, high performing teams. Ultimately, we want our leaders to be even more effective leaders – for their benefit, and for the benefit of their teams, our shareholders and our customers.

The Board has dinner with ELT members and other key managers at every opportunity to meet and exchange views and ideas.

Board changes
Victoria Jarman stepped down as a Non-executive Director of the Board at the conclusion of the 2016 AGM. Nick Bray was appointed a Non-executive Director on 21 July 2016 and he succeeded Victoria as Chairman of the Audit Committee.

In its search for a replacement for Victoria Jarman, the Board retained The Zygos Partnership, an independent executive search firm which does not have any other connections with the Company. The Committee agreed the process, timetable and mandate for the Zygos Partnership. Nick Bray was identified by the Nomination Committee as part of the external search process and was subsequently recommended to the Board for appointment on the basis that he met the criteria required, including having sufficient time to discharge the requirements of the role.

Election and re-election
As in previous years, and in accordance with the UK Corporate Governance Code, all Directors will stand for election or re-election at the AGM.

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

Philip Rogerson
Chairman of the Nomination Committee
23 May 2017

Accountability

Audit Committee

> The Audit Committee provides an independent overview of the effectiveness of the internal financial control systems and financial reporting processes.

Nick Bray
Chairman of the Audit Committee

Dear Shareholder

I am pleased to present the 2017 Audit Committee report. This report describes the Committee's ongoing responsibilities and key tasks as well as its major activities in the period ended 25 March 2017.

Composition of the Committee

Member	Date of appointment to Committee	Directors' attendance 2016/17
Victoria Jarman (stepped down from the Board 21 July 2016)	22 April 2010	2(2)
Nick Bray (Chairman with effect from 21 July 2016)	21 July 2016	3(3)
Sabri Challah	23 July 2015	5(5)
Maria da Cunha	23 July 2015	5(5)
Andrew Stevens	2 January 2013	4(5)

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

Activities during the period

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

- Group half year results
- Group 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
  - Quality and security internal assurance reviews
  - Internal control self assessment review
  - HSE legal assurance and compliance audits
- Group disclosure and whistleblowing policy
- Review of controls concerning the management of capital expenditure proposals
- Going concern
- External auditor effectiveness, independence, and fees
- Audit tender process
- Review of the new regulatory requirements regarding external audit firm and audit partner rotation
- Audit Committee effectiveness

Principal responsibilities

- 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 61
- Advising the Board on whether taken as a whole, the annual report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy

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

Corporate governance continued

Accountability continued

Victoria Jarman stood down as Chair on her resignation from the Board at the AGM on 21 July 2016, and I chaired my first meeting in September 2016. My thanks go to Victoria for her contribution to the work of the Committee over the years.

All members of the Committee are Independent Non-executive Directors. The Board is satisfied that the membership of the Audit Committee meets the requirement for relevant and recent financial experience.

I have continued with the practice under Victoria Jarman of inviting the Chairman, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, General Counsel and Company Secretary, Director of Audit, Risk and Assurance and the external and internal auditors to join meetings of the Committee. The Director of Audit, Risk and Assurance, who is the chief internal auditor, and external auditors each meet the Committee without Executive Directors or other employees being present.

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 period ended 25 March 2017, the significant issues reviewed and how these issues were addressed is summarised below:

Revenue recognition in the Currency division

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.

Post-retirement 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, RPI inflation rates and mortality.

The Committee discussed the reasons for the increase 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 23.

Valuation of inventory in Currency

The Committee reviewed the Group's policies and procedures over the valuation and recoverability of inventory in Currency (£53.2m). 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.

Estimation of warranty provisions

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.

Classification of exceptional items

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 is described in note 2 and 4. 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.

Purchase accounting following the acquisition of DuPont Authentication

The Committee reviewed the purchase accounting following the acquisition of DuPont Authentication. The Committee reviewed the critical accounting estimates used in the purchase price allocation, specifically the valuation of acquired intangible assets and satisfied itself that the assets recognised on the Group balance sheet following the acquisition were reasonable.

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 me prior to commencement of work. During 2016/17 the amount of non-audit fees paid to KPMG was £0.2m.

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.

The Audit Committee places great emphasis on the objectivity of the Company'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.

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 following the last tender of the external audit.

In line with the Code, the external audit services for year ending March 2018 were put up for tender in 2016.

The tender process involved members of the Audit Committee, Executive Directors, including the Chief Financial Officer, and the members of his team.

A request for proposal (RFP) was developed in consultation with the Chief Financial Officer and the Chairman of the Audit Committee.

Access was given to a data room where key documentation was provided.

The short-listed audit firms had various meetings with IT, Legal, Internal Audit, Tax Treasury, Group Accounting and Planning. A visit to the Overton paper mill was also arranged, in order to gain understanding and gather all the information needed to submit a proposal.

Following evaluation of the proposals, the audit firms were invited to present to the Chairman of the Audit Committee, Chairman of the Board, Chief Financial Officer and other senior members of the finance team.

The Audit Committee's criteria for selection was published in the RFP and was based on audit quality and service, capability and competence of the firm, the team and the lead partner, behaviours, deliverables, relationships and organisational fit.

Corporate governance continued
Accountability continued

Following the conclusion of the tender process the Board confirmed its intention to propose to shareholders, for approval at the 2017 AGM, to appoint Ernst and Young LLP as the Group's auditor.

De La Rue confirms its compliance with the Competition and Market Authority Order on mandatory tendering and audit committee responsibility.

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 risk management framework and procedures are set out on pages 32 to 36. 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. PwC LLP have performed this role since the start of 2013/14.

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.

The 2017/18 Internal Audit plan was approved by the Committee in April 2017. The focus of the plan is to provide assurance over the migration to a new global finance platform.

Fair, balanced and understandable view

At its May 2017 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 position and performance, business model and strategy.

In making its recommendation to the Board the Committee continued its robust existing governance arrangements by:

- Comprehensive Group and subsidiary accounts process, with written confirmations provided by business unit senior management teams on the health of the financial control environment
- Reviews of the annual report undertaken at different levels of the Group and by the senior management team that aim to ensure consistency and overall balance
- External audit review
- Clear guidance and instruction of the requirement provided to contributors
- Written confirmation that information provided by executive management has been done on a fair and balanced basis
- Additional reviews by the Audit Committee Chairman of the draft annual report in advance of the final sign-off in the context of the Code provision

Final sign-off is provided by the Board, on the recommendation of the Committee.

Nick Bray
Chairman of the Audit Committee
23 May 2017

Risk Committee

> The Board has delegated to the Risk Committee the responsibility for identifying, evaluating and monitoring the risks facing the Group and for deciding how these are managed.

Edward Peppiatt
Chairman of the Risk Committee

Dear Shareholder

On behalf of the Risk Committee, I am pleased to present the 2017 Risk Committee report. This report sets out its composition, role and activities in the period ended 25 March 2017.

Composition of the Committee

Member	Date of appointment to Committee	Members' attendance 2016/17
Edward Peppiatt (Chairman)	20 October 2009	2(2)
Steve Brown	22 September 2015	2(2)
Jo Easton	22 September 2014	2(2)
Richard Hird	22 September 2015	1(2)
Rupert Middleton	20 March 2012	2(2)
Selva Selvaratnam	22 September 2015	2(2)
Jitesh Sodha	10 August 2015	2(2)
Martin Sutherland	13 October 2014	2(2)
Martin Sutton	22 September 2015	2(2)

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

Activities during the period

During the period, the Risk Committee considered reports on:

- The principal risks of the Group (see the risk and risk management report on pages 32 to 36)
- Risk appetite
- Outputs from executive and functional risk workshops
- Specific operational risks of concern and the mitigations in place

Principal responsibilities

- Recommend the risk management policy and strategy
- Oversee development and maintenance of a Group-wide risk management framework for identifying and managing risks
- Identify and review all major risks faced by the Group and ensure that appropriate controls are in place to manage those risks
- Review the Group's ability to identify and manage new types of risks
- Promote a risk management culture and control environment
- Review the effectiveness of the Group's non-financial internal control systems in the management and reporting of risks

The Committee comprises all Executive Directors of the Board, the rest of the Executive Leadership Team members including Customer and Commercial Officer, Chief Technology Officer and Group Director of Human Resources, and Group Director of Audit, Risk and Assurance, as well as Group Director of Security. The Committee meets and reports to the Board at least twice a year.

Any Director may attend meetings and the Board may direct other members to join.

The Directors acknowledge that they have overall responsibility for the Group's system of internal control for managing risks associated with the business and markets within which the Company operates. Further details relating to how the Directors maintain overall control of significant strategic, financial, operational and compliance issues is set out in the risk and risk management report on pages 32 to 36.

In addition, the Board has delegated to the Risk Committee the responsibility for identifying, evaluating and monitoring the risks facing the Group and for deciding how these are managed.

At the period end, following review by the Audit Committee of internal controls and of the processes covering these controls, the Board evaluates the effectiveness of the risk management procedures conducted by senior management.

The Committee is assisted by Group Committees, which deal with specific areas of risk, such as health, safety and environment and security.

The Committee met twice during the year.

Edward Peppiatt
Chairman of the Risk Committee
23 May 2017

Corporate governance continued
Accountability continued

Ethics Committee

Philip Rogerson
Chairman of the Ethics Committee

> The Committee is responsible, on the Board's behalf, for reviewing compliance with the Group's Code of Business Principles. The Committee considers ethical matters and makes recommendations to the Board on how they should be addressed and reinforces the Group's commitment to ensuring business ethics are a fundamental and enduring part of the Group's culture.

Dear Shareholder
I am pleased to present the 2017 Ethics Committee report.

Composition of the Committee
The Committee comprises Philip Rogerson and all Non-executive Directors.

Member	Date of appointment to Committee	Directors' attendance 2016/17
Philip Rogerson (Chairman)	27 September 2012	2(2)
Nick Bray	21 July 2016	1(1)
Sabri Challah	23 July 2015	2(2)
Maria da Cunha	23 July 2015	2(2)
Victoria Jarman (stood down from the Board 21 July 2016)	22 April 2010	1(1)
Andrew Stevens	2 January 2013	2(2)

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

Activities during the period
During the period to 25 March 2017 the Committee focused on the following activities:

- Key updates and trends in business ethics
- Status of the restructuring of the management of the third party partners (TPPs) programme
- CBP activity update
- Review of incidents with an ethical dimension
- Reviewed the internal audit findings of the implementation of actions arising from the first BnEI audit and of preparedness for re-accreditation in 2017
- Review of the gift register for Executive Directors
- Evaluation and effectiveness review

Principal responsibilities
The main responsibilities of the Ethics Committee are to:

- Assist the Board in fulfilling its oversight responsibilities in respect of ethical matters
- Ensure that De La Rue conducts business with integrity and honesty and in accordance with relevant legislation and regulations
- 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 development and adoption of Group policies and procedures for the identification, assessment, management and reporting of ethical risk
- Oversee the investigation of any material irregularities of an ethical or non financial fraudulent nature and review subsequent findings and recommendations

De La Rue's ethical framework

The Group delivers high profile security print products and services to customers across the world. 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 all employees and business partners must behave. We believe that by committing to these values, supporting the business objectives and adhering to the expected behaviours, the culture of the business and the industry itself will be strengthened and the business will be well placed to deliver its strategic objectives.

The Group's ethical framework is supported by the standards, policies, internal controls and communication as highlighted on page 72. We are a signatory to the UN Global Compact initiative which aligns company strategies and operations with universal principles on human rights, environment and anti-corruption. We also collaborate with the International Chamber of Commerce corporate responsibility and anti-corruption committee.

Our ethics and compliance programme

Code of Business Principles (CBP)

The CBP was reviewed and relaunched in 2016 and our nine core principles are regularly reviewed to ensure that they continue to underpin the way in which we conduct ourselves and work on a daily basis.

If an employee is found to have acted in breach of the CBP, the Group takes appropriate action to address that breach including disciplinary action and ultimately terminating employment in the most serious cases.

Gifts and hospitality

All employees are required to comply with the gifts and hospitality policy and the Committee receives a report on the gifts received or given by the Executive Directors.

Banknote Ethics Initiative (BnEI)

De La Rue is one of the founding members of the Banknote Ethics Initiative (BnEI). BnEI sets out a rigorous framework for promoting high ethical standards in the industry and requires members to commit to the Code of Ethical Business Practice that was developed in partnership with the Institute of 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. Compliance with the code is rigorously tested through an audit framework developed in conjunction with GoodCorporation, recognised worldwide as a leading company in the field of corporate responsibility assurance and business ethics.

The audit focuses on anti-bribery and corruption and anti-trust processes, procedures and controls. The findings of the triennial BnEI audit confirm that De La Rue continues to perform strongly or above GoodCorporation benchmarks.

Third party partners (TPPs)

We recognise that it is not just our employees who could be exposed to ethics risks but also TPPs. Their conduct remains one of our most significant risks and there is a continuing requirement for TPPs to undergo our mandatory training programme and to conduct business in compliance with the standards set by the Company. We have controls in place in relation to remuneration of TPPs and we monitor all payments to ensure that the remuneration structure does not incentivise unethical behaviour.

Due diligence is undertaken on all our TPPs before they are engaged and this process is reviewed on a regular basis. TPPs are given regular training to ensure they remain alert to potential risks.

Ethics Champions

The Group's network of Ethics Champions ensures that each site has local support and representation for CBP matters and continues to play an integral part in ensuring that strong De La Rue values are embedded across the business. We held the Ethics Champions conference on 8 and 9 May 2017 providing refresher training for our Ethics Champions.

Whistleblowing

The Audit Committee reviews our whistleblowing policy and procedures each year. Ethical questions or concerns raised by employees or third parties through the De La Rue CodeLine are investigated under the CBP and all findings and remedial actions are reported in detail in periodic reports prepared for and reviewed by the Ethics Committee.

Result of all employee survey

We undertook an all employee survey during the year and the belief that we act honestly and ethically when doing business achieved the highest scoring.

Training

The Committee attaches significant importance to regular, relevant and focused training. Training during the period included:

- Relaunch of the anti-bribery and corruption (ABC) training which is compulsory for all customer and supplier-facing new starters to the Company
- Competition law training for all new starters
- Online training modules for TPPs and relevant employees
- Security awareness training including guiding principles on ethical behaviour for employees travelling overseas

Philip Rogerson
Chairman of the Ethics Committee
23 May 2017

Corporate governance continued

Accountability continued

Code of Business Principles
9 Topics

Bribery & corruption	Competition & antitrust	Gifts & hospitality	HSE	Employment principles	Records and reports	Personal information	Insider trading	Conflicts of interest

Backed up by policies

• ABC • Gifts and entertainment • Charitable giving	• Competition and antitrust	• Gifts and entertainment • Expenses • ABC • Conflict of interests	• Health and safety • Environment • Fire safety	• Equal opportunities • Anti-harassment • Diversity	• Group finance manual	• Data protection	• Share dealing, market abuse and insider trading	• Conflicts of interest • Gifts and entertainment

Supported by processes

• TPP • Gift register • Expenses vetting	• Legal Department guidelines	• Gift register • Expenses vetting	• Monthly reporting • Global HSE standards • ISO management systems	• Grievance procedure • Disciplinary process	• Compliance declarations • External monitoring • Separation of duties	• Data protection officer • Annual data protection returns	• Procedure for dealing with inside information • Dealing approvals	• Gifts register

Underpinned by oversight, controls and communication

Specialist audits	Benchmarking	CodeLine	Employee surveys	Ethics Committee
External audit	Internal audits	Training/induction	Risk reviews	SharePoint

BnEI accreditation	ICC CR & Anti-Corruption Committee	UN Global Compact

Relations with shareholders

Building and managing long term relationships based on mutual trust is vital to our strategy for corporate governance. The Board recognises its responsibility for ensuring that a satisfactory dialogue takes place with shareholders. It maintains an active programme of engagement with investors through the Investor Relations function. The aim is to develop shareholders' understanding of the Company's strategy, operations and performance and to provide the Board with awareness of the views of significant shareholders.

The Chief Executive Officer and Chief Financial Officer hold regular meetings and calls with institutional shareholders and potential investors and report to the Board the views of major shareholders. Analysts' and brokers' reports are also presented to the Board on an ad hoc basis. The key topics discussed in the meetings and calls include:

- Financial performance
- Long term strategy
- Response to changing market conditions
- Operational issues
- Capital allocation

On the day of the announcement of the full year and half year results, the Company's largest shareholders, together with financial analysts, are invited to a presentation with a question and answer session by the Chief Executive Officer and Chief Financial Officer, with webcast presentations of the results available for all shareholders and potential investors on the Company's website. In September 2016, the Company hosted an investor day at its Debden manufacturing site, which included a presentation from the Executive Leadership Team and a tour of the operation.

During 2016, the Chairman of the Remuneration Committee consulted with our largest shareholders and main proxy institutional bodies in the UK as part of the review of the directors' remuneration policy. In response to their feedback, we have enhanced our annual bonus performance targets disclosure as reported in the directors' remuneration report on pages 74 to 92.

The Board encourages shareholder engagement and feedback. The Chairman, the Senior Independent Director, and the Chairs of Board Committees are available to meet key shareholders upon request to discuss strategy, governance and other matters. All shareholders have access to the members of the Board at the Company's AGM.

Shareholders by location

	%
UK	65
North America and Canada	21
Rest of Europe	6
Rest of world	8

Shareholder concentration

	%
Top 1 to 5	34
Top 6 to 10	16
Top 11 to 20	19
Top 21 to 60	18
The remainder	13

Investor and shareholder engagement calendar 2016/17

APR
April
- Trading update

MAY
May
- Full year results analyst presentation
- Post results roadshow

JUL
July
- AGM

SEP
September
- Investor day and site visit

NOV
November
- Half year results analyst presentation
- Post-results roadshow
- Consultation with major shareholders on remuneration policy

Directors' remuneration report

Annual statement from the Chairman of the Remuneration Committee

"We believe our remuneration policy is designed to deliver both annual performance as well as the longer term transformation of De La Rue."

Sabri Challah
Chairman of the Remuneration Committee

Composition of 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. In the year to 25 March 2017, Victoria Jarman stepped down on 21 July 2016 and Nick Bray joined the Committee on the same date.

Member	Date of appointment to Committee	Directors' attendance 2016/17
Sabri Challah (Chairman)	23 July 2015	5(5)
Philip Rogerson	26 July 2012	5(5)
Nick Bray	21 July 2016	2(3)
Maria da Cunha	23 July 2015	5(5)
Victoria Jarman (stepped down from the Board on 21 July 2016)	22 April 2010	0(2)
Andrew Stevens	2 January 2013	4(5)

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

Activities during the period

The Committee follows a cycle of activities during the year and in 2016/17 this covered amongst other things the following matters:

- Review of the directors' remuneration policy and conducted a consultation with major shareholders and institutional bodies
- Approval of the Executive Leadership Team group and individual objectives for the year
- Review of performance targets against short and long term incentive plans
- Approval of pay awards for Executive Directors and the Executive Leadership Team
- Determination of retention arrangements for key senior executives
- Review and approval of the directors' remuneration report
- Awards under the UK Sharesave employee share scheme
- Review of the report on gender pay gap and action plan
- An effectiveness review of the Committee

Principal responsibilities

- Recommendations to the Board on Group policy regarding executive remuneration
- Determination of the specific remuneration packages of the Chairman, Executive Directors and senior executives who report to the Chief Executive Officer
- Determination of the design, conditions and coverage of annual and long term incentive plans for senior executives and approval of total and individual awards under the plans
- Determination of targets for any performance related pay plans
- Determination of the issue and terms of all share based plans available to all employees
- Oversight of any major changes in remuneration

Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to present the report on the work of the Committee during the period to 25 March 2017.

We believe our remuneration policy is critical to delivering both planned performance each year and the longer term transformation of De La Rue, according to the strategy published in 2015 for the five years to 2020.

With a five year strategic plan to transform De La Rue from a banknote and passport manufacturer to a technology-led security product and service provider, our reward model supports the achievement of the specific short and long term objectives set out in that plan, and reinforces the desired behaviours and culture that will sustain the success of De La Rue.

We aim to ensure that executive remuneration is fair and competitive so that the Group can attract, motivate and retain the highly talented people required to deliver the operational and strategic transformation of the business that we have committed to. Above all, the Committee's objective is to ensure that our directors' remuneration policy incentivises and rewards delivery of sustainable shareholder value.

Committee meetings

The Committee met five times during the period and details of attendance can be found on page 74. The Chief Executive Officer and the Group Director of Human Resources 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.

Structure of directors' remuneration report

This report is presented in three main sections: an annual statement from the Chairman of the Committee; the directors' remuneration policy to be approved by shareholders at the 2017 AGM; and the annual report on remuneration for 2016/17.

In accordance with the regulations, we will be asking shareholders to vote on two separate remuneration resolutions as follows:

- The binding triennial vote on the proposed directors' remuneration policy which will, subject to shareholder approval, become formally effective as at the date of the 2017 AGM (and is set out on pages 76 to 83)
- An advisory vote on the annual report on remuneration as set out on pages 84 to 92 which provides details of the remuneration earned by Directors for performance in the period to 25 March 2017 and how the current and existing policy will apply until the new policy is approved

2017 review of remuneration policy and shareholder consultation

This year the Committee, with support from our independent remuneration consultants, has undertaken a fundamental review of our remuneration policy. We have benchmarked our approach against the market, examined the latest guidance from government and the proxy institutions and consulted shareholders. Above all, we have tested our model against what we have committed to achieve both strategically and for shareholders. We have considered and debated a broad range of options for the redesign of the policy. Based on this comprehensive review, it is our conclusion and conviction that the basic structure of our existing policy on executive remuneration remains well-suited to this phase of our transformation and, accordingly, we are not proposing fundamental changes. But we have recognised how our approach to executive reward can be strengthened to give shareholders additional comfort about both the levels of reward as well as the commitment to long term creation of value.

Accordingly, from this year we have greatly enhanced the level of disclosure associated with variable pay, proposed changes to holding arrangements for long term incentives and further developed the conditions for malus and clawback, which already conformed to best practice. We will continue to keep all aspects of our reward policy under review and be prepared to respond to changing circumstances.

Outcomes 2016/17

Annual Bonus Plan (ABP)

The maximum opportunity for Executive Directors under the ABP is 135% of salary for the Chief Executive Officer, 115% for the Chief Financial Officer and 100% of salary for the Chief Operating Officer. For 2016/17, the bonus opportunity was based on an element of personal objectives and financial measures including:

- Group revenue
- Group underlying operating profit
- Group cash conversion

No payment is made on any element of bonus (including the personal element) if a minimum operating profit threshold is not achieved. Full details are on page 86.

In light of the above structure and ABP measures, I report that the ABP payout against the financial measures outlined above will be 21.5% of a maximum of 80% of entitlement.

Detailed disclosure of the targets and performance against these measures are contained on page 86.

Performance Share Plan (PSP)

Awards under the PSP in 2014/15 had three year performance criteria based on earnings per share (EPS) and return on capital employed (ROCE). Seventy five per cent of the award was based on EPS average compound growth above 5%, and 25% on ROCE above 40%. Performance tests against both criteria were not achieved and therefore the award lapsed. Rupert Middleton, Chief Operating Officer was the only current Executive Director recipient of this award. The award was made to Rupert Middleton in June 2014 prior to his appointment as an Executive Director and prior to the recruitment of Martin Sutherland and Jitesh Sodha as Chief Executive Officer and Chief Financial Officer respectively.

ABP and PSP awards 2016

The Remuneration Committee made awards under the ABP and PSP in 2016 and details of award levels and the performance conditions are on pages 86 to 88.

2017 salary review

The Committee has reviewed the salary levels of the Executive Directors and the Chairman's fee. Details are provided on page 85. Increases are in line with those made to other employees. All salary increases are deferred until 1 July 2017.

I would like to thank shareholders who contributed to the Committee's discussions during the year.

I present our directors' remuneration policy which will be subject to a binding vote at the 2017 AGM and the annual report on remuneration which is subject to an advisory vote. We recommend that all shareholders support the resolutions.

Sabri Challah
Chairman of the Remuneration Committee
23 May 2017

Directors' remuneration report continued

Directors' remuneration policy

Introduction

This section of the report contains details of the Directors' remuneration policy that will govern the Company's future remuneration payments.

The Remuneration Committee has established the policy on the remuneration of the Executive Directors and the Chairman. The Board has established the policy on the remuneration of the other Non-executive Directors. Awards and benefits granted under the previous Directors' remuneration policy will be honoured.

Proposed remuneration policy

The Group's remuneration policy aims to align the interests of the Executive Directors and other senior executives with those of shareholders.

The policy will take effect from 20 July 2017, subject to shareholder approval at the AGM. The remuneration policy is designed to ensure execution of the Group's strategy and to align with the interests of shareholders.

As indicated in the annual statement from the Chairman of the Remuneration Committee, we are not proposing fundamental changes to our existing remuneration policy.

The table below summarises how the proposed policy compares with the current policy. The page reference for the full detail within the proposed policy is also provided.

	Summary of key features of current policy	Summary of key features of proposed policy
	Current disclosure	**Proposed disclosure**
Retrospective Annual Bonus Plan disclosures	Disclosure of measures and weightings shown as a percentage.	Enhanced disclosure relating to the annual bonus will include a comprehensive data set with clearly articulated measures, weightings, range (threshold, target, maximum) and actual performance against financial and personal measures. See page 86.
	Current wording	**Proposed wording**
Share retention	Executive Directors are encouraged to build up a shareholding over five years of one times salary.	Executive Directors are required to build up a shareholding equivalent to one times salary. It is intended that this is met by Executive Directors retaining 100% of vested post-tax shares. See page 80.
Malus and clawback	**ABP** The Remuneration Committee has the right to reduce any deferred bonus awards which have not yet vested to the extent that there has been a material misrepresentation in relation to the performance of the Group. **PSP** The Remuneration Committee has the right to claw back any PSP awards within three years of an award vesting to the extent that there has been misconduct, or a material misrepresentation in relation to the performance of the Company.	ABP and PSP awards are subject to malus and clawback provisions. **Clawback:** provisions will apply for three years following payment of cash bonus (malus already applies to the deferred share element for a three year period). Awards may be clawed back in the following circumstances: material financial misstatement of results, gross misconduct or similar acts by the Executive Directors that could bring the business into disrepute and/or cause reputational damage. **Malus**: provisions will apply to outstanding deferred share awards allowing the Committee to reduce the level of vesting in the event of: material financial misstatement of results, gross misconduct or similar acts by the Executive Directors that could bring the business into disrepute and/or cause reputational damage. See pages 78 to 79.
Remuneration Committee discretion	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 conditions when set and these will be disclosed in the annual report on remuneration.	The Remuneration Committee reserves the right to adjust or set different performance measures for both short and long term plans if events occur or circumstances arise in which performance conditions have ceased to be appropriate. These events include substantial changes in business structure or strategy, acquisition or divestment. The Committee may also make discretionary adjustments, up and down, to the formulaic outcome of short and long term plans if there is misalignment with the Group's strategic goals or shareholder interests. This discretion will be applied in exceptional cases only and disclosed. See page 80.

The overriding objective is to ensure that the 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 reward 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. This is illustrated on page 83.

The Committee also has the discretion to take into account performance on environmental, social and governance matters.

Policy table

The remuneration package for Executive Directors consists of fixed base salary, pension and other benefits and a significant proportion of variable pay including annual bonus and long term share based incentives. The following table summarises each element of the proposed remuneration policy for the Executive Directors and explains how each works and is linked to the corporate strategy.

Base Salary

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
Fixed competitive remuneration set at levels to recruit and retain talent. Determination 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 • Eliminating the gender pay gap. Increases are not automatic.	To avoid creating expectations of Executive Directors and other employees, no maximum base salary has been set. 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 lack of competitiveness and risk to attracting or retaining executives 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.

Benefits

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
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. Executive Directors can also participate in the annual leave flexibility scheme. Other benefits may be provided on an individual basis such as, but not limited to, relocation allowances including transactional and legal costs, disturbance and travel and subsistence costs.	While the Remuneration Committee has not set an absolute maximum, benefits will be market competitive taking into account role and individual circumstances.	Not applicable.

Directors' remuneration report continued

Directors' remuneration policy continued

Pension

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
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, a cash allowance in lieu of pension contribution will be offered.	The contribution rates for the Executive Directors are 30% of base salary for the Chief Executive Officer and 20% of base salary for the Chief Financial Officer. 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 less the Company's national insurance contribution to ensure cost neutrality.	Not applicable.

Annual Bonus Plan (ABP)

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
To incentivise and reward delivery of financial and personal performance targets that address the distinct commercial and strategic needs of the business, and align with shareholder interests. To ensure 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. Executive Directors are required to hold a level of shareholding of 100% of salary as described on page 80. Compulsory deferral of shares supports alignment with shareholder interests and also provides a retention element.	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. Sixty per cent of annual bonus is payable immediately in cash. Forty per cent 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. Fifty per cent of deferred shares are released one year after cash payout and the 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. The cash and deferred share element are subject to malus and clawback provisions to allow the Company to recoup three years from award in the event of material financial misstatement of results or gross misconduct and other acts or omissions that could bring the business into disrepute and or cause reputational damage.	The current annual maximum bonus opportunity of 135% of salary for the Chief Executive Officer and 115% of salary for the Chief Financial Officer 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 risks to be taken. 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.

Performance Share Plan (PSP)

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
A share based long term incentive is aligned closely with business strategy and interests of shareholders through the performance measures chosen. To increase the time over which rewards are earned to four years and support a pay for performance philosophy. To retain key executives over a longer term measurement period. Executive Directors are encouraged to hold a level of shareholding as described on page 80. To ensure a consistent and stable reward structure throughout the management group that will remain fit for purpose. To attract and retain top talent and continue to be cost-effective. To ensure overall cost-efficiency. To ensure any payout is supported by sound profitability by link to EPS growth. To support the strategic focus on growth and margins by the link to ROCE.	Annual share award with a three year performance period and performance metrics which, while challenging, will not encourage excessive risk-taking. Sixty per cent 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. Vesting of awards is subject to continued employment until the vesting date but, as described on page 81, 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. The Remuneration Committee has the right to clawback any PSP awards within three years of an award vesting to the extent there has been material financial misstatement of results, gross misconduct or any act or omission that could bring the business into disrepute and or cause reputational damage. Malus provision also applies.	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 2017/18, the vesting of PSP awards will be subject to EPS and return on capital employed (ROCE) performance conditions. 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.

All employee share plans

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
To 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.	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 Employee Share Purchase Plan, employees in the US may be offered the opportunity to purchase the Company's shares at a 15% discount to the market price. Any purchases are funded through accumulated payroll deductions. Shareholders approved the Rules of Sharesave and the ESPP at the 2012 AGM.	The maximum savings amount currently offered is £500 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.	No performance measures but employment conditions apply.

Directors' remuneration report continued

Directors' remuneration policy continued

Shareholding requirement for Executive Directors

The Remuneration Committee believes that 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 are required to build up a shareholding equivalent to one times salary. It is intended that this is met by Executive Directors retaining 100% of vested post-tax deferred bonus shares, restricted shares and performance shares until the requirement is met in full.

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 Leadership Team 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 Officer 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 Officer has discretion to make awards to a limited number of employees not being Executive Directors or Executive Leadership Team 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, at the discretion of the Remuneration Committee, of a maximum of 80% of the prevailing market share price at the time of grant. Eligible US employees may participate in the ESPP. The purchase price is 85% of the lower of the market value of a De La Rue plc share either at the beginning or end of the offering period. Offerings under the Sharesave and the ESPP are at the discretion of the Remuneration Committee.

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

Remuneration Committee discretion

The Remuneration Committee reserves the right to adjust or set different performance measures for both short and long term plans if events occur or circumstances arise in which performance conditions have ceased to be appropriate. These events include substantial changes in business structure or strategy, acquisition or divestment. The Committee may also make discretionary adjustments, up and down, to the formulaic outcome of short and long term plans if there is misalignment with the Group's strategic goals or shareholder interests. This discretion will be applied in exceptional cases only and disclosed.

Shareholder views

The Remuneration Committee engages in regular dialogue with shareholders to discuss and take feedback on its remuneration policy and governance matters. During the last year the Committee has consulted with De La Rue's largest UK shareholders and the main UK institutional investor bodies on the proposals for the new directors' remuneration policy subject to a binding vote at the AGM on 20 July 2017. The Committee welcomes an open dialogue with shareholders and intends to continue to consult with major shareholders before implementing any significant change to the directors' 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.

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

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.

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.
Termination payment at the Company's sole discretion	On termination by either the Company or the relevant Executive Director, 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. The Remuneration Committee has the discretion 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-rated 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	These 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.

Directors' remuneration report continued

Directors' remuneration policy 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. Total 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.

Illustration of the application of remuneration policy

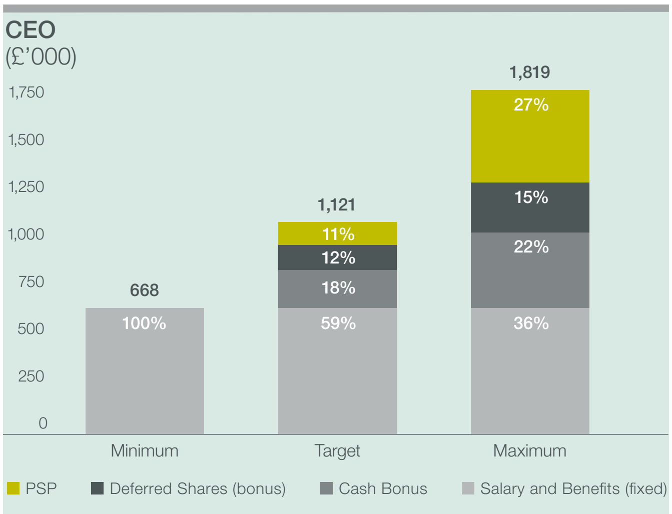
The following charts illustrate the potential value of the Executive Directors' remuneration package in various scenarios in a typical year. Salary levels are as at 1 July 2017.

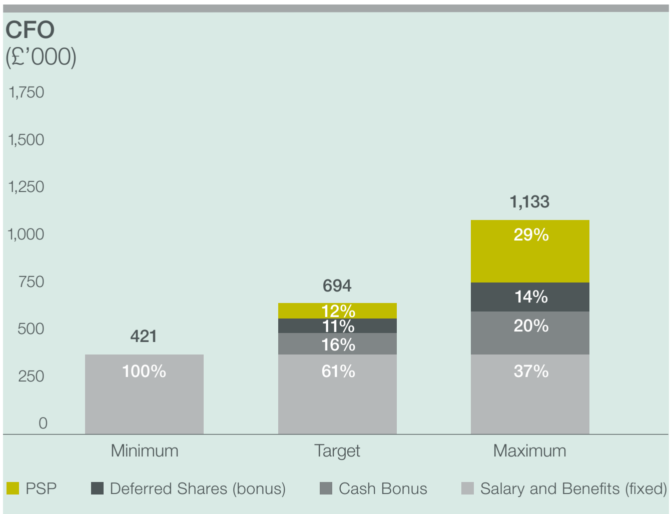
Performance scenarios for the ABP and PSP assume the following:

Minimum
There is no cash bonus or deferred share award under the ABP or vesting under the PSP.

Target
Target cash bonus and deferred shares under the ABP, target vesting under PSP.

Maximum
Maximum cash bonus, maximum deferred shares under the ABP, maximum vesting under the PSP.





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)
- 60% will be payable immediately in cash and 40% 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 2017/18

Based on the above performance scenarios the table below illustrates that a significant proportion of Executive Directors' remuneration is biased towards variable pay at maximum:

		% of pay at minimum achieved	% of pay at target achieved	% of pay at maximum achieved
CEO	Fixed	100	59	36
	Variable	–	41	64
CFO	Fixed	100	61	37
	Variable	–	39	63

The remuneration mix above is based on the remuneration policy as it was intended to be operated for 2017/18.

Directors' remuneration report continued

Annual report on remuneration

The directors' remuneration policy for the period ended 25 March 2017 was consistent with the policy approved by shareholders at the AGM in 2014. This section of the directors' remuneration report gives information on how the Remuneration Committee implemented the policy on directors' remuneration and the incentive outturns for 2016/17. It details how the current remuneration policy is being applied until approval of the new policy. The current remuneration policy, as approved by shareholders in 2014, is available on our website.

Single figure of remuneration for each Director (audited)

The table below shows how we have applied the current remuneration policy during 2016/17. It discloses all the elements of remuneration received by the Directors during the period.

	Salary and fees[a]		Benefits (excluding pensions)[b]		Bonus[c]		Long term incentive (PSP) (vested)[d]		Pensions[e]		Other payments[f]		Total	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Executive Directors														
Martin Sutherland	**469**	464	**31**	31	**256**	361	**–**	–	**132**	136	**11**	6	**899**	998
Jitesh Sodha	**320**	206	**24**	15	**151**	119	**–**	–	**57**	37	**–**	–	**552**	377
Rupert Middleton	**324**	222	**16**	11	**–**	122	**–**	–	**61**	41	**–**	–	**401**	396
Colin Child (stood down from the Board with effect from 23 July 2015)	**–**	119	**–**	8	**–**	–	**–**	–	**–**	30	**–**	–	**–**	157
	1,113	1,011	**71**	65	**407**	602	**–**	–	**250**	244	**11**	6	**1,852**	1,928
Chairman														
Philip Rogerson	**189**	185	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**189**	185
Non-executive Directors														
Nick Bray (appointed with effect from 21 July 2016)	**40**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**40**	–
Sabri Challah	**57**	39	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**57**	39
Maria da Cunha	**49**	33	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**49**	33
Warren East (stepped down from the Board with effect from 23 July 2015)	**–**	23	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	23
Victoria Jarman (stepped down from the Board with effect from 21 July 2016)	**17**	54	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**17**	54
Gill Rider (stepped down from the Board with effect from 23 July 2015)	**–**	20	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	20
Andrew Stevens	**57**	54	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**57**	54
Aggregate emoluments	**1,522**	1,419	**71**	65	**407**	602	**–**	–	**250**	244	**11**	6	**2,261**	2,336

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 period. The Executive Directors' salaries are normally reviewed, but not necessarily increased, with effect from 1 July each year.

[i] Martin Sutherland has a salary of £480,000 per annum effective 1 July 2016 and the salary shown above is to the period 25 March 2017. Martin Sutherland took advantage of the annual leave flexibility scheme and purchased an additional five days' annual leave entitlement during the period at a cost of £9,129 which is reflected in the table above.

[ii] Jitesh Sodha has a salary of £325,000 per annum effective 1 July 2016 and the salary shown above is to the period 25 March 2017. Jitesh Sodha took advantage of the annual leave flexibility scheme and purchased an additional two and a half days' annual leave entitlement during the period at a cost of £3,408 which is reflected in the table above.

[iii] Philip Rogerson's Chairman's fee is £190,250 effective from 1 July 2016 and the fee shown is the fee to the end of the financial period.

[b] Benefits (excluding pensions): the gross value of all taxable benefits received in the period, 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 period including the value of deferred shares which must be held for a minimum period as detailed on page 86. A description of the performance measures that applied for the year 2016/17 is provided on page 86.

[d] There is no long term incentive vesting to Executive Directors for the period reported.

[e] Pension allowance and contributions to defined contribution section. See page 89 for further details of pension arrangements.

[f] Other payments relate to:
2017 – Martin Sutherland: dividend equivalent payments made under the CEO Share Award at the point of vesting. See page 90 for further details.

Individual elements of remuneration

Base salary and fees (audited)

Base salaries for Executive Directors are reviewed annually by the Remuneration Committee and are set with reference to individual performance, experience and responsibilities, Group performance, affordability and market competitiveness. An annual salary review was carried out by the Remuneration Committee on 27 April 2017. Following that review the Committee agreed an increase in salary for Martin Sutherland and Jitesh Sodha for 2017/18 payable from 1 July 2017 as follows:

	Base salary 2017 £'000	Base salary 2016 £'000	Increase %
Martin Sutherland	**490**	480	**2.08**
Jitesh Sodha	**331**	325	**1.85**
Rupert Middleton[1]	**325**	325	–

[1] Rupert Middleton will stand down from the Board at the conclusion of the AGM on 20 July 2017 and he will not receive a salary increase for 2017/18.

The current directors' remuneration policy, approved by shareholders at the 2014 AGM, is that increases in salary for Executive Directors will not normally exceed the range of increases awarded to other employees in the Group except in the specific circumstances listed in the binding policy. This policy is maintained in the new directors' remuneration policy being put to shareholders at this year's AGM.

The remuneration policy for Non-executive Directors, other than the Chairman, is determined by the Board. Fees reflect the responsibilities and duties of 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. The Chairmen of the Remuneration Committee and Audit Committee and the Senior Independent Director received a further fee of £8,000 to reflect their additional duties in 2016/17. Basic fees payable to Non-executive Directors were increased by 2% for 2017/18 effective from 1 July 2017, with no change in the additional fee for chairing Board Committees. The fees are as follows:

Non-executive Director fees	**2017 £'000**	2016 £'000
Basic fee	**50**	49
Additional fee for chairmanship of Audit and Remuneration Committees and Senior Independent Director	**8**	8

The Chairman will receive a fee of £194,000 with effect from 1 July 2017.

Directors' remuneration report continued
Annual report on remuneration continued

Performance against targets (audited)
Annual bonus
The annual bonus is delivered under the Annual Bonus Plan (ABP).

ABP performance measures 2016/17
The ABP was operated on similar terms with respect to structure, financial measures and weightings as in 2015/16. The bonus opportunity was based on an element of personal objectives (20%) and a number of financial performance metrics apportioned as follows:

- Group revenue (20%)
- Group adjusted operating profit (40%)
- Group cash conversion (20%)

No payments will be made on any element of bonus (including the personal element) if a minimum operating profit threshold is not achieved. In addition, the Remuneration Committee has discretion to consider other factors, such as ethical behaviours, corporate responsibility, environment and health and safety matters as it sees fit when determining awards.

Annual bonus payments to Executive Directors have the following restrictions: 60% of the bonus opportunity is payable in cash with the remaining 40% 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 was no change to the maximum bonus opportunities for Executive Directors as described in the directors' remuneration policy table on page 78.

Disclosure of 2016/17 bonus targets
The Remuneration Committee has agreed to adopt an approach of full retrospective disclosure of bonus targets in response to comments from investors during the policy review process. The following table provides detail on the bonus target measures.

Measure	Threshold	Target	Max	Actual	% of maximum achieved
Group revenue	£480m	£500m	£520m	£462m	0
Group adjusted operating profit	£66.4m	£70.4m	£74.4m	£70.7m	21.5
Group cash conversion	140%	150%	160%	114%	0

Twenty per cent of the Executive Directors' bonus is based on achievement of personal objectives.

Personal objectives are based on Group objectives comprising both tactical and transformational targets focused on the achievement of core strategic priorities and encompassing improved efficiency, strengthened financial performance, product innovation and culture change. In addition, each Executive Leadership Team member has personal objectives relating to their own area of functional responsibility.

Following a review of achievement against the personal objectives for the Executive Directors, the Remuneration Committee concluded that:

- Martin Sutherland should receive a payment of 18% of maximum opportunity
- Jitesh Sodha should receive a payment of 19% of maximum opportunity
- Rupert Middleton will not be eligible for a payment for 2016/17

The 2016/17 cash bonus and deferred share element is detailed in the table below:

	Cash payment £'000	Deferred into shares £'000	Total annual bonus shown in column (c) of total remuneration table on page 84 in respect of 2017 £'000
Martin Sutherland	154	102	256
Jitesh Sodha	91	60	151
Rupert Middleton	–	–	–

ABP 2017/18
The Remuneration Committee has determined that the bonus in respect of 2017/18 will be operated on similar terms of structure, financial measures (Group revenue, Group adjusted operating profit, Group cash conversion) and weightings as in 2016/17. The performance measures are appropriately weighted and incentivise the Executive Directors to achieve the desired outcomes without undue risk of focusing on any one financial measure. No payments will be made on any element of bonus (including the personal element) if a minimum operating profit threshold is not achieved. There will be no change to the maximum bonus opportunities for Executive Directors. The specific performance points are not disclosed while still commercially sensitive, but are disclosed the following year.

Long term incentive – Performance Share Plan (PSP)

The PSP is a share based long term incentive aligned closely with business strategy and interests of shareholders through the performance measures chosen. 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.

Performance measures applying to PSP Awards

The awards made under the PSP were subject to a combination of compound average growth in underlying basic EPS and average return on capital employed (ROCE). EPS growth ensures any payout is supported by sound profitability. ROCE supports the strategic focus on growth and margins ensuring cash is reinvested to generate the appropriate returns.

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.

A summary of the performance measures, weighting and award vesting levels that apply to awards under the PSP is shown in the table below:

Year of Award	Measure	Vesting % of element at threshold	Vesting %of element at maximum	Growth % required for threshold	Growth % required for maximum
2014	EPS[1]	25	100	5	10
	ROCE	25	100	40	45
2015	EPS[1]	25	100	5	10
	ROCE	25	100	26	32
2016	EPS[1]	25	100	5	10
	ROCE[2]	25	100	30	36
2017	EPS[1]	25	100	5	10
	ROCE	25	100	30	36

Notes

1 Underlying earnings per share.

2 The vesting levels under ROCE have been adjusted to take account of the impact of a discontinued operation held for sale as described in note 2 to the financial statements. The Remuneration Committee is satisfied that the performance measures which are appropriately weighted support the Group's strategy and business objectives.

EPS and ROCE remain the most appropriate long term incentive measures and provide a strong line of sight between strategy, business performance and executive reward. The Remuneration Committee believes that the performance necessary to achieve awards is sufficiently stretching.

Directors' remuneration report continued
Annual report on remuneration continued

PSP award vesting in 2017
Rupert Middleton is the only current serving Executive Director who was in receipt of this award in June 2014 prior to his appointment as an Executive Director. Awards under the PSP had three year performance criteria based on earnings per share (EPS) and return on capital employed (ROCE). Seventy five per cent of the award was based on underlying EPS average compound growth above 5% and 25% was based on ROCE of over 40%.

The performance period for the 2014 PSP awards ended on 25 March 2017. Over the period:

- The Group's underlying EPS growth was -8% per annum over the three years from 2014. Since this was below the threshold growth of 5% per annum, shares will not vest under this performance measure
- De La Rue's average ROCE for the period was 39%. Since this was below the threshold of 40%, shares will not vest under this performance measure

Performance tests against both criteria were not achieved and therefore the award lapsed.

PSP awards made in June 2016 (audited)
Executive Directors received PSP awards in line with the existing directors' remuneration policy as follows:

	Number of shares awarded	Date of award	% of salary	Face value £'000	Vesting at threshold (as a % of maximum)	Performance period end date
Martin Sutherland	90,813	27 June 2016	100	425	25	31 March 2019
Jitesh Sodha	61,438	27 June 2016	100	288	25	31 March 2019
Rupert Middleton	61,438	27 June 2016	100	288	25	31 March 2019

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 five day period prior to the date of award, being 520.85p for the award. Face value is the maximum number of shares that would vest multiplied by the share price (468.25p on 27 June 2016) at the date of grant.

Performance measures applying to PSP awards to be made in 2017
The Remuneration Committee has given detailed consideration, following shareholder consultation during 2016, to the potential reintroduction of a relative TSR performance measure but concluded that the measures of EPS growth and ROCE are the most appropriate measures for De La Rue. Past experience has identified the difficulty in selecting a robust and relevant comparator group with simple reference to the broad FTSE 250 index not considered appropriate.

At least 5% per annum growth in EPS must be achieved for threshold vesting of 25% under the EPS performance measure with maximum vesting at 10% per annum. A return of at least 30% must be achieved for threshold vesting of 25% under the ROCE performance measure with a maximum vesting of 100% at a return of 36%. For awards to be made in 2017 the performance targets and weightings remain unchanged.

Executive Directors' service contracts
The table below summarises the notice periods contained in the Executive Directors' service contracts.

	Date of contract	Date of appointment	Notice from Company	Notice from Director
Martin Sutherland	28 August 2014	13 October 2014	12 months	6 months
Rupert Middleton	23 July 2015	23 July 2015	6 months	6 months
Jitesh Sodha	24 June 2015	10 August 2015	6 months	6 months

Non-executive Directors' letters of appointment
The Chairman and Non-executive Directors have letters of appointment rather than service contracts.

Non-executive Director	Date of appointment	Current letter of appointment end date
Nick Bray	21 July 2016	20 July 2019
Sabri Challah	23 July 2015	22 July 2018
Maria da Cunha	23 July 2015	22 July 2018
Philip Rogerson	1 March 2012	28 February 2018
Andrew Stevens	2 January 2013	2 January 2019

Total pension entitlements (audited)

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

None of the Executive Directors was a member of the legacy defined benefit schemes. All of the Executive Directors have opted out of the defined contribution plan and receive a cash allowance in lieu of a pension contribution.

During the year Martin Sutherland received a cash allowance of 30% of his basic salary in lieu of a pension contribution and Jitesh Sodha and Rupert Middleton each received a cash allowance of 20% of basic salary in lieu of pension contributions. The cash allowances were reduced by the amount of the Company's national insurance contribution to ensure cost neutrality with making the same contribution to the pension plan.

Details of the payments made to the Executive Directors are included on page 84.

Payments for loss of office (audited)

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

Payments to past Directors (audited)

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

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. Martin Sutherland was appointed a non-executive director of Forterra plc with effect from 23 May 2017 and his entitlement to a fee in respect of this appointment will be reported in the 2018 annual report.

Share retention policy

The Remuneration Committee believes it is important that the interests of Executive Directors should be closely aligned with those of shareholders. Under the existing policy, Executive Directors are 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. Under the new remuneration policy to be proposed at the 2017 AGM it is intended that this be met by the Executive Directors retaining 100% of vested post-tax deferred bonus shares, restricted shares and performance shares until the requirement is met in full.

Directors' interests in shares (audited)

The Directors and their connected persons had the following interests in the ordinary shares of the Company at 25 March 2017:

			Unvested awards				
			Subject to performance conditions	Not subject to performance conditions			Vested shares
	Current shareholding ordinary shares (held outright)	Current shareholding as % of salary	Performance Share Plan	Annual Bonus Plan	CEO Share Award	SAYE (subject to continued employment)	Vested shares exercised during the period
Executive Directors							
Martin Sutherland	40,819	54	176,488	28,063	–	4,443	20,702[1,3]
Jitesh Sodha	7,594	15	128,530	8,732	–	3,902	–
Rupert Middleton	3,084	6	150,593	14,483	–	–	1,589[2,3]
Non-executive Chairman							
Philip Rogerson	13,000	n/a	–	–	–	–	–
Non-executive Directors							
Nick Bray (appointed 21 July 2016)	–	n/a	–	–	–	–	–
Sabri Challah	3,400	n/a	–	–	–	–	–
Maria da Cunha	4,735	n/a	–	–	–	–	–
Andrew Stevens	2,327	n/a	–	–	–	–	–

There have been no changes in Directors' outright interests in ordinary shares in the period 25 March 2017 to 23 May 2017. All interests of the Directors and their families are beneficial.

The current shareholdings as a percentage of salary during the period are calculated using the closing De La Rue plc share price of 631.5p on 24 March 2017 (25 March 2017 being a Saturday).

Notes

1 Includes a total of 2,341 dividend shares on vested CEO Share Award (2,206 shares) and vested award under Annual Bonus Plan (135 shares).

2 Includes a total of 133 dividend shares on vested award under Annual Bonus Plan.

3 All shares on exercise retained by Martin Sutherland and Rupert Middleton respectively after disposal to meet tax liabilities pursuant to the share retention policy.

Directors' remuneration report continued

Annual report on remuneration continued

Directors' interest in vested and unvested share awards (unaudited)

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

	Date of award	Total award as at 26 March 2016	Awarded during year	Exercised during year	Lapsed during year	**Awards held at 25 March 2017**	Awards vested (unexercised) during year	Mid-market share price at date of award (pence)	Market price per share at exercise date (pence)	Date of vesting	Expiry date
Martin Sutherland											
CEO Share Award[1]	Nov 14	19,087	–	19,087[2]	–	**–**	–	474.60[3]	625.50	Mar 17[4]	Mar 17
Annual Bonus Plan[1]	Jun 15	1,615	–	1,615[5]	–	**–**	–	514.50[6]	599.71	Jul 16[7]	Jun 25
	Jun 15	1,615	–	–	–	**1,615**	–	514.50[6]	–	Jul 17	Jun 25
	Jun 16	–	13,224	–	–	**13,224**	–	546.60[6]	–	Jul 17	Jun 26
	Jun 16	–	13,224	–	–	**13,224**	–	546.60[6]	–	Jul 18	Jun 26
Performance Share Plan	Jun 15	51,405	–	–	–	**51,405**	–	541.00[6]	–	Jun 18	Jun 25
	Jun 15	34,270	–	–	–	**34,270**	–	541.00[6]	–	Jun 19	Jun 25
	Jun 16	–	54,488	–	–	**54,488**	–	520.85[6]	–	Jun 19	Jun 26
	Jun 16	–	36,325	–	–	**36,325**	–	520.85[6]	–	Jun 20	Jun 26
		107,992	117,261	20,702	–	**204,551**	–				
Sharesave options[1]	Jan 15	2,876	–	–	–	**2,876**	–	438.00[8]	–	Mar 18	Aug 18
	Jan 16	1,567	–	–	–	**1,567**	–	344.40[8]	–	Mar 19	Aug 19
Jitesh Sodha											
Annual Bonus Plan[1]	Jun 16	–	4,366	–	–	**4,366**	–	546.60[6]	–	Jul 17	Jun 26
	Jun 16	–	4,366	–	–	**4,366**	–	546.60[6]	–	Jul 18	Jun 26
Performance Share Plan	Sep 15	40,255	–	–	–	**40,255**	–	476.95[6]	–	Sep 18	Sep 25
	Sep 15	26,837	–	–	–	**26,837**	–	476.95[6]	–	Sep 19	Sep 25
	Jun 16	–	36,863	–	–	**36,863**	–	520.85[6]	–	Jun 19	Jun 26
	Jun 16	–	24,575	–	–	**24,575**	–	520.85[6]	–	Jun 20	Jun 26
		67,092	70,170	–	–	**137,262**	–				
Sharesave options[1]	Jan 16	2,613	–	–	–	**2,613**	–	344.40[8]	–	Mar 19	Aug 19
	Jan 17	–	1,289	–	–	**1,289**	–	441.06[8]	–	Mar 20	Aug 20
Rupert Middleton											
Annual Bonus Plan[1]	Jun 15	1,589	–	1,589[9]	–	**–**	–	514.50[6]	599.71	Jul 16[7]	Jun 25
	Jun 15	1,589	–	–	–	**1,589**	–	514.50[6]	–	Jul 17	Jun 25
	Jun 16	–	6,627	–	–	**6,627**	–	546.60[6]	–	Jul 17	Jun 26
	Jun 16	–	6,627	–	–	**6,627**	–	546.60[6]	–	Jul 18	Jun 26
Performance Share Plan	Jun 14	21,108	–	–	–	**21,108**	–	830.00[6]	–	Jun 17	Jun 24
	Jun 14	14,073	–	–	–	**14,073**	–	830.00[6]	–	Jun 18	Jun 24
	Jun 15	32,384	–	–	–	**32,384**	–	541.00[6]	–	Jun 18	Jun 25
	Jun 15	21,590	–	–	–	**21,590**	–	541.00[6]	–	Jun 19	Jun 25
	Jun 16	–	36,863	–	–	**36,863**	–	520.85[6]	–	Jun 19	Jun 26
	Jun 16	–	24,575	–	–	**24,575**	–	520.85[6]	–	Jun 20	Jun 26
		92,333	74,692	1,589	–	**165,436**	–				

Notes

1 These awards do not have any performance conditions attached.

2 The Company procured shares and transferred the shares to Martin Sutherland at vesting. An additional 2,206 dividend shares were procured at vesting. Martin Sutherland made a taxable gain (after dealing costs excluding PAYE/NI) of £133,188. The balance of shares (11,265) following disposal to meet all liabilities were retained by Martin Sutherland.

3 Based on price formula linked to De La Rue plc and BAE Systems plc listed share price. The shares were awarded as part of a recruitment award and were intended to mirror the fair value and vesting profile of incentives Martin Sutherland forfeited on leaving his previous employer.

4 The closing mid-market price of the Company's ordinary share on 8 July 2016 was 567p as the vesting date on 10 July 2016 was a Sunday.

5 Includes an additional 135 dividend shares on vesting. Martin Sutherland made a taxable gain (after dealing costs excluding PAYE/NI) of £10,495. The balance of shares (923) following disposal to meet all liabilities were retained by Martin Sutherland.

6 Mid-market share value of an ordinary share averaged over the five dealing days immediately preceding award date.

7 The closing mid-market price of the Company's ordinary shares as at the vesting date on 7 March 2017 was 627.50p.

8 For Sharesave options the share price shown is the exercise price which was 80% of mid-market value of an ordinary share averaged over the three dealing days immediately preceding award date.

9 Includes an additional 133 dividend shares on vesting. Rupert Middleton made a taxable gain (after dealing costs excluding PAYE/NI) of £10,327. The balance of shares (908) following disposal to meet all liabilities were retained by Rupert Middleton.

Dividend shares on unvested awards

Dividend shares are an additional award of shares that may be released by the Remuneration Committee on the vesting date in respect of awards under the ABP, PSP and CEO Share Award equivalent in value to the amount of dividends that would have been received pursuant to the relevant Plan Rules or Agreement. As at 25 March 2017 and based on the prevailing market share price on the respective dividend record date, the dividend shares accrued and assuming full vesting as appropriate were as follows:

Martin Sutherland: 11,282 ordinary shares

Jitesh Sodha: 5,777 ordinary shares

Rupert Middleton: 12,391 ordinary shares

Chief Executive Officer 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 eight years to 25 March 2017
- A history of De La Rue's Chief Executive Officer's remuneration for the current and previous seven years
- A comparison of the year-on-year change in De La Rue's Chief Executive Officer'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

Chief Executive Officer pay

Period ended March	2010	2011	2011	2012	2013	2014	2015	2016	**2017**
Chief Executive Officer	James Hussey[1]	James Hussey[1]	Tim Cobbold[2,3]	Tim Cobbold	Tim Cobbold	Tim Cobbold[2]	Martin Sutherland[4]	Martin Sutherland	**Martin Sutherland**
Single figure of total remuneration £000	843	433	604	1,053	634	1,071	1,107	998	**899**
Annual bonus payout as a % of maximum opportunity	46	44	Nil	80	Nil	Nil	14	57	**40**
LTIP vesting against maximum opportunity (%)	100	100	Nil	Nil	Nil	60	Nil	Nil	**Nil**

Notes

1 Role as Chief Executive Officer ended on 12 August 2010.

2 Appointed Chief Executive Officer 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).

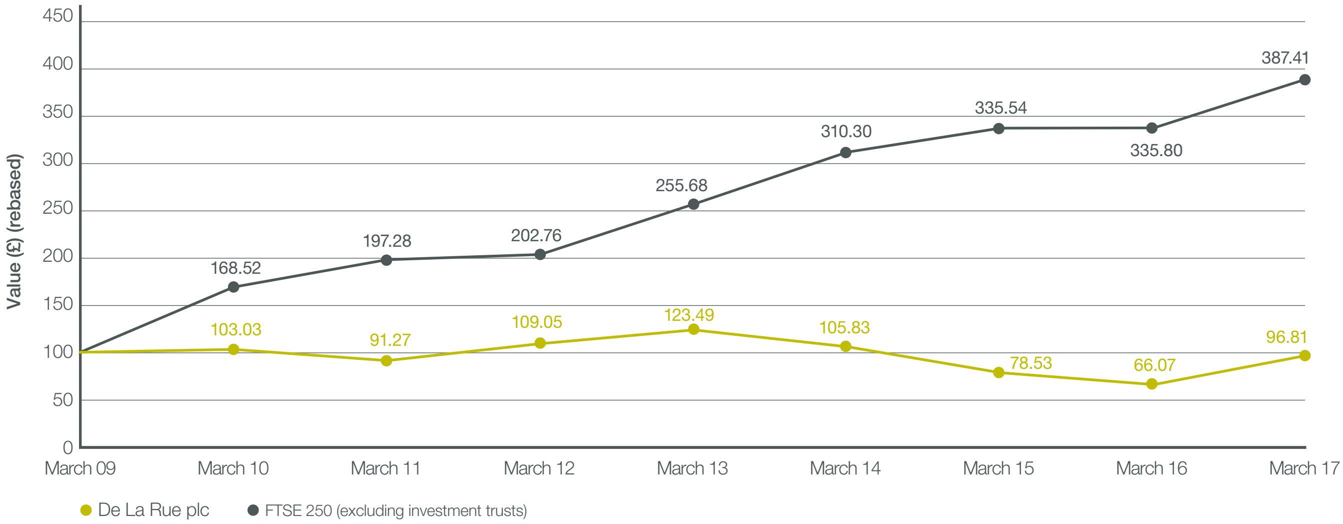
4 Appointed 13 October 2014.

TSR performance

The graph below shows the value, at 25 March 2017, 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 it is the index of which De La Rue was a constituent for a majority of the period reported (source: Thomson Reuters). TSR is not used as a performance measure for any benefits provided to Executive Directors.

Total shareholder return

Source: Datastream (Thomson Reuters)



Directors' remuneration report continued

Annual report on remuneration continued

Percentage change in Chief Executive Officer remuneration

The table below compares the percentage change in the Chief Executive Officer's salary, bonus and benefits to the average change in salary, bonus and benefits for all UK employees between 2015/16 and 2016/17. UK employees were chosen as a comparator group to avoid the impact of exchange rate movements over the year. UK employees make up approximately 64% of the total employee population.

	Salary %	Benefits %	Annual bonus %
Chief Executive Officer	1.80	–	(29.18)
UK employee average	2.29	–	(24.43)

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.

	2017 £m	2016 £m	Change %
Dividends (note 8 to the financial statements)	**25.4**	25.3	0.40
Overall expenditure on pay (note 24 to the financial statements)	**136.1**	149.3	(8.84)

Statement of shareholder voting 2016

	Total votes cast	For[1]	(%)	Against	(%)	Votes withheld[2]
Approval of 2016 remuneration report	76,718,394	61,511,913	80.18	15,206,481	19.82	2,260,147

Notes

1 The votes 'For' include votes given at the Chairman's discretion.

2 A vote 'Withheld' is not a vote in law and, as such, is not counted in the calculation of the proportion of votes 'For' and 'Against'.

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 advice

The Remuneration Committee consults with the Chief Executive Officer 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 in this report. During 2016/17, the Committee also received advice from Willis Towers Watson. Willis Towers Watson has been formally appointed by the Remuneration Committee and advised on the review of the directors' remuneration policy, executive remuneration levels and trends, directors' remuneration report preparation and target setting for incentive plans. The Remuneration Committee requests Willis Towers Watson to attend meetings periodically during the year.

Willis 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 Willis Towers Watson were £53,000.

Dilution limits

The share incentives operated by the Company comply with the institutional investors' share dilution guidelines.

The directors' remuneration report was approved by the Board on 23 May 2017 and signed on its behalf.

Statutory requirements

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

The directors' remuneration report has been prepared in accordance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules.

The Companies Act 2006 and the Listing Rules require the Company's auditor to report on the audited information in their report on pages 97 to 101 and to state that this section has been properly prepared in accordance with these regulations.

Sabri Challah
Chairman of the Remuneration Committee
23 May 2017

Report of Directors

Introduction

De La Rue plc is a public limited company, registered in England and Wales incorporated 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.

Directors' report and strategic report

The Directors of the Company are required to produce a directors' report on an annual basis under the Companies Act 2006. The Directors are also required under the Companies Act 2006 to publish a strategic report for the Group and the Company. The directors' strategic report must:

- Contain a fair review of the Company's business and a description of the principal risks and uncertainties facing the business
- Be a balanced and comprehensive analysis of the development and performance of the Company's business at the end of that year, consistent with the size and complexity of its business

This section of the annual report sets out the information required to be disclosed by the Company and the Group in the directors' report. Certain matters that would otherwise be disclosed in this directors' report have been reported elsewhere in this annual report and consequently this directors' report should be read in conjunction with the strategic report on pages 1 to 49 and the corporate governance statement on pages 50 to 92 which are incorporated by reference into this directors' report.

Under the Companies Act 2006, a safe harbour limits the liability of Directors in respect of statements in and omissions from the strategic report and the directors' report. Under English law, the Directors would be liable to the Company, but not to any third party, if the strategic report or the directors' report contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

Management report

The strategic report and this directors' report together with other sections of this annual report incorporated by reference, when taken as a whole, form the management report as required for the purposes of Disclosure and Transparency Rule 4.1.5R.

Overview of the information required

Other information that is relevant to the directors' report and which is also incorporated by reference, can be located as follows:

Disclosure	Reported in	Page reference
AGM	Corporate governance statement	62
Change of control	Corporate governance statement and report of directors	81, 95
Community and charitable giving	Strategic report	49
Conflicts of interest	Corporate governance statement	61
Directors	Corporate governance statement	52 to 55
Employee involvement	Strategic report	24, 43, 44, 47
Employees with disabilities	Strategic report	47
Future developments of the business	Strategic report	20 to 29
Greenhouse gas emissions	Strategic report	49
R&D activities	Strategic report	18, 23 to 24
Results and dividends	Strategic report	3
Risk management	Strategic report	32 to 36

Dividends

An interim dividend of 8.3p was paid on 11 January 2017 in respect of the half year ended 24 September 2016. The Board is recommending a final dividend of 16.7p per share, making a total for the year of 25.0p per share (2015/16: 25.0p per share).

Dividend details are given in note 8 of the financial statements. Subject to approval of shareholders at the AGM on 20 July 2017, the final dividend will be paid on 3 August 2017 to those shareholders on the register on 30 June 2017.

Share capital

As at 25 March 2017, there were 101,767,263 ordinary shares of $44^{152/175}$p each and 111,673,300 deferred shares of 1p each in issue.

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

The ordinary shares are listed on the London Stock Exchange.

Rights and restrictions on shares and transfers of shares

The rights and obligations attaching to the Company's ordinary and deferred shares, in addition to those conferred on their holders by law, are set out in the Company's articles of association, copies of which can be obtained from Companies House in the UK or the Group's website www.delarue.com. The key points are summarised below.

Voting

On a show of hands at a general meeting of the Company, each holder of ordinary shares present in person and entitled to vote shall have one vote and, on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary 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.

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.

Report of Directors continued

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 of association place no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them except in very limited circumstances (such as a transfer to more than four persons). Certain restrictions, however, may from time to time be imposed by laws and regulations, such as the Financial Conduct Authority's Listing Rules, the City Code on Takeovers and Mergers or any other regulations.

Dealings subject to the Listing Rules and EU Market Abuse Regulation

In accordance with the Listing Rules of the Financial Conduct Authority and EU Market Abuse Regulation, Directors and other persons discharging managerial responsibilities of the Company, and in each case, any persons closely associated with them, are required to seek the prior approval of the Company to deal in the ordinary shares of the Company.

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. The Company is not aware of any agreements between shareholders that may result in any restriction on the transfer of shares or exercise of voting rights.

Power to issue and allot

At the AGM in 2016, authority was given to the Directors to allot new ordinary shares up to a nominal value of £30,327,036, equivalent to two-thirds of the issued ordinary share capital of the Company, providing that, consistent with the Investment Association's guidelines, any amount in excess of one-third of the existing issued shares should be applied to fully pre-emptive rights only.

At the same meeting, pursuant to section 570 of the Companies Act 2006, shareholders approved the issue of shares for cash up to the maximum nominal value of £4,549,055, representing approximately 10% of the Company's issued ordinary share capital (5% of which is only to be used in connection with an acquisition or specified capital investment) in each case without the application of pre-emption rights.

Resolutions to renew, for a period of one year, the power of Directors to allot shares without regard to the pre-emption provisions of the Companies Act 2006 will be sought from shareholders at the AGM.

Details of shares issued during the year and outstanding options are given in notes 19 and 20 on pages 135 to 138 which form part of this report. Details of the share incentives in place are provided on pages 86 to 88 of the directors' remuneration report.

Authority to purchase own shares

At the 2016 AGM, shareholders gave the Company authority to purchase up to 10,138,623 of its own ordinary shares representing 10% of its issued ordinary share capital 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 at the 2017 AGM to renew the authority for a further period of one year.

Substantial shareholdings

As at 23 May 2017, the Company had received formal notification of the following holdings in its shares under the Disclosure and Transparency Rules of the Financial Conduct Authority. It should be noted that these holdings may have changed since the Company was notified, however notification of any change is not required until the next notifiable threshold is crossed.

Persons notifying	Date last TR1 notification made	Nature of interest	% of issued ordinary share capital held at notification date
Brandes Investment Partners, L.P.	19/07/2016	Indirect	9.97
Majedie Asset Management Limited	17/12/2015	Indirect	5.60
Schroders plc	21/04/2015	Indirect	5.33
Artemis Investment Management LLP	10/10/2016	Indirect	5.32
Neptune Investment Management Limited	17/05/2017	Direct	5.09
Aberforth Partners LLP	10/10/2016	Indirect	4.85
Royal London Asset Management Limited	17/01/2017	Direct	3.02

Directors

The current members of the Board together with biographical details of each Director are set out on pages 52, 53 and 55. Changes in the membership of the Board are summarised on page 50 of the corporate governance statement.

Details of Directors' remuneration are provided in the directors' remuneration report on pages 74 to 92. The interests of the Directors and their families in the share capital of the Company are shown on page 89 of the directors' remuneration report which also includes information on the Company contracts of service with its Directors on page 88.

Appointment and removal of Directors

Rules regarding the appointment and removal of Directors are set out in the Company's articles of association.

Powers of Directors

Subject to the Company's articles of association, the Companies Act 2006 and any directions given by the Company in general meeting by a special resolution, the business of the Company is managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. The powers of the Board are described in the corporate governance statement on pages 56 to 60.

Indemnity

At the date of this report, the Company has agreed, to the extent permitted by the law and the Company's articles of association, to indemnify Directors and officers in respect of all costs, charges, losses, damages and expenses arising out of claims made against them in the course of the execution of their duties as a Director or officer of the Company or any associated company. The Company may advance defence costs in civil or regulatory proceedings on such terms as the Board may reasonably determine but any advance must be refunded if the Director or officer is subsequently convicted. The indemnity will not provide cover where the Director or officer has acted fraudulently or dishonestly.

The Group also maintains directors' and officers' liability insurance cover for its Directors and officers. This cover extends to directors of subsidiary companies.

Amendment of articles of association

The articles of association may be amended by special resolution of the shareholders.

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 £250m 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.

A proposal to increase the current borrowing limit of £250m specified in the articles of association will be put to shareholders at the 2017 AGM as detailed in the notice of AGM.

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 period. However, it is possible that certain routine activities may unintentionally fall within the broad scope of the Companies Act 2006 provisions relating to political donations and expenditure. As in previous years, the Company will therefore propose to shareholders at the forthcoming AGM that the authority granted at the AGM in July 2016 regarding political donations be renewed.

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. See more details on page 35.

Related party transactions

Related party transactions are set out in note 27 to the financial statements.

Financial instruments

Details of the Group's financial instruments are set out in note 13 to the financial statements.

Branches

De La Rue is a global company and our activities and interests are operated through subsidiaries, branches of subsidiaries and associates which are subject to the laws and regulations of many different jurisdictions. Our subsidiaries and associates are listed on pages 144 to 145.

Acquisitions and disposals

On 22 May 2016 the Company completed the disposal of the Cash Processing Solutions business to CPS Topco Limited, a company owned by Privet Capital (see note 2 to the financial statements for more details).

On 6 January 2017 the Company completed the acquisition of the authentication business of DuPont Electronics and Communications (see note 31 to the financial statements for further details).

Post balance sheet events

On 11 April 2017, the Company announced that Rupert Middleton, Chief Operating Officer and Executive Director, would be stepping down from the Board with effect from the close of the AGM on 20 July 2017.

Going concern

As described on page 107, the Directors continue to adopt the going concern basis (in accordance with the guidance 'Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009' issued by the FRC) in preparing the consolidated financial statements.

Disclosures required under UK Listing Rule 9.8.4

There are no disclosures required to be made under the UK Listing Rule 9.8.4.

Report of Directors continued

Disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware
- The Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is 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

Following a competitive tender process, a resolution to appoint Ernst and Young LLP, as auditor of the Company for the 2017/18 audit, will be proposed at the forthcoming AGM. Further details are set out in the notice of meeting sent to shareholders.

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.

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, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company and Group'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 statement that comply with that law and those regulations.

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

Directors' responsibility statement

Each of the persons who is a Director at the date of approval of this report confirms that to the best of his or her 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 49 and the directors' report on pages 50 to 96 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; and
- The annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's financial position, performance, business model and strategy

The strategic report and the directors' report were approved by the Board on 23 May 2017.

By order of the Board

Edward Peppiatt
Company Secretary
23 May 2017

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

KPMG

Independent auditor's report

to the members of De La Rue plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of De La Rue plc for the period ended 25 March 2017 set out on pages 102 to 154. 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 25 March 2017 and of the group's profit for the period 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, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Overview	
Materiality: Group financial statements as a whole	£2.3 million (2016: £2.3 million) 3.9% of group profit from continuing operations before tax normalised to exclude exceptional items (2016: 3.9% of group profit before tax, continuing and discontinued, normalised to exclude exceptional items)
Coverage	95% (2016: 92%) of the selected benchmark

Risks of material misstatement		**vs 2016**
Recurring risks	Revenue recognition in the Currency division	◀▶
	Valuation of inventory in the Currency division	▲
	Classification of exceptional items	▼
	Warranty provisioning	▲
	Post-retirement benefit obligations	◀▶
Event driven risk	Acquisition accounting	New risk

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

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows. In the prior period we identified the presentation of discontinued operations and assets held for sale as an event driven risk.

	The risk	Our response
Revenue recognition in the Currency division £350.6 million; (2016: £353.3 million) *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 110 (financial disclosures).*	**Accounting treatment** Certain customer contracts in the Currency division include specific terms, for example, complex acceptance criteria or 'bill and hold' clauses where the customer asks the division to store finished products on its behalf. Due to these contractual complexities there is a risk that revenue may be recorded in the incorrect reporting period.	Our procedures included: **Accounting analysis:** reading selected new contracts to obtain an understanding of their key terms, in particular those relevant to the timing of revenue recognition, and assessing management's related revenue recognition policy. **Control design and re-performance:** evaluating and testing the key controls designed to ensure that revenue is recognised in the correct accounting period. **Testing application:** testing, on a sample basis, revenue recognition on contracts with complex acceptance conditions. In relation to revenue recorded under 'bill and hold' transactions we evaluated the underlying contractual arrangements and obtained customer documentation that demonstrates when the risks and rewards of ownership have been transferred. For selected revenue transactions recorded before and after the year end, confirming that they are recorded in the correct accounting period. **Assessing transparency:** assessing the adequacy of the Group's disclosure about significant judgements in relation to revenue recognition.
Valuation of inventory in the Currency Division £53.2 million; (2016: £54.7 million) *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 122 (financial disclosures).*	**Subjective estimate** At the balance sheet date the Group has significant inventory, including 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 through allowances based on past experience and known issues but there is a risk that this allowance will be misstated. Finished goods inventory is valued at the lower of cost and net realisable value. Due to the bespoke nature of each product, fluctuations in production efficiency and spoilage rates could affect the allocated cost and carrying amount of inventory.	Our procedures included: **Control design and re-performance:** evaluating and testing the Group's controls over the determination of inventory allowances. **Our business knowledge:** assessing the adequacy of estimates used by reference to historical experience, current manufacturing quality and specific issues such as current and recent customer complaints. **Personnel interviews:** challenging judgements through interviews with the quality control and sales functions in relation to quality performance levels and overall customer satisfaction. **Independent re-performance:** sample re-performance of management's calculations of inventory valuation allowance. Re-performance of the allocation of costs to work in progress and finished goods inventory and assessing the allocation approach. **Tests of detail:** testing the net realisable value by reference to the selling prices relevant for each product. **Assessing transparency**: assessing the adequacy of the Group's disclosures in relation to the significant judgements in relation to the carrying value of inventory including work in progress.

KPMG

	The risk	Our response
Acquisition accounting £7.2 million intangible assets *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 147 (financial disclosures).*	**Subjective valuation** On 6 January 2017, the Group completed the acquisition of the Authentication business of DuPont Electronics & Communications for a cash consideration of $25m. The determination of separately identifiable intangible assets arising on business combinations is inherently judgemental and valuation of these assets is complex and sensitive to underlying assumptions around future cash flows and discount rates.	Our procedures included: **Assessing base data and valuer credentials:** assessing the credentials of the third party engaged by management to support this valuation and considering the appropriateness of the base data used in the valuation, such as historical customer churn rates. **Our experience:** assessing the appropriateness and completeness of the separate intangible assets identified by applying our professional experience to the information obtained from our inspection of purchase agreements and board minutes and inquiries. **Evaluating assumptions**: assessing, with support from our own valuation specialists in specific areas, the Group's valuation analysis which was the basis for the determination of the fair value of the intangible assets. We critically challenged the key assumptions, and in particular evaluated the reasonableness of assumptions underlying the future trading forecasts, growth rates and the discount rate applied in the valuations. In performing this assessment we had regard to the performance of the existing business and trading forecasts for operations acquired, including considering the historical accuracy of forecasts. **Assessing transparency:** assessing the adequacy of the Group's disclosures regarding the judgements applied in identifying and valuing the acquisition-related intangibles.
Classification of exceptional items £4.5 million; (2016: £29.6 million) *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 113-114 (financial disclosures).*	**Presentation appropriateness** The Group discloses separately 'exceptional items' which the directors consider to be items of income or expense which are important to identify to shareholders to aid their understanding of the 'underlying' business performance. Determining which items are disclosed as exceptional is judgemental. Accordingly, there is a risk that inappropriate selection and disclosure of exceptional items may result in the Group not meeting its' objective of giving a view of company performance that is fair, balanced and understandable.	Our procedures included: **Assessing principles:** assessing, using our professional experience, the appropriateness of the Group's policy on determination of exceptional items. **Assessing application and balance:** assessing whether the application of the stated policy is appropriate and has been applied consistently with regard to the need for balance based on our understanding of the Group's activities and results for the period. Challenging whether other items should be disclosed as exceptional. **Assessing transparency:** assessing the adequacy of the Group's disclosures around the definition and composition of exceptional items.
Warranty provisioning £7.0 million; (2016: £5.9 million) *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 135 (financial disclosures).*	**Subjective estimate** As noted with inventory valuation in the Currency division, 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. The assumptions underpinning these provisions are inherently uncertain.	Our procedures included: **Control design and re-performance:** evaluating and testing the Group's controls over the determination of warranty provisions. **Tests of detail:** in relation to known issues, assessing the Group's risk assessment, considering the status of discussions with the customer (including inspecting correspondence) and then testing and challenging the basis of the Group's calculations including the rectification or remediation cost estimates. In performing these we have regard to past experience in addressing such matters. In relation to potentially unidentified issues, assessing the Group's methodology for determining the level of provision required taking into account key assumptions such as historical accuracy of provisioning, the levels of expense incurred over time together with current quality experience. **Assessing transparency**: assessing the adequacy of the Group's disclosures in relation to the significant judgements in relation to warranty provisioning and related contingent liabilities, if relevant.

KPMG

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

	The risk	Our response
Post-retirement benefit obligations Gross liabilities £1,204.7 million; (2016: £1,072.2 million) *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 140 (financial disclosures).*	**Subjective valuation** Small changes in the assumptions and estimates used to value the Group's post-retirement benefit obligation (before deducting scheme assets) would have a significant effect on the Group's post-retirement deficit.	Our procedures included: **Assessing valuer credentials:** assessing the credentials of the third party engaged by management to support this valuation. **Benchmarking assumptions:** challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy, against externally derived data. **Assessing transparency:** assessing the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.

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

Materiality for the Group financial statements as a whole was set at £2.3 million (2016: £2.3 million), determined with reference to a benchmark of Group profit from continuing operations before tax, normalised to remove the impact of separately identified exceptional items (as disclosed in note 4 of the financial statements) of which it represents 3.9% (2016: 3.9% of group profit before tax, continuing and discontinued, normalised to exclude exceptional items).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £115,000 (2016: £115,000), in addition to any other identified misstatements that warranted reporting on qualitative grounds.

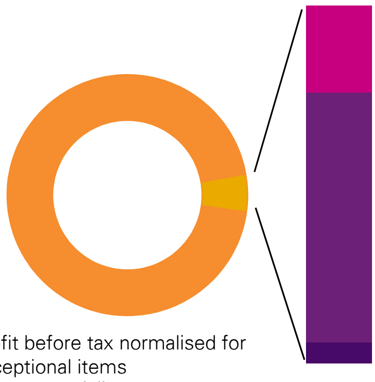
Of the group's 59 (2016: 70) reporting components, we subjected 12 (2016: 12) to audits for group reporting purposes and six (2016: six) to specified, risk-focused, audit procedures.

The graphs to the right demonstrate how components within the scope of our work accounted for, as percentages of, the group's results from continuing operations.

The components for which we performed specified risk-focused audit procedures were not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed. For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

Materiality



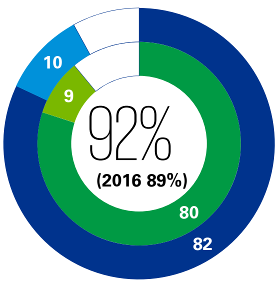
Profit before tax normalised for exceptional items
Group materiality

£2,300,000
Whole financial statements materiality (2016: £2,300,000)

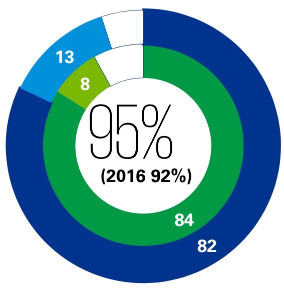
£1,800,000
Range of materiality applied to component audits (£100,000 - £1,800,000)
(2016: £100,000 to £1,800,000)

£115,000
Misstatements reported to the audit committee (2016: £115,000)

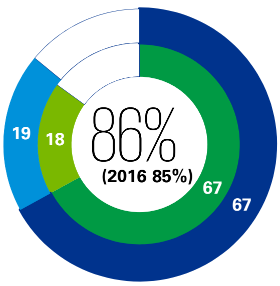
Group revenue



Group profit from continuing operations before exceptional items and tax



Group total assets



Full scope for group audit purposes 2017
Specified risk-focused audit procedures 2017
Full scope for group audit purposes 2016
Specified risk-focused audit procedures 2016
Residual components

KPMG

The Group audit team approved the component materiality levels used, which ranged from £0.1 million to £1.8 million (2016: £0.1 million to £1.8 million), having regard to the mix of size and risk profile of the Group across the components. The work on six of the 18 components (2016: six of the 18 components) was performed by component auditors and the rest by the Group audit team.

The Group audit team visited four (2016: three) component locations in the UK, and Kenya (2016: in the UK), to assess the audit risk and strategy. Telephone conference meetings were held with all component auditors and file reviews were conducted remotely or during the visit to the component location. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4. 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; and

— the information given in the Strategic Report and the Directors' Report for the financial period is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

— we have not identified material misstatements in those reports; and

— in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

— the directors' statement of the longer-term viability on page 37, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to March 2020; or

— the disclosures on page 107 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the 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 position and performance, business model and strategy; or

— the Audit Committee Report on pages 65 to 68 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; or

— the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

— the directors' statements, set out on pages 37 and 107, in relation to going concern and longer-term viability; and

— the part of the Corporate Governance Report on pages 50 to 73 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 96, 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/auditscopeukco2014a, 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

23 May 2017

KPMG

Group income statement for the period ended 25 March 2017

	Notes	2017 £m	2016 £m
Revenue	1	461.7	454.5
Operating expenses – ordinary	3	(391.1)	(384.1)
Operating expenses – exceptional	3, 4	(0.4)	(3.6)
Total operating expenses		(391.5)	(387.7)
Operating profit		70.2	66.8
Comprising:			
Adjusted operating profit		70.7	70.4
Amortisation of acquired intangible assets		(0.1)	–
Exceptional items	4	(0.4)	(3.6)
Profit before interest and taxation		70.2	66.8
Interest income	5	–	0.1
Interest expense	5	(4.6)	(4.9)
Retirement benefit obligation net finance expense	23	(7.4)	(7.1)
Net finance expense		(12.0)	(11.9)
Profit before taxation		58.2	54.9
Comprising:			
Adjusted profit before tax		58.7	58.5
Amortisation of acquired intangible assets		(0.1)	–
Exceptional items	4	(0.4)	(3.6)
Taxation	6	(8.7)	(6.3)
Profit from continuing operations		49.5	48.6
Comprising:			
Adjusted profit for the year		49.4	49.9
Amortisation of acquired intangible assets		(0.1)	–
Profit/(loss) for the year on exceptional items	4	0.2	(1.3)
Loss from discontinued operations	2	(8.0)	(31.0)
Profit for the year		41.5	17.6
Profit attributable to equity shareholders of the Company			
Profit for the year from continuing operations		47.9	47.4
Loss for the year from discontinued operations		(8.0)	(31.0)
Total profit attributable to equity shareholders of the Company		39.9	16.4
Profit attributable to non-controlling interests			
Profit for the year from continuing operations		1.6	1.2
Profit for the year from discontinued operations		–	–
Total profit attributable to non-controlling interests		1.6	1.2
Profit for the year		41.5	17.6

Profit for the year attributable to the Company's equity holders			
Earnings per ordinary share			
Basic	7		
Basic EPS continuing operations		47.2p	46.8p
Basic EPS discontinued operations		(7.9p)	(30.6p)
Total Basic Earnings per share		39.3p	16.2p
Diluted	7		
Diluted EPS continuing operations		46.6p	46.2p
Diluted EPS discontinued operations		(7.8p)	(30.2p)
Total Diluted Earnings per share		38.8p	16.0p

Group statement of comprehensive income for the period ended 25 March 2017

	Notes	2017 £m	2016 £m
Profit for the year		**41.5**	17.6
Other comprehensive income			
Items that are not reclassified subsequently to profit or loss:			
Remeasurement losses on retirement benefit obligations	23	**(25.2)**	5.4
Tax related to remeasurement of net defined benefit liability	6	**2.3**	(5.4)
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**2.6**	1.5
Change in fair value of cash flow hedges		**7.8**	4.1
Change in fair value of cash flow hedges transferred to profit or loss		**(8.0)**	1.6
Change in fair value of cash flow hedges transferred to non-current assets		**(0.2)**	1.5
Income tax relating to components of other comprehensive income	6	**0.2**	(1.8)
Other comprehensive income for the year, net of tax		**(20.5)**	6.9
Total comprehensive income for the year		**21.0**	24.5
Comprehensive income for the year attributable to:			
Equity shareholders of the Company		**19.4**	23.3
Non-controlling interests		**1.6**	1.2
		21.0	24.5

Group balance sheet
at 25 March 2017

	Notes	2017 £m	2016 £m
ASSETS			
Non-current assets			
Property, plant and equipment	9	**167.2**	167.0
Intangible assets	10	**30.9**	13.4
Investments in associates and joint ventures		**0.1**	0.1
Deferred tax assets	15	**43.7**	41.6
Derivative financial assets	13	**0.6**	1.9
		242.5	224.0
Current assets			
Inventories	11	**67.8**	67.1
Trade and other receivables	12	**109.7**	93.5
Current tax assets		**–**	1.3
Derivative financial assets	13	**15.3**	15.0
Cash and cash equivalents	14	**15.4**	40.5
Assets classified as held for sale	2	**–**	11.2
		208.2	228.6
Total assets		**450.7**	452.6
LIABILITIES			
Current liabilities			
Borrowings	17	**(136.3)**	(146.6)
Trade and other payables	16	**(175.1)**	(171.5)
Current tax liabilities		**(19.6)**	(17.6)
Derivative financial liabilities	13	**(7.7)**	(12.0)
Provisions for liabilities and charges	18	**(10.4)**	(9.0)
Liabilities classified as held for sale	2	**–**	(10.5)
		(349.1)	(367.2)
Non-current liabilities			
Retirement benefit obligations	23	**(239.4)**	(219.9)
Deferred tax liabilities	15	**(4.9)**	(1.6)
Derivative financial liabilities	13	**(0.6)**	(1.2)
Provisions for liabilities and charges	18	**(2.0)**	(6.9)
Other non-current liabilities	16	**(1.3)**	(1.4)
		(248.2)	(231.0)
Total liabilities		**(597.3)**	(598.2)
Net liabilities		**(146.6)**	(145.6)
EQUITY			
Share capital	19	**46.8**	46.6
Share premium account		**36.7**	35.7
Capital redemption reserve		**5.9**	5.9
Hedge reserve		**2.0**	2.3
Cumulative translation adjustment		**(9.7)**	(12.3)
Other reserve		**(83.8)**	(83.8)
Retained earnings		**(152.4)**	(146.6)
Total equity attributable to shareholders of the Company		**(154.5)**	(152.2)
Non-controlling interests		**7.9**	6.6
Total equity		**(146.6)**	(145.6)

Approved by the Board on 23 May 2017

Philip Rogerson
Chairman

Jitesh Sodha
Chief Financial Officer

Group statement of changes in equity for the period ended 25 March 2017

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Cumulative translation adjustment £m	Other reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
	Attributable to equity shareholders								
Balance at 28 March 2015	46.5	35.5	5.9	(3.5)	(13.8)	(83.8)	(139.4)	5.7	(146.9)
Profit for the year	–	–	–	–	–	–	16.4	1.2	17.6
Other comprehensive income for the year, net of tax	–	–	–	5.8	1.5	–	(0.4)	–	6.9
Total comprehensive income for the year	–	–	–	5.8	1.5	–	16.0	1.2	24.5
Transactions with owners of the Company recognised directly in equity:									
Share capital issued	0.1	0.2	–	–	–	–	–	–	0.3
Employee share scheme:									
– value of services provided	–	–	–	–	–	–	2.4	–	2.4
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(0.3)	–	(0.3)
Dividends paid	–	–	–	–	–	–	(25.3)	(0.3)	(25.6)
Balance at 26 March 2016	46.6	35.7	5.9	2.3	(12.3)	(83.8)	(146.6)	6.6	(145.6)
Profit for the year	–	–	–	–		–	39.9	1.6	41.5
Other comprehensive income for the year, net of tax	–	–	–	(0.3)	2.6	–	(22.8)	–	(20.5)
Total comprehensive income for the year	–	–	–	(0.3)	2.6	–	17.1	1.6	21.0
Transactions with owners of the Company recognised directly in equity:									
Share capital issued	0.2	1.0	–	–	–	–	–	–	1.2
Employee share scheme:									
– value of services provided	–	–	–	–	–	–	1.5	–	1.5
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	1.0	–	1.0
Dividends paid	–	–	–	–	–	–	(25.4)	(0.3)	(25.7)
Balance at 25 March 2017	**46.8**	**36.7**	**5.9**	**2.0**	**(9.7)**	**(83.8)**	**(152.4)**	**7.9**	**(146.6)**

Share premium account
This reserve arises from the issuance of shares for consideration in excess of their nominal value.

Capital redemption reserve
This reserve represents the nominal value of shares redeemed by the Company.

Hedge reserve
This reserve records the portion of any gain or loss on hedging instruments that are determined to be effective cash flow hedges. When the hedged transaction occurs, the gain or loss on the hedging instrument is transferred out of equity to the income statement. If a forecast transaction is no longer expected to occur, the gain or loss on the related hedging instrument previously recognised in equity is transferred to the income statement.

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 Limited), 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 25 March 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Profit before tax*		**51.8**	20.8
Adjustments for:			
Finance income and expense		**12.0**	12.1
Depreciation		**24.3**	23.0
Amortisation		**2.5**	3.2
Decrease in inventory		**3.4**	5.0
(Increase) in trade and other receivables		**(4.6)**	(2.0)
(Decrease)/increase in trade and other payables		**(11.9)**	11.4
(Decrease)/increase in reorganisation provisions		**(3.6)**	0.4
Special pension fund contributions		**(14.6)**	(19.1)
Loss/(Profit) on disposal of property, plant and equipment and software intangibles		**1.4**	(7.6)
Asset impairments		**–**	10.8
Loss on disposal of discontinued operations		**4.1**	–
Other non-cash movements		**(0.5)**	0.9
Cash generated from operating activities		**64.3**	58.9
Tax paid		**(5.7)**	(4.7)
Net cash flows from operating activities		**58.6**	54.2
Cash flows from investing activities			
Proceeds from sale of discontinued operations		**2.1**	–
Transaction costs relating to the sale of discontinued operations		**(2.5)**	–
Purchases of property, plant, equipment and software intangibles		**(24.0)**	(25.0)
Development assets capitalised		**(2.1)**	(3.0)
Acquisition of subsidiary (net of cash acquired)		**(17.9)**	–
Proceeds from sale of property, plant and equipment		**0.2**	9.9
Net cash flows from investing activities		**(44.2)**	(18.1)
Net cash flows before financing activities		**14.4**	36.1
Cash flows from financing activities			
Proceeds from issue of share capital		**1.2**	0.3
(Repayments of)/proceeds from borrowings		**(12.4)**	3.6
Interest received		**–**	0.1
Interest paid		**(4.2)**	(4.2)
Dividends paid to shareholders		**(25.4)**	(25.3)
Dividends paid to non-controlling interests		**(0.3)**	(0.3)
Net cash flows from financing activities		**(41.1)**	(25.8)
Net (decrease)/increase in cash and cash equivalents in the year		**(26.7)**	10.3
Cash and cash equivalents at the beginning of the year		**37.9**	28.9
Exchange rate effects		**–**	(1.3)
Cash and cash equivalents at the end of the year		**11.2**	37.9
Cash and cash equivalents consist of:			
Cash at bank and in hand	14	**13.2**	40.5
Short term deposits	14	**2.2**	–
Bank overdrafts		**(4.2)**	(2.6)
	21	**11.2**	37.9

* Profit before tax includes continuing and discontinued operations. The cash flows relating to discontinued operations are included within note 2.

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 156 of this Annual Report. The consolidated financial statements of the Company for the period ended 25 March 2017 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 25 March 2017, 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 25 March 2017, being the last Saturday in March. The comparatives for the 2015/16 financial period are for the period ended 26 March 2016.

The Company has elected to prepare its financial statements in accordance with FRS 102 *Financial Reporting Standard applicable in the UK and Republic of Ireland*. They are set out on pages 148 to 152 and the accounting policies in respect of the Company financial statements are set out on page 150.

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

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 4 to 41 of the Strategic report. In addition, pages 124 to 132 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 39 of the Strategic report.

The Group meets its funding requirements through cash generated from operations and a revolving credit facility which expires in December 2021. The Group's forecasts and projections, which cover a period of more than 12 months, taking into account reasonably possible changes in normal trading performance, show that the Group should be able to operate within its currently available facilities. The Group has sufficient financial resources together with assets that are expected to generate cash flow in the normal course of business.

As a consequence and notwithstanding the net liability position being reported in the consolidated balance sheet, which has primarily arisen due to the value of the deficit in the retirement benefit obligations, the Directors have a reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

Accounting developments during the period

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.

Changes to IFRS not yet adopted

A number of other new and amended IFRS were issued during the period, which do not become effective until after 25 March 2017.

IFRS 15 *Revenue from Contracts with Customers* (effective for the year ending 30 March 2019, provides a single, principles based, five step model to be applied to all sales contracts.. The group continues to assess the impact of the new standard.

IFRS 16 *Leases* was issued by the IASB in January 2016 (effective for the year ending 28 March 2020, not yet endorsed by the EU) replaces IAS 17. Under the new standard it requires lessees to recognise a lease liability and a right of use asset for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Interest expense on the lease liability and depreciation on the right of use asset will be recognised in the income statement, resulting in a higher total charge to the income statement in the initial years of a lease. IFRS 16 is not expected at the current time to have a significant impact on the results of the group. The group will continue to assess the impact during 2017/18.

IFRS 9 *Financial Instruments* was issued by the IASB in July 2014. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial instruments and hedge accounting, and is required to be adopted by 29 March 2019. The group is reviewing the standard to determine the likely impact.

Accounting policies continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 25 March 2017. Control exists when the Group has the power to direct the activities of an entity so as to affect the return on investment. The results of subsidiaries acquired or disposed of during the period are included in the consolidated financial statements from the date that control commences or until the date that control ceases. The majority of the subsidiaries prepare their financial statements up to 25 March.

Business combinations

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

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

Transaction costs are expensed as incurred.

Significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements have been incorporated into the relevant notes where possible. General accounting policies which are not specific to an accounting 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 13 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 re-translation 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 is recognised on a bill and hold basis when a formal contract is in place, the product is in hand and ready for delivery, the customer has acknowledged acceptance of the bill and hold transaction and normal payment terms apply.

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 a small number of 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.

Classification of assets held for sale and discontinued operations

Following a root and branch review of the cash processing systems operation (CPS), the Board concluded that whilst CPS has a good product profile and long term customer relationships, it did not believe that this is a business which should form part of the Group's portfolio and decided to exit this market subsequently selling CPS on 22 May 2016. Therefore, in the 26 March 2016 balance sheet in line with the requirements of IFRS 5, where the carrying value of an asset will be recovered principally through a sale transaction rather than through continuing use, the disposal group was been classified as an asset held for sale on the balance sheet and the segment as a discontinued operation. This treatment was made with regard to the requirement for any disposal group to be immediately available for sale, the sale should be probable and expected to be completed within the next 12 months.

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 and cut-off in Currency

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 inventory in Currency

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

Classification of 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, asset impairments and costs associated with the acquisition and integration of business combinations. All exceptional items are included in the appropriate income statement category to which they relate. Refer to note 4 on page 114 for further details.

Post-retirement benefit obligations

Pension costs within the income statement and the pension obligations as stated in the balance sheet are both dependent upon a number of assumptions chosen by management. These include the rate used to discount future liabilities, the expected longevity for current and future pensioners and estimates of future rates of inflation.

The discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. See page 141 for detail of the relative sensitivity of the value of the scheme liabilities to changes in the discount and inflation rates.

Estimation of warranty provisions

The Group measures warranty provisions at the Directors' best estimate of the amount required to settle the obligation at the balance sheet date, discounted where the time value of money is considered material. These estimates take account of available information, historical experience and the likelihood of different possible outcomes. Both the amount and the maturity of these liabilities could be different from those estimated. Refer to note 18 on page 134 for further details.

Presentation of disposal group held for sale

In the year to 26 March 2016, the Directors exercised judgement in assessing whether the criteria for recognising a disposal group as held for sale were met in respect of the CPS business at the year end, including whether a sale was considered highly probable. Further judgement was required in estimating fair value less costs to sell when determining the remeasurement of assets and liabilities within the disposal group based on the lower of the carrying amount and fair value less costs to sell. Refer to note 2 on page 112 for further details.

Business combinations

During the year De La Rue has acquired of DuPont Authentication Inc (subsequently renamed to De La Rue Authentication Solutions). Determination of the balance sheet fair value of assets acquired is dependent upon the understanding of the circumstances at acquisition and estimates of the future results of the acquired business and management judgement is a factor in making these determinations. Refer to note 31 on page 146 for further details.

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.

The Group has current tax provisions recorded within Current tax liabilities, in respect of uncertain tax positions. Provisions are recognised where there are specific uncertainties identified and it is considered probable that there will be a future outflow of funds to a taxing authority, and are measured based on management's best estimate of the likely outcome.

Notes to the accounts

1 Segmental analysis

The continuing operations of the Group have three main operating units: Currency, Identity Solutions and Product Authentication and Traceability. The Board, which is the Group's Chief Operating Decision Maker, monitors the performance of the Group at this level and there are therefore three reportable segments. The principal financial information reviewed by the Board is revenue and adjusted operating profit.

The Group's segments are:

- **Currency** – provides printed banknotes, banknote paper and polymer substrates and banknote security components
- **Identity Solutions** – involved in the provision of passport, ePassport, national ID and eID, driving licence and voter registration schemes
- **Product Authentication and Traceability** (previously Security Products) – produces security documents, including authentication labels, brand licensing products, government documents, cheques and postage stamps

Inter-segmental transactions are eliminated upon consolidation.

Reclassification of results between Product Authentication & Traceability and Identity Solutions

Historically the results of one of the Group's sites have been included in the PA&T segment as this segment represented the majority of its business. However, due to growth in IDS business within this site, the Chief Operating Decision Maker has started reviewing information including the results of this site split between IDS and PA&T. Therefore, in order to align the Group's external reporting segments to the information reviewed internally the results of this site have been split in the current year between the IDS and PA&T segment. The 2015/16 figures have also been adjusted for comparability.

Discontinued operations – The Cash Processing Solutions operation, primarily focused on the production of large banknote sorters and authentication machines for central banks. The business was disposed on 22 May 2016 (see Note 2).

2017	Currency £m	Identity Solutions £m	Product Authentication and Traceability £m	Unallocated £m	Total of Continuing operations £m	Discontinued operations £m	Total £m
Total revenue	350.6	80.6	34.6	–	465.8	4.9	470.7
Less: inter-segment revenue	(1.1)	–	(3.0)	–	(4.1)	–	(4.1)
Revenue	349.5	80.6	31.6	–	461.7	4.9	466.6
Adjusted operating profit/(loss)	50.3	11.4	9.0	–	70.7	(2.3)	68.4
Amortisation of acquired intangible assets	–	–	(0.1)	–	(0.1)	–	(0.1)
Exceptional items – operating (note 4 and 2)	1.9	–	(0.9)	(1.4)	(0.4)	(4.1)	(4.5)
Operating profit/(loss)	52.2	11.4	8.0	(1.4)	70.2	(6.4)	63.8
Net interest expense				(4.6)	(4.6)	–	(4.6)
Retirement benefit obligations net finance expense				(7.4)	(7.4)	–	(7.4)
Profit/(loss) before taxation					58.2	(6.4)	51.8
Segment assets	243.4	46.3	23.1	137.9	450.7	–	450.7
Segment liabilities	(113.0)	(30.3)	(10.4)	(443.6)	(597.3)	–	(597.3)
Capital expenditure on property, plant and equipment	13.1	4.5	2.6	3.3	23.5	–	23.5
Capital expenditure on intangible assets	2.1	0.6	0.1	–	2.8	–	2.8
Depreciation of property, plant and equipment	17.6	3.3	1.5	1.9	24.3	–	24.3
Impairment of property, plant and equipment	–	–	–	–	–	–	–
Amortisation of intangible assets	1.7	0.6	0.2	–	2.5	–	2.5
Impairment of intangible assets	–	–	–	–	–	–	–

Unallocated assets principally comprise deferred tax assets of £43.7m (2015/16: £41.6m), cash and cash equivalents of £15.4m (2015/16: £40.5m) which are used as part of the Group's financing offset arrangements and derivative financial instrument assets of £15.9m (2015/16: £17.1m) as well as current tax assets, associates and centrally managed property, plant and equipment.

Unallocated liabilities principally comprise retirement benefit obligations of £239.4m (2015/16: £219.9m), borrowings of £136.3m (2015/16: £146.6m), current tax liabilities of £19.6m (2015/16: £17.6m) and derivative financial instrument liabilities of £8.3m (2015/16: £13.4m) as well as deferred tax liabilities and centrally held accruals and provisions.

1 Segmental analysis continued

2016 (restated)	Currency £m	Identity Solutions £m	Product Authentication and Traceability £m	Unallocated £m	Total of Continuing operations £m	Discontinued operations £m	Total £m
Total revenue	353.3	76.5	28.8	–	458.6	33.9	492.5
Less: inter-segment revenue	(0.8)	–	(3.3)	–	(4.1)	(0.2)	(4.3)
Revenue	352.5	76.5	25.5	–	454.5	33.7	488.2
Adjusted operating profit/(loss)	55.1	8.3	7.0	–	70.4	(7.9)	62.5
Exceptional items – operating (note 4 and 2)	(13.1)	–	(0.5)	10.0	(3.6)	(26.0)	(29.6)
Operating profit/(loss)	42.0	8.3	6.5	10.0	66.8	(33.9)	32.9
Net interest expense				(4.8)	(4.8)	(0.2)	(5.0)
Retirement benefit obligations net finance expense				(7.1)	(7.1)	–	(7.1)
Profit/(loss) before taxation					54.9	(34.1)	20.8
Segment assets	238.4	43.8	15.9	143.3	441.4	11.2	452.6
Segment liabilities	(119.4)	(28.6)	(5.3)	(434.4)	(587.7)	(10.5)	(598.2)
Capital expenditure on property, plant and equipment	11.1	0.2	1.7	3.5	16.5	–	16.5
Capital expenditure on intangible assets	3.3	1.4	0.3	–	5.0	0.3	5.3
Depreciation of property, plant and equipment	17.0	2.6	1.4	2.0	23.0	–	23.0
Impairment of property, plant and equipment	5.2	–	–	–	5.2	–	5.2
Amortisation of intangible assets	2.2	0.7	0.1	–	3.0	0.2	3.2
Impairment of intangible assets	–	–	–	–	–	5.6	5.6

Analysis of revenue by activity

	2017 £m	2016 £m
Goods	**457.7**	446.6
Services	**4.0**	7.9
	461.7	454.5

Geographic analysis of revenue by origin

	2017 £m	2016 £m
UK	**414.5**	434.5
Other countries	**47.2**	20.0
	461.7	454.5

Geographic analysis of non-current assets

	2017 £m	2016 £m
UK	**139.1**	142.2
Malta	**23.2**	20.7
USA	**18.7**	–
Sri Lanka	**14.2**	15.1
Other countries	**3.0**	2.5
	198.2	180.5

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

Major customers

The Group has a major customer from which it derived revenues of £47.2m in the Currency unit (2015/16: £120.4m from the Currency and Cash Processing Solution units).

Notes to the accounts continued

2 Discontinued operation held for sale

The Group completed the sale of the entire issued share capital of Cash Processing Solutions Limited and related subsidiaries (together 'CPS') to CPS Topco Limited, a company owned by Privet Capital on 22 May 2016.

Under the terms of the agreement, De La Rue received £2.1m upon completion of the transaction plus an additional £0.8m is receivable relating to a closing working capital adjustment. In addition, deferred consideration totalling £1.5m is payable on two equal instalments on the first and second anniversaries of the transaction. The Group is also entitled to further contingent consideration following the sale of up to £6m if certain performance related and event driven milestones are achieved by CPS.

No pension liability transferred as part of the disposal.

Results of the discontinued operation including the disposal group held for sale

	Notes	2017 £m	2016 £m
Revenue	1	**4.9**	33.7
Operating expenses – ordinary		**(7.2)**	(41.6)
Operating expenses – exceptional		**(4.1)**	(26.0)
Total operating expenses		**(11.3)**	(67.6)
Operating loss		**(6.4)**	(33.9)
Comprising:			
Adjusted operating (loss)		**(2.3)**	(7.9)
Exceptional items	1	**(4.1)**	(26.0)
Loss before interest and taxation		**(6.4)**	(33.9)
Interest income	1	**–**	–
Interest expense	1	**–**	(0.2)
Net finance expense		**–**	(0.2)
Loss before taxation	1	**(6.4)**	(34.1)
Comprising:			
Adjusted loss before tax		**(2.3)**	(8.1)
Exceptional items		**(4.1)**	(26.0)
Taxation	6	**(1.6)**	3.1
Loss from discontinued operations		**(8.0)**	(31.0)
Comprising:			
Adjusted (loss) for the year		**(2.2)**	(7.2)
(Loss) for the year on exceptional items		**(5.8)**	(23.8)

Assets/liabilities held for sale/disposal group

	2017 £m	2016 £m
Assets classified as held for sale		
Intangible assets	**–**	–
Derivative financial assets	**–**	0.2
Inventories	**–**	–
Trade and other receivables	**–**	11.0
	–	11.2

2 Discontinued operation held for sale continued

	2017 £m	2016 £m
Liabilities classified as held for sale		
Trade and other payables	–	(10.0)
Derivative financial liabilities	–	(0.3)
Provisions for liabilities and charges	–	(0.2)
	–	(10.5)

Cash flows from discontinued operation held for sale

	2017 £m	2016 £m
Net cash from operating activities	5.1	(3.3)
Net cash from investing activities	–	(0.3)
Net cash from financing activities	(0.1)	(0.1)
Net cash from/(used in) discontinued operations held for sale	5.0	(3.7)

Exceptional items on discontinued operations

	2017 £m	2016 £m
Site closures and restructuring	–	(2.6)
Remeasurement of carrying value following classification as an asset for sale	–	(23.4)
Loss on disposal of discontinued operations	(4.1)	–
Exceptional items	(4.1)	(26.0)
Tax (charge)/credit on exceptional items	(1.7)	2.2

Loss on disposal of discontinued operations

	2017 £m	2016 £m
Amounts paid/payable by purchaser	4.4	–
Disposal costs paid/accrued	(4.2)	–
Reserves recycled on disposal	(4.5)	–
Net assets and liabilities disposed	0.2	–
Total exceptional items (loss on disposal)	(4.1)	–

Site closure and restructuring costs in 2015/16 were £2.6m comprising £0.7m in staff compensation, and £1.9m for site exit costs.

In 2015/2016 asset impairments of £23.4m arising on the remeasurement of the disposal group to fair value less costs to sell have been recognised. The impairment related to intangibles of £1.6m, goodwill of £4.0m and inventories of £17.8m.

The cash costs for exceptional items in the period was £2.5m (2015/16: £1.0m).

Tax charges relating to the exceptional items arising in the period were £1.7m (2015/16 £0.3m credit). 2015/16 also included an exceptional credit of £1.9m in respect of the determination of the tax treatment of prior year discontinued operations.

Accumulated foreign currency translation gains and losses within the disposal group held for sale

The Group has accumulated foreign currency translation gains and losses in relation to the entities included within the disposal group. IAS 21 requires recycling of these foreign currency translation gains or losses, which have previously been taken direct to reserves, through the income statement at the point of disposal. At 26 March 2016 these foreign exchange gains or losses had not been recycled.

Notes to the accounts continued

3 Expenses by nature

	2017 £m	2016 £m
Cost of inventories recognised as an expense	**130.9**	151.4
Net (decrease)/increase in impairment of inventories	**(0.6)**	(12.3)
Depreciation of property, plant and equipment	**24.3**	23.0
Asset impairment charge	**–**	5.2
Amortisation of intangibles	**2.5**	3.0
Operating leases:		
– Hire of plant and equipment	**0.3**	0.4
– Hire of property	**2.5**	1.9
Amounts payable to KPMG and its associates:		
– Audit of these consolidated financial statements	**0.2**	0.2
– Audit of the financial statements of subsidiaries pursuant to legislation	**0.3**	0.3
– Taxation services	**0.2**	0.1
Research and non-capitalised development expense	**10.4**	9.0
(Profit)/loss on disposal of property, plant and equipment	**(1.4)**	7.6
Employee costs (including Directors' emoluments) (note 24)*	**136.1**	149.3
Foreign exchange (gains)/losses	**(12.4)**	(5.5)

* Employee costs include both continuing and discontinued operations for 2016.

4 Exceptional items

Accounting Policies

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.

	2017 £m	2016 £m
Site relocation and restructuring	**(0.2)**	(9.2)
Sale of land	**0.2**	9.5
Warranty provisions	**0.5**	1.3
Asset Impairment	**–**	(5.2)
Acquisition related	**(0.9)**	–
Exceptional items in operating profit	**(0.4)**	(3.6)
Tax credit on exceptional items	**0.6**	2.3

Site relocation and restructuring costs

Site relocation and restructuring costs in 2016/17 were £0.2m net (2015/16: £9.2m net) and included charges of £1.7m including staff compensation costs related to the redesign of the organisation structure which was offset by a credit of £1.4m in relation to the manufacturing footprint review announced in December 2015 which planed to reduce our core banknote print production capacity from eight billion to six billion notes a year. As noted in Note 18 'Provisions for liabilities and charges', in November 2016 we announced a refinement to that plan which resulted in a change in the total estimate for the associated site relocation and reorganisation costs resulting in a credit to the Income Statement which has been recorded as an exceptional item consistent to the original presentation in the Annual Report.

4 Exceptional items continued

Sale of land

The gain in 2015/16 related to the sale of surplus land in Overton which generated a profit of £9.5m. Gains of £0.2m in the current year relate to several individually small land sales.

Warranty provisions

Surplus warranty provisions of £0.5m in 2016/17 (2015/16: £1.3m) have been credited to exceptional items consistent to where the cost of the original provisions was presented in the Annual Report.

Asset impairments

In 2015/16 following a review of capitalised assets, £5.2m of tangible assets within the Currency segment were written down representing assets linked with specific products whose future income streams are forecast to be insufficient to support the current carrying value.

Acquisition related

De La Rue has incurred costs of £0.9m related to the acquisition of DuPont Authentication Inc during 2016/17. These acquisition related costs include £0.5m of professional advisor fees. In addition an amount of £0.4m has been recorded in exceptional items relating to the 'unwind' of the fair value adjustment to acquired inventory recognised on the opening day balance sheet as the related inventory was fully sold by year end. The Directors' believe that this non-cash item is distortive to underlying profit levels compared to the expected cost of inventories recognised as an expense for this subsidiary going forward.

Net cash cost of exceptional items

The net cash cost of exceptional items for continuing operations in the period was £3.3m (2015/16: £12.5m). £0.8m of the cash cost of exceptional items related to prior periods and primarily to payment of items associated with site relocations and restructuring.

Tax credits relating to exceptional items

Tax credits relating to continuing exceptional items arising in the period were £0.6m (2015/16 £2.3m).

5 Interest income and expense

Accounting Policies

Interest income/expense 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 flows through the expected life of the financial asset/liability to the net carrying amount of that asset/liability.

	2017 £m	2016 £m
Recognised in the income statement		
Interest income:		
– Cash and cash equivalents	**–**	0.1
Interest expense:		
– Bank loans	**(3.7)**	(3.7)
– Other, including amortisation of finance arrangement fees	**(0.9)**	(1.2)
Total interest expense calculated using the effective interest method	**(4.6)**	(4.9)
Retirement benefit obligation net finance expense (note 23)	**(7.4)**	(7.1)

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 (2015/16: £nil).

Notes to the accounts continued

6 Taxation

Accounting Policies

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 on temporary differences arising 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 result 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.

6 Taxation continued

	2017 £m	2016 £m
Consolidated income statement		
Current tax		
UK corporation tax:		
– Current tax	**8.4**	8.3
– Adjustment in respect of prior years	**(0.6)**	(0.1)
	7.8	8.2
Overseas tax charges:		
– Current year	**3.7**	2.2
– Adjustment in respect of prior years	**(0.2)**	(0.7)
	3.5	1.5
Total current income tax charge	**11.3**	9.7
Deferred tax:		
– Origination and reversal of temporary differences, UK	**(0.7)**	(3.3)
– Origination and reversal of temporary differences, overseas	**(0.3)**	(0.1)
Total deferred tax (credit)	**(1.0)**	(3.4)
Income tax expense reported in the consolidated income statement in respect of continuing operations	**8.7**	6.3
Income tax expense/(credit) in respect of discontinued operations (note 2)	**1.6**	(3.1)
Total income tax charge in the consolidated income statement	**10.3**	3.2
Tax on continuing operations attributable to:		
– Ordinary activities	**9.3**	8.6
– Exceptional items	**(0.6)**	(2.3)
Tax on discontinued operations attributable to:		
– Ordinary activities	**(0.1)**	(0.9)
– Exceptional items	**1.7**	(2.2)
Consolidated statement of comprehensive income:		
– On remeasurement of net defined benefit liability	**(2.3)**	5.4
– On cash flow hedges	**(0.1)**	1.4
– On foreign exchange on quasi-equity balances	**(0.1)**	0.4
Income tax (credit)/charge reported within other comprehensive income	**(2.5)**	7.2
Consolidated statement of changes in equity:		
– On share options	**(1.0)**	0.3
Income tax charge reported within equity	**(1.0)**	0.3

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 20 per cent as follows:

	2017			2016		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Profit before tax	**58.7**	**(0.4)**	**58.3**	58.5	(3.6)	54.9
Tax calculated at UK tax rate of 20 per cent (2015/16: 20 per cent)	**11.7**	**(0.1)**	**11.6**	11.7	(0.7)	11.0
Effects of overseas taxation	**(0.1)**	**–**	**(0.1)**	(1.1)	–	(1.1)
(Credits)/charges not allowable for tax purposes	**(1.8)**	**(0.5)**	**(2.3)**	(1.5)	0.8	(0.7)
(Utilisation)/increase in unrecognised tax losses	**(0.1)**	**–**	**(0.1)**	–	(1.9)	(1.9)
Adjustments in respect of prior years	**(0.1)**	**–**	**(0.1)**	(0.1)	(0.5)	(0.6)
Change in UK tax rate	**(0.3)**	**–**	**(0.3)**	(0.4)	–	(0.4)
Tax charge/(credit)	**9.3**	**(0.6)**	**8.7**	8.6	(2.3)	6.3

The underlying effective tax rate was 15.8 per cent (2015/16: 14.7 per cent).

Notes to the accounts continued

7 Earnings per share

Accounting Policies

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

	2017 Continuing operations pence per share	2017 Discontinued operations pence per share	2017 Total pence per share	2016 Continuing operations pence per share	2016 Discontinued operations pence per share	2016 Total pence per share
Earnings per share						
Basic earnings per share	47.2	(7.9)	39.3	46.8	(30.6)	16.2
Diluted earnings per share	46.6	(7.8)	38.8	46.2	(30.2)	16.0
Adjusted earnings per share						
Basic earnings per share	47.1	(2.3)	44.8	48.1	(7.1)	41.0
Diluted earnings per share	46.5	(2.2)	44.3	47.5	(7.0)	40.5

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

Earnings

	2017 Continuing operations £m	2017 Discontinued operations £m	2017 Total £m	2016 Continuing operations £m	2016 Discontinued operations £m	2016 Total £m
Earnings for basic and diluted earnings per share	47.9	(8.0)	39.9	47.4	(31.0)	16.4
Amortisation of acquired intangible assets	0.1	–	0.1			
Exceptional items	0.4	4.0	4.4	3.6	26.0	29.6
Less: tax on exceptional items	(0.6)	1.7	1.1	(2.3)	(2.2)	(4.5)
Earnings for adjusted earnings per share	47.8	(2.3)	45.5	48.7	(7.2)	41.5

Weighted average number of ordinary shares

	2017 Number m	2016 Number m
For basic earnings per share	101.6	101.3
Dilutive effect of share options	1.2	1.3
For diluted earnings per share	102.8	102.6

8 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.

	2017 £m	2016 £m
Final dividend for the period ended 28 March 2015 of 16.7p paid on 1 August 2015	–	16.9
Interim dividend for the period ended 26 September 2015 of 8.3p paid on 6 January 2016	–	8.4
Final dividend for the period ended 26 March 2016 of 16.7p paid on 3 August 2016	16.9	–
Interim dividend for the period ended 24 September 2016 of 8.3p paid on 11 January 2017	8.5	–
	25.4	25.3

A final dividend per equity share of 16.7p has been proposed for the period ended 25 March 2017. If approved by shareholders the dividend will be paid on 3 August 2017 to ordinary shareholders on the register at 30 June 2017.

9 Property, plant and equipment

Accounting Policies

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.

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	In course of construction £m	Total £m
Cost					
At 28 March 2015	64.8	349.7	30.1	18.7	463.3
Exchange differences	0.4	4.9	0.3	0.2	5.8
Additions	–	7.0	0.2	9.3	16.5
Transfers from assets in the course of construction	0.2	14.8	1.6	(16.6)	–
Disposals	(0.1)	(5.4)	(2.3)	(1.6)	(9.4)
Transferred to assets classified as held for sale	(3.8)	(1.6)	(3.8)	–	(9.2)
At 26 March 2016	61.5	369.4	26.1	10.0	467.0
Exchange differences	0.2	6.8	0.3	0.2	7.5
Additions	0.2	6.2	0.2	16.9	23.5
Transfers from assets in the course of construction	2.3	2.3	1.3	(5.9)	–
Disposals	–	(5.5)	(4.0)	(1.5)	(11.0)
Acquisitions (see note 31)	–	2.1	–	–	2.1
At 25 March 2017	**64.2**	**381.3**	**23.9**	**19.7**	**489.1**
Accumulated depreciation					
At 28 March 2015	28.8	234.5	20.7	–	284.0
Exchange differences	0.3	3.8	0.1	–	4.2
Depreciation charge for the year	1.6	19.4	2.0	–	23.0
Impairment	–	5.2	–	–	5.2
Disposals	–	(4.9)	(2.3)	–	(7.2)
Transferred to assets classified as held for sale	(3.8)	(1.6)	(3.8)	–	(9.2)
At 26 March 2016	26.9	256.4	16.7	–	300.0
Exchange differences	0.1	5.6	0.2	–	5.9
Depreciation charge for the year	1.7	19.6	3.0	–	24.3
Impairment	–	–	–	–	–
Disposals	–	(4.5)	(3.8)	–	(8.3)
At 25 March 2017	**28.7**	**277.1**	**16.1**	**–**	**321.9**
Net book value at 25 March 2017	**35.5**	**104.2**	**7.8**	**19.7**	**167.2**
Net book value at 28 March 2016	34.6	113.0	9.4	10.0	167.0
Net book value at 29 March 2015	36.0	115.2	9.4	18.7	179.3

Notes to the accounts continued

10 Intangible assets

Accounting Policies

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

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of consideration transferred over the fair value of net assets acquired.

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 amounts subject to being tested for impairment at that date.

Other intangible assets

Intangible assets purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost less accumulated amortisation and impairment losses. Software intangibles are amortised on a straight line basis over the shorter of their useful economic life or their licence period at rates which vary between three and five years. Expenditure incurred in the development of products or enhancements to existing product ranges is capitalised as an intangible asset only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured. Development costs not meeting these criteria are expensed in the income statement as incurred. Capitalised development costs are amortised on a straight line basis over their estimated useful economic lives, which vary between five and ten years, once the product or enhancement is available for use. Product research costs are written off as incurred.

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.

Intangible assets purchased through a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial acquisition, intangible assets acquired through a business combination are reported at cost less accumulated amortisation and impairment losses, on the same basis as intangible assets that are acquired separately.

Intellectual property is amortised over its expected life of 15 years.

Customer relationships are amortised over their expected lives of 15 to 20 years.

Trade names are amortised over their expected lives of 15 years.

10 Intangible assets continued

	Goodwill £m	Development costs £m	Software assets £m	Distribution rights £m	Intellectual property	Customer relationships	Trade Names	Total £m
Cost								
At 28 March 2015	7.7	34.0	9.7	0.4	–	–	–	51.8
Exchange differences	0.4	0.7	–	–	–	–	–	1.1
Additions	–	3.0	2.3	–	–	–	–	5.3
Disposals	–	–	(2.5)	–	–	–	–	(2.5)
Transferred to assets classified as held for resale	(8.1)	(16.7)	–	(0.3)	–	–	–	(25.1)
At 26 March 2016	–	21.0	9.5	0.1	–	–	–	30.6
Exchange differences	(0.1)	–	0.2	–	(0.1)	–	–	–
Additions	–	2.1	0.7	–	–	–	–	2.8
Disposals	–	–	(0.4)	–	–	–	–	(0.4)
Acquisitions (see note 31)	9.8	–	–	–	4.6	2.3	0.3	17.0
At 25 March 2017	**9.7**	**23.1**	**10.0**	**0.1**	**4.5**	**2.3**	**0.3**	**50.0**
Accumulated amortisation								
At 28 March 2015	3.7	23.4	7.7	0.4	–	–	–	35.2
Exchange differences	0.4	0.5	(0.1)	–	–	–	–	0.8
Amortisation for the year	–	2.4	0.8	–	–	–	–	3.2
Disposals	–	–	(2.5)	–	–	–	–	(2.5)
Transferred to assets classified as held for resale	(4.1)	(15.1)	–	(0.3)	–	–	–	(19.5)
At 26 March 2016	–	11.2	5.9	0.1	–	–	–	17.2
Exchange differences	–	–	(0.2)	–	–	–	–	(0.2)
Amortisation for the year	–	1.7	0.7	–	0.1	–	–	2.5
Disposals	–	–	(0.4)	–	–	–	–	(0.4)
At 25 March 2017	**–**	**12.9**	**6.0**	**0.1**	**0.1**	**–**	**–**	**19.1**
Carrying value at 25 March 2017	**9.7**	**10.2**	**4.0**	**–**	**4.4**	**2.3**	**0.3**	**30.9**
Carrying value at 26 March 2016	–	9.8	3.6	–	–	–	–	13.4
Carrying value at 28 March 2015	4.0	10.6	2.0	–	–	–	–	16.6

Notes to the accounts continued

10 Intangible assets continued

Accounting Policies

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.

Development costs with a carrying value of £1.6m have been transferred to assets held for sale to be included within the disposal group. See note 2 for further details.

Goodwill is allocated to the Group's CGUs identified according to business segment.

Acquisition amounts of £9.8m during 2016/17 relate to the Group's purchase of DuPont Authentication Inc (see note 31 for further details). In 2015/16 £4.0m of goodwill which related to the acquisition of CSI Inc, a provider of cash processing systems, in 2001 was transferred to assets held for sale and was included within the disposal group. See note 2 for further details.

11 Inventories

Accounting Policies

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.

	2017 £m	2016 £m
Raw materials	**26.9**	29.1
Work in progress	**17.4**	17.8
Finished goods	**23.5**	20.2
	67.8	67.1

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

An income statement charge in respect of the recognition of inventory provisions of £1.7m was recognised in operating expenses – ordinary in 2016/17 (2015/16: £1.2m). The Group also reversed provisions of £2.3m (2015/16: £13.6m), being provisions against inventory that was subsequently utilised or sold.

12 Trade and other receivables

Accounting Policies
Trade and other receivables are measured at cost net of allowances for impairments, which approximates to fair value.

	2017 £m	2016 £m
Trade receivables	**92.5**	81.1
Provision for impairment	**(3.0)**	(3.5)
Net trade receivables	**89.5**	77.6
Other receivables	**13.1**	11.1
Prepayments	**7.1**	4.8
	109.7	93.5

There is no other 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 2017 £m	**Impairment 2017 £m**	Gross 2016 £m	Impairment 2016 £m
Not past due	**45.9**	**–**	54.6	(0.4)
Past due 0-30 days	**29.6**	**–**	6.6	–
Past due 31-120 days	**13.4**	**(0.2)**	22.6	(0.1)
Past due more than 120 days	**16.7**	**(2.8)**	8.4	(3.0)
	105.6	**(3.0)**	92.2	(3.5)

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:

	2017 £m	2016 £m
Balance at beginning of year	**(3.5)**	(3.8)
Impairment losses recognised	**(0.6)**	(2.3)
Impairment losses reversed	**1.1**	1.8
Transferred to assets held for resale	**–**	0.8
Balance at end of year	**(3.0)**	(3.5)

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.

Notes to the accounts continued

13 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 in full, 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, the policy is to use floating to fixed interest rate swaps 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.

13 Financial risk continued

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.

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 within revenue or operating expenses in line with the host contract.

Notes to the accounts continued

13 Financial risk continued

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 2017 £m**	**Carrying amount 2017 £m**	Fair value – discontinued operations 2016 £m	Fair value – Continued operations 2016 £m	Total fair value 2016 £m	Carrying amount 2016 £m
Financial assets							
Trade and other receivables[1]		**102.6**	**102.6**	10.8	88.7	99.5	99.5
Cash and cash equivalents		**15.4**	**15.4**	–	40.5	40.5	40.5
Derivative financial instruments:							
– Forward exchange contracts designated as cash flow hedges	Level 2	**4.5**	**4.5**	–	5.0	5.0	5.0
– Short duration swap contracts designated as fair value hedges	Level 2	**0.2**	**0.2**	–	0.1	0.1	0.1
– Foreign exchange fair value hedges – other economic hedges	Level 2	**0.9**	**0.9**	0.1	3.6	3.7	3.7
– Embedded derivatives	Level 2	**10.3**	**10.3**	0.1	8.2	8.3	8.3
– Interest rate swaps	Level 2	**–**	**–**	–	–	–	–
Total financial assets		**133.9**	**133.9**	11.0	146.1	157.1	157.1
Financial liabilities							
Unsecured bank loans and overdrafts		**(136.3)**	**(136.3)**	–	(146.6)	(146.6)	(146.6)
Trade and other payables[2]		**(61.6)**	**(61.6)**	(1.8)	(61.3)	(63.1)	(63.1)
Derivative financial instruments:							
– Forward exchange contracts designated as cash flow hedges	Level 2	**(1.6)**	**(1.6)**	–	(1.8)	(1.8)	(1.8)
– Short duration swap contracts designated as fair value hedges	Level 2	**(0.1)**	**(0.1)**	–	(0.3)	(0.3)	(0.3)
– Foreign exchange fair value hedges – other economic hedges	Level 2	**(5.5)**	**(5.5)**	(0.3)	(10.1)	(10.4)	(10.4)
– Embedded derivatives	Level 2	**(0.7)**	**(0.7)**	–	(0.7)	(0.7)	(0.7)
– Interest rate swaps	Level 2	**(0.4)**	**(0.4)**	–	(0.3)	(0.3)	(0.3)
Total financial liabilities		**(206.2)**	**(206.2)**	(2.1)	(221.1)	(223.2)	(223.2)

1 Excluding prepayments.

2 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. There has been no movement between levels during the current or prior periods.

Forward exchange contracts used for hedging

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

Interest rate swaps

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

Embedded derivatives

The fair value of embedded derivatives is calculated based on the present value of forecast future exposures on relevant sales and purchase contracts and using quoted forward foreign exchange rates at the balance sheet date.

13 Financial risk continued

Determination of fair values of 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 25 March 2017 was £2.0m, (26 March 2016: (£2.3m)). Net movements in the hedge reserve are shown in the Group statement of changes in equity.

Comprehensive loss after tax was £0.3m comprising a loss of £7.8m of fair value movements on new and continuing cash flow hedges, a gain of £0.2m on maturing cash flow hedges for capital expenditure and a £8.0m gain 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 £0.4m amounted to £0.1m. £0.1m of the (£1.4m) operating expense relates to discontinued operations for 2016.

Hedge reserve movements in the income statement were as follows:

	Revenue £m	Operating expense £m	Interest expense £m	Total £m
25 March 2017				
– Maturing cash flow hedges	**(2.1)**	**10.1**	**–**	**8.0**
– Ineffectiveness on de-recognition of cash flow hedges	**–**	**–**	**–**	**–**
	(2.1)	**10.1**	**–**	**8.0**
26 March 2016				
– Maturing cash flow hedges	(0.2)	(1.4)	–	(1.6)
– Ineffectiveness on de-recognition of cash flow hedges	–	–	–	–
	(0.2)	(1.4)	–	(1.6)

The ineffective portion of fair value hedges that was recognised in the income statement amounted to £nil (2015/16: £nil). The ineffective portion of cash flow hedges that was recognised in the income statement was £nil (2015/16: £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.

25 March 2017	**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	**136.3**	**–**	**–**	**136.3**	**–**	**136.3**
Derivative financial liabilities						
Gross amount payable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	**101.4**	**0.9**	**0.2**	**102.5**	**(100.9)**	**1.6**
– Short duration swap contracts designated as fair value hedges	**14.4**	**–**	**–**	**14.4**	**(14.3)**	**0.1**
– Fair value hedges – other economic hedges	**99.9**	**2.4**	**–**	**102.3**	**(96.8)**	**5.5**
Interest rate swaps	**0.2**	**0.2**	**–**	**0.4**	**–**	**0.4**
	352.2	**3.5**	**0.2**	**355.9**	**(212.0)**	**143.9**

Notes to the accounts continued

13 Financial risk continued

Liquidity risk continued

26 March 2016	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	146.6	–	–	146.6	–	146.6
Derivative financial liabilities						
Gross amount payable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	42.0	0.2	–	42.2	(40.4)	1.8
– Short duration swap contracts designated as fair value hedges	48.6	–	–	48.6	(48.3)	0.3
– Fair value hedges – other economic hedges	148.7	19.3	2.1	170.1	(160.0)	10.1
Interest rate swaps	0.3	–	–	0.3	–	0.3
	386.2	19.5	2.1	407.8	(248.7)	159.1

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

25 March 2017	**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	**15.4**	**–**	**–**	**15.4**	**–**	**15.4**
Derivative financial assets						
Gross amount receivable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	**128.7**	**1.8**	**–**	**130.5**	**(126.0)**	**4.5**
– Short duration swap contracts designated as fair value hedges	**58.5**	**–**	**–**	**58.5**	**(58.3)**	**0.2**
– Fair value hedges – other economic hedges	**69.5**	**2.5**	**0.2**	**72.2**	**(71.3)**	**0.9**
Interest rate swaps	**–**	**–**	**–**	**–**	**–**	**–**
	272.1	**4.3**	**0.2**	**276.6**	**(255.6)**	**21.0**

26 March 2016	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	40.5	–	–	40.5	–	40.5
Derivative financial assets						
Gross amount receivable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	102.8	5.0	–	107.8	(102.8)	5.0
– Short duration swap contracts designated as fair value hedges	31.6	–	–	31.6	(31.5)	0.1
– Fair value hedges – other economic hedges	66.2	0.5	–	66.7	(63.1)	3.6
Interest rate swaps	–	–	–	–	–	–
	241.1	5.5	–	246.6	(197.4)	49.2

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.

13 Financial risk continued

Liquidity risk continued

Cash and cash equivalents, trade and other current receivables, bank loans and overdrafts, trade payables and other current liabilities have fair values that approximate to their carrying amounts due to their short-term nature.

As at 25 March 2017, the Group has a total of undrawn committed borrowing facilities, all maturing in more than one year, of £118.0m (26 March 2016: £106.0m in more than one year). The amount of loans drawn on the £250.0m facility is £132.0m (26 March 2016: £144.0m). Guarantees of £nil (26 March 2016: £nil) have been drawn using the facility.

On 27 April 2017, the Group extended the existing £250m revolving credit facility by two years to a maturity date of December 2021. It is subject to the same financial covenants which 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 period end the specific covenant tests were as follows: EBIT/net interest payable of 16.1 times, net debt/EBITDA of 1.27 times.

Forward foreign exchange contracts

The net principal amounts of the outstanding forward foreign exchange contracts at 25 March 2017 are US dollar 16.8m, euro 6.0m, Swiss franc (37.7m), Japanese yen (1.1bn), Canadian dollar (0.8m), and Hong Kong dollar 10.9m.

The net principal amounts outstanding under forward contracts with maturities greater than 12 months are euro 0.6m, US dollar 5.9m and Hong Kong dollar 10.9m. 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 25 March 2017 will be released to the income statement at various dates between one month and 27 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 25 March 2017 was £nil (2015/16: £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 25 March 2017 are US dollar 7.7m, euro 6.8m, Swiss franc (7.1m), South African rand 12.8m, Australian dollar 0.1m, Japanese yen 24.6m and Canadian dollar 0.2m, Hong Kong dollar 2.6m.

(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 25 March 2017 was £0.1m (2015/16: (£0.2m)). Gains and losses on balance sheet swaps are included in the consolidated income statement.

The principal amounts outstanding under balance sheet swaps at 25 March 2017 are US dollar 48.9m, euro (15.1m), Swiss franc 0.9m, South African rand 7.0m.

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 25 March 2017 was £9.6m (2015/16: £7.5m).

Gains and losses on fair value hedges

The gains and losses recognised in the year on the Group's fair value hedges were £0.2m relating to balance sheet hedges (2015/16: (£0.1m)), (£12.5m) relating to other fair value hedges (2015/16: £2.2m), and £nil relating to cash management hedges (2015/16: £nil).

Market risk: Currency risk

Exposure to currency risk

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	**2017**	2016
US dollar	**1.32**	1.50	**1.25**	1.41
Euro	**1.20**	1.36	**1.16**	1.27

Notes to the accounts continued

13 Financial risk continued

Market risk: Currency risk continued

Sensitivity analysis

A 10 per cent strengthening of sterling against the following currencies at 25 March 2017 and 26 March 2016 would have increased/(decreased) profit or loss by the amounts shown below, based on the Group's external monetary assets and liabilities.

	2017 £m	2016 £m
US dollar	(3.3)	(2.9)
Euro	(0.8)	(1.2)

A 10 per cent weakening of sterling against the above currencies at 25 March 2017 and 26 March 2016 would have had the following effect:

	2017 £m	2016 £m
US dollar	4.0	3.5
Euro	1.0	1.4

The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015/16.

Interest rate risk

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

	Carrying amount 2017 £m	Carrying amount 2016 £m
Variable rate instruments		
Financial assets	15.4	40.5
Financial liabilities	(136.3)	(146.6)
	(120.9)	(106.1)

At the year ending 25 March 2017 the Group had sterling 65m of floating to fixed interest rate swaps with financial institutions and with maturities of October and November 2018.

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)				
26 March 2017	(0.5)	0.7		
28 March 2016	(0.5)	0.8	–	–

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 2017 £m	Carrying amount 2016 £m
Trade and other receivables (excluding prepayments)	12	102.6	88.7
Cash and cash equivalents	14	15.4	40.5
Forward exchange contracts used for hedging		5.6	8.7
Embedded derivatives		10.3	8.2
Interest rate swaps		–	–
		133.9	146.1

13 Financial risk continued

Credit risk continued

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

	Carrying amount	
	2017 £m	2016 £m
UK	**28.9**	12.3
Rest of Europe	**5.1**	6.0
The Americas	**5.0**	17.9
Rest of world	**63.6**	52.5
	102.6	88.7

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

	Carrying amount	
	2017 £m	2016 £m
Banks and financial institutions	**17.1**	15.3
Government institutions	**53.0**	52.6
Distributors	**4.3**	3.2
Retail customers	**-**	0.1
End user customers	**2.0**	3.2
Other	**26.2**	14.3
	102.6	88.7

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 has 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.

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	**2017 £m**	2016 £m
Total equity attributable to shareholders of the Company		**(154.5)**	(152.2)
Add back long term pension deficit liability		**239.4**	219.9
Adjusted equity attributable to shareholders of the Company		**84.9**	67.7
Net debt	21	**120.9**	106.1
Group capital		**205.8**	173.8

The long term pension deficit has been removed as a separate agreement is in place regarding the funding for this deficit which is paid out of cash flows from continuing operations. The Group's debt financing is also analysed in notes 17 and 21.

Included within the Group's net debt are certain 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 7 and 8.

Notes to the accounts continued

13 Financial risk continued

Capital management continued

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. During the period, the Group invested £37m in ongoing research and development and capital expenditure. The proposed total dividend for the year is covered 1.8 times. The ratio is calculated as total adjusted earning as per note 7 over the dividend for the year.

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.

14 Cash and cash equivalents

Accounting Policies

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.

	2017 £m	2016 £m
Cash at bank and in hand	**13.2**	40.5
Short term bank deposits	**2.2**	–
	15.4	40.5

An analysis of cash, cash equivalents and bank overdrafts is shown in the Group cash flow statement.

Certain 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 13.

15 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:

	2017 £m	2016 £m
Deferred tax assets	**43.7**	41.6
Deferred tax liabilities	**(4.9)**	(1.6)
	38.8	40.0

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

	2017 £m	2016 £m
Beginning of the year	**40.0**	46.6
Exchange differences	**0.4**	0.3
Income statement credit/(charge)	**0.8**	4.1
Acquisitions (see note 31)	**(3.2)**	–
Tax credit/(charge) to equity	**0.8**	(11.0)
End of the year	**38.8**	40.0

15 Deferred taxation continued

The movement in deferred tax assets and liabilities during the period, 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 28 March 2015	(9.6)	–	(2.2)	(0.1)	(11.9)
Recognised in the income statement	1.4	–	0.5	(0.4)	1.5
Recognised in equity	–	–	–	–	–
At 26 March 2016	(8.2)	–	(1.7)	(0.5)	(10.4)
Recognised in the income statement	1.1	–	–	–	1.1
Acquisitions (see note 31)	(0.7)	(2.5)	–	–	(3.2)
Recognised in equity	–	–	–	0.1	0.1
At 25 March 2017	**(7.8)**	**(2.5)**	**(1.7)**	**(0.4)**	**(12.4)**

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
Assets					
At 28 March 2015	0.5	47.6	0.7	9.7	58.5
Recognised in the income statement	0.3	1.6	0.1	0.6	2.6
Recognised in equity	(0.3)	(9.3)	–	(1.4)	(11.0)
Exchange differences	–	–	–	0.3	0.3
At 26 March 2016	0.5	39.9	0.8	9.2	50.4
Recognised in the income statement	0.1	1.4	(0.4)	(1.4)	(0.3)
Recognised in equity	1.0	(0.3)	–	–	0.7
Exchange differences	–	–	–	0.4	0.4
At 25 March 2017	**1.6**	**41.0**	**0.4**	**8.2**	**51.2**

Other deferred assets and liabilities include tax associated with provisions of £1.7m (2015/16: £2.4m) and in respect of overseas tax credits £5.9m (2015/16: £4.5m).

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 £2.7m (2015/16: restated to show continuing operations only £1.8m) in respect of losses amounting to £8.3m (2015/16: restated to show continuing operations only £5.6m) that can be carried forward against future taxable income. Similarly, the Group has not recognised deferred tax assets of £9.4m (2015/16: £10.0m) in respect of overseas tax credits that are carried forward for utilisation in future periods.

Unremitted earnings totalled £134m at 25 March 2017 (2015/16: £201m). 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 £320.6m are carried forward at 25 March 2017 (2015/16: £329.2m). No deferred tax asset has been recognised in respect of these losses.

UK tax rate

A reduction in the main rate of UK corporation tax from 20 per cent to 17 per cent (effective from April 2020) was substantively enacted on 6 September 2016. This will reduce the UK Group's future current tax charge accordingly. The UK deferred tax assets and liabilities at 25 March 2017 have been calculated based on the rate of 17 per cent (26 March 2016: 18 per cent) substantively enacted at the balance sheet date.

Notes to the accounts continued

16 Trade and other payables

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

	2017 £m	2016 £m
Current liabilities		
Payments received on account	**27.2**	44.1
Trade payables	**46.5**	40.1
Amounts owed to associated companies	**–**	0.4
Social security and other taxation	**3.1**	3.4
Deferred income	**0.4**	–
Accrued expenses	**85.9**	66.2
Other payables	**12.0**	17.3
	175.1	171.5
Non-current liabilities		
Other payables	**1.3**	1.4
	1.3	1.4

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 13.

17 Borrowings

Accounting Policies

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 13.

	Currency	Nominal interest rate	Year of maturity	Face value 2017 £m	Carrying amount 2017 £m	Face value 2016 £m	Carrying amount 2016 £m
Current liabilities							
Unsecured bank loans and overdrafts	EUR	–	–	**–**	**–**	0.9	0.9
Unsecured bank loans and overdrafts	GBP	1.80%	2017	**136.0**	**136.0**	144.0	144.0
Unsecured bank loans and overdrafts	USD	–	2017	**–**	**–**	0.9	0.9
Unsecured bank loans and overdrafts	Other	–	2017	**0.3**	**0.3**	0.8	0.8
Total interest bearing liabilities				**136.3**	**136.3**	146.6	146.6

As at 25 March 2017, bank overdrafts of £112.5m (2015/16: £111.0m) were offset for interest purposes against credit balances.

As at 25 March 2017, the Group has committed borrowing facilities, all maturing in more than one year, of £250m. Up to £100m of the £250m 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 subject to conditions, the borrowings are disclosed as a current liability. This is notwithstanding the long term nature of this facility which expires in December 2021.

18 Provisions for liabilities and charges

Accounting Policies

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.

18 Provisions for liabilities and charges continued

	Restructuring £m	Warranty £m	Other £m	Total £m
At 26 March 2016	5.8	5.9	4.2	15.9
Exchange differences	0.3	–	–	0.3
Charge for the year	0.5	8.6	–	9.1
Utilised in year	(1.6)	(5.1)	(0.1)	(6.8)
Released in year	(2.5)	(2.4)	(1.2)	(6.1)
At 25 March 2017	**2.5**	**7.0**	**2.9**	**12.4**
Expected to be utilised within 1 year	2.5	7.0	0.9	10.4
Expected to be utilised after 1 year	–	–	2.0	2.0

Restructuring provisions

Restructuring provisions principally relate to amounts for site relocation and reorganisation costs in the Currency and Product Authenticity and Traceability segments. In December 2015 we announced the results of our manufacturing footprint review to reduce our core banknote print production capacity from eight billion to six billion notes a year. In November 2016 we announced a refinement to that plan which has resulted in a change in the total estimate for the associated site relocation and reorganisation costs. These provisions include related amounts for staff compensation and site exit costs, which are expected to be utilised within one year.

Warranty provisions

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.

Other provisions

Other provisions comprise a number of liabilities with varying expected utilisation rates. There are no individually material provisions within this total in the current or prior period.

19 Share capital

	2017 £m	2016 £m
Issued and fully paid		
101,767,263 ordinary shares of $44^{152}/_{175}$p each (2015/16: 101,358,815 ordinary shares of $44^{152}/_{175}$p each)	**45.7**	45.5
111,673,300 deferred shares of 1p each (2015/16: 111,673,300 deferred shares of 1p each)	**1.1**	1.1
	46.8	46.6

	2017		2016	
	Ordinary shares '000	**Deferred shares '000**	Ordinary shares '000	Deferred shares '000
Allotments during the year				
Shares in issue at 26 March 2016/28 March 2015	**101,359**	**111,673**	101,128	111,673
Issued under Savings Related Share Option Scheme	**253**	**–**	39	–
Issued under US Employee Share Purchase Plan	**–**	**–**	11	–
Issued under Recruitment Share Award	**–**	**–**	–	–
Issued under Retention Share Award	**–**	**–**	–	–
Issued under Restricted Share Award	**–**	**–**	19	–
Issued under Annual Bonus Plan	**62**	**–**	138	–
Issued under Performance Share Plan	**93**	**–**	24	–
Shares in issue at 25 March 2017/26 March 2016	**101,767**	**111,673**	101,359	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

20 Share based payments

Accounting Policies

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 26 March 2017, 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	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Annual Bonus Plan	**0.7**	0.6	**–**	–
Performance Share Plan	**(0.3)**	1.8	**–**	–
Restricted Share Award	**0.1**	0.1	**–**	–
Savings Related Share Option Scheme	**0.4**	0.1	**–**	–
US Employee Share Purchase Plan	**–**	–	**–**	–
	0.9	2.6	**–**	–

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	Performance Share Plan	Annual Bonus Plan	Savings Related Share Option Scheme
Dates of current year grants	27 Jun 2016	27 Jun 2016	7 Jun 2016	3 Jan 2017
Number of options granted	790,305	8,674	122,912	599,349
Exercise price	n/a	n/a	n/a	441.06
Contractual life (years)	3 or 4	3 or 4	1 or 2	3 or 5
Settlement	Shares	Cash	Shares	Shares
Vesting period (years)	3 or 4	3 or 4	1 or 2	3 or 5
Dividend yield	n/a	n/a	n/a	25p
Fair value per option at grant date	£5.21	£5.21	£5.47	£1.74 for 3 year plan £1.87 for 5 year plan

An expected volatility rate of 30 per cent (2015/16: 30 per cent) has been used for grants in the period. This rate is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life. The rate applied during the year was 0.19 per cent or 0.53 per cent depending on the vesting period.

20 Share based payments continued

Reconciliations of option movements over the period to 25 March 2017 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 74 to 92.

	2017 Number of options '000	2016 Number of options '000
Options outstanding at start of year	**181**	282
Granted	**123**	38
Forfeited	**(3)**	(1)
Exercised	**(58)**	(138)
Expired	**–**	–
Outstanding at end of year	**243**	181
Exercisable at year end	**–**	–

Performance Share Plan

For details of the Performance Share Plan, refer to the directors' remuneration report on pages 74 to 92.

	2017 Weighted average exercise price pence per share	**2017 Number of options '000**	2016 Weighted average exercise price pence per share	2016 Number of options '000
Options outstanding at start of year	**657.75**	**1,092**	891.13	917
Granted	**520.85**	**799**	534.98	713
Forfeited	**612.09**	**(78)**	713.07	(171)
Exercised	**867.70**	**(79)**	714.27	(19)
Expired	**868.30**	**(12)**	990.62	(348)
Outstanding at end of year	**585.18**	**1,722**	657.75	1,092
Exercisable at year end			–	–

The awards have been allocated based on a share price of 559.50p for the 26 November 2010 grants, 686.50p for the 31 January 2011 grants, 759.80p for the 23 June 2011 grants, 892.90p for the 4 December 2013 grants, 830.00p for the 27 June 2014 grants, 541.00p for the 29 June 2015 grants, 476.95p for the 23 September 2015 grants and 520.85p for the 27 June 2016 grants.

Restricted Share Award

For details of the Restricted Share Award, refer to the directors' remuneration report on pages 74 to 92.

	Restricted Share Award	
	2017 Number of options '000	2016 Number of options '000
Options outstanding at start of year	**19**	38
Granted	**–**	–
Forfeited	**–**	–
Exercised	**(19)**	(19)
Expired	**–**	–
Outstanding at end of year	**–**	19
Exercisable at year end	**–**	–

The shares were granted based on a share price of 474.6p.

Notes to the accounts continued

20 Share based payments continued

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 the maximum savings amount offered 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 based on historic experience.

	2017		2016	
	Weighted average exercise price pence per share	**Number of options '000**	Weighted average exercise price pence per share	Number of options '000
Options outstanding at start of year	**397.36**	**3,129**	476.63	2,678
Granted	**444.11**	**599**	344.40	1,880
Forfeited	**384.77**	**(368)**	450.41	(1,168)
Exercised	**438.02**	**(252)**	443.23	(39)
Expired	**553.77**	**(164)**	618.04	(222)
Outstanding at end of year	**396.25**	**2,944**	397.36	3,129
Exercisable at year end	**–**	**–**	–	–

The range of exercise prices for the share options outstanding at the end of the year is 344.40p – 775.34p (2016: 344.40p – 775.34p). The weighted average remaining contractual life of the outstanding share options is 1 September 2018 (2015/16: 1 September 2019).

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 2016/17, no shares (2015/16: 11,335 shares) were allotted pursuant to the plan. The Company has suspended future offerings from 1 January 2016 due to the low number of participants and corresponding shares awarded, as it is no longer considered a cost effective incentive and benefit to US employees.

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 to Executive Directors and senior employees under the various discretionary share option plans established by the Company. Liabilities of the Trust are guaranteed by the Company and the assets of the Trust mainly comprise shares in the Company. Equiom (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 25 March 2017.

21 Analysis of net debt

	2017 £m	2016 £m
Cash at bank and in hand	**13.2**	40.5
Short term bank deposits	**2.2**	–
Bank overdrafts	**(4.2)**	(2.6)
Total cash and cash equivalents	**11.2**	37.9
Borrowings due within one year	**(132.1)**	(144.0)
Net debt	**(120.9)**	(106.1)

22 Operating leases

Accounting Policies

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.

	2017 Property £m	**2017 Plant and equipment £m**	2016 Property £m	2016 Plant and equipment £m
Total commitments due:				
– Within one year	**2.5**	**–**	1.9	0.1
– Between one and five years	**8.9**	**–**	7.4	0.1
– Over five years	**28.9**	**–**	30.1	–
	40.3	**–**	39.4	0.2

23 Retirement benefit obligations

Accounting Policies

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 schemes are generally held in separately administered trusts or are insured. The major schemes are defined benefit pension schemes with assets held separately from the Group. The cost of providing benefits under each scheme is determined using the projected unit credit actuarial valuation method. The major defined benefit pension scheme is based in the UK and is now largely closed to future accrual. 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 assumed 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 schemes 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 Trustee board has been appointed to operate the UK defined benefit scheme in accordance with its governing documents and pensions law. The scheme meets the legal requirement for member nominated trustees representation on the trustee board and a professional independent trustee has been appointed as chair of the board. The members of the trustee board undertake regular training to ensure they are able to fulfil their function as trustees and have appointed professional advisers to give them specialist expertise where required.

The Group has calculated the value of the minimum funding commitments to its schemes and determined that no additional liability under IFRIC 14 is required at 25 March 2017. No significant judgements were involved in making this determination.

Notes to the accounts continued

23 Retirement benefit obligations continued

(a) Defined benefit pension schemes

Amounts recognised in the consolidated balance sheet:

	2017 UK £m	2017 Overseas £m	2017 Total £m	2016 UK £m	2016 Overseas £m	2016 Total £m
Equities	222.9	–	222.9	303.9	–	303.9
Bonds	270.0	–	270.0	100.1	–	100.1
Gilts	–	–	–	156.7	–	156.7
Diversified Growth Fund	199.4	–	199.4	186.3	–	186.3
Liability Driven Investment Fund	222.2	–	222.2	90.3	–	90.3
Multi Asset Credit	38.1	–	38.1	–	–	–
Other	21.9	–	21.9	24.6	–	24.6
Fair value of scheme assets	974.5	–	974.5	861.9	–	861.9
Present value of funded obligations	(1,204.7)	–	(1,204.7)	(1,072.2)	–	(1,072.2)
Funded defined benefit pension schemes	(230.2)	–	(230.2)	(210.3)	–	(210.3)
Present value of unfunded obligations	(6.8)	(2.4)	(9.2)	(7.3)	(2.3)	(9.6)
Net liability	(237.0)	(2.4)	(239.4)	(217.6)	(2.3)	(219.9)

Amounts recognised in the consolidated income statement:

	2017 UK £m	2017 Overseas £m	2017 Total £m	2016 UK £m	2016 Overseas £m	2016 Total £m
Included in employee benefits expense:						
– Current service cost	–	(0.2)	(0.2)	–	(0.2)	(0.2)
– Administrative expenses and taxes	(1.5)	–	(1.5)	(1.2)	–	(1.2)
Included in interest on retirement benefit obligation net finance expense:						
– Interest income on scheme assets	29.6	–	29.6	28.1	–	28.1
– Interest cost on liabilities	(37.0)	–	(37.0)	(35.2)	–	(35.2)
Retirement benefit obligation net finance expense	(7.4)	–	(7.4)	(7.1)	–	(7.1)
Total recognised in the consolidated income statement	(8.9)	(0.2)	(9.1)	(8.3)	(0.2)	(8.5)
Return on scheme assets excluding assumed interest income	114.7	–	114.7	(37.1)	–	(37.1)
Remeasurement (losses)/gains on defined benefit pension obligations	(140.0)	0.1	(139.9)	42.7	(0.2)	42.5
Amounts recognised in other comprehensive income	(25.3)	0.1	(25.2)	5.6	(0.2)	5.4

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

	2017 UK %	2017 Overseas %	2017 Total %	2016 UK %	2016 Overseas %	2016 Total %
Equities	22.9	–	22.9	35.3	–	35.3
Bonds	27.7	–	27.7	11.6	–	11.6
Gilts	–	–	–	18.2	–	18.2
Diversified Growth Fund	20.5	–	20.5	21.6	–	21.6
Liability Driven Investment Fund	22.8	–	22.8	10.5	–	10.5
Multi Asset Credit	3.9	–	3.9	–	–	–
Other	2.2	–	2.2	2.8	–	2.8

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 49 per cent), index linked bond holdings (approximately 37 per cent) and cash (approximately 14 per cent). Interest rate swaps and floating rate notes are employed to complement the role of the LDI fund for liability risk management. Derivatives have been valued on a mark to market basis. The LDI is designed to proportionally counterbalance the effect/impact of a decrease/increase in interest rates/inflation on 50% of the funded obligations. The Multi-Asset Credit Fund invests in a variety of debt instruments. The scheme's assets include £18,000 of the Group's own financial instruments as at March 2017 which relate to ordinary shares of the Group through index tracking investments.

Multi Asset Credit, Diversified Growth Funds and LDI asset categories include certain assets which are not quoted in an active market and are stated at fair value estimates provided by the manager of the investment fund.

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

23 Retirement benefit obligations continued

(a) Defined benefit pension schemes continued

Principal actuarial assumptions:

	2017 UK %	2017 Overseas %	2016 UK %	2016 Overseas %
Future pension increases – past service	**3.65**	**–**	3.60	–
Discount rate	**2.75**	**–**	3.50	–
RPI inflation rate	**3.30**	**–**	3.10	–

The financial assumptions adopted as at 25 March 2017 reflect the duration of the scheme liabilities which has been estimated to be 19 years.

At 25 March 2017 mortality assumptions were based on tables issued by Club Vita, with future improvements in line with the CMI model, CMI_2015 (2016: CMI_2013) and a long term rate of 1.25 per cent per annum (2015/16: long term rate of 1.25% per annum). The resulting life expectancies within retirement are as follows:

		2017	2016
Aged 65 retiring immediately (current pensioner)	Male	**22.7**	23.0
	Female	**24.2**	24.4
Aged 50 retiring in 17 years (future pensioner)	Male	**23.3**	24.1
	Female	**25.5**	26.9

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 value of pension scheme assets vary with changes in interest rates, inflation expectations, credit spreads, exchange rates, and equity and property prices. There is a risk that asset returns are volatile and that the value of pension scheme assets may not move in line with changes in pension scheme liabilities. To mitigate against investment risk the pension scheme invests in derivatives which aim to hedge a proportion of the movements in assets and liabilities. The pension scheme invests in a wide range of assets to provide diversification in order to reduce the risk that a single investment or type of asset class could have a materially adverse impact on total scheme assets. The investment strategy and performance of investment funds are reviewed regularly to ensure the asset strategy of the pension schemes 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 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£55m
0.25% increase in RPI inflation rate	Increase in liability of c£28m
Increasing life expectancy by one year	Increase in liability of c£55m

The liability sensitivities have been derived using projected cash flows for the Scheme valued using the membership profile as at 5 April 2015 and assumptions chosen for the 2017 year end. The sensitivity analysis does not allow for changes in scheme membership since the 2015 actuarial valuation or the impact of the Scheme or Group's risk management activities in respect of interest rate and inflation risk on the valuation of the Scheme assets.

The largest defined benefit pension scheme operated by the Group is in the UK. The Group's formal triennial funding valuation of the UK defined benefit pension scheme was finalised in June 2016. The underlying funding deficit as at 5 April 2015 was valued at £252m.

Changes in the fair value of UK scheme assets:

	2017 £m	2016 £m
At 26 March 2016/28 March 2015	**861.9**	891.6
Assumed Interest income on scheme assets	**29.6**	28.1
Scheme administration expenses	**(1.5)**	(1.2)
Return on scheme assets less interest income	**114.7**	(37.1)
Employer contributions and other income	**14.8**	19.2
Benefits paid (including transfers)	**(45.0)**	(38.7)
At 25 March 2017/26 March 2016	**974.5**	861.9

Notes to the accounts continued

23 Retirement benefit obligations continued

(a) Defined benefit pension schemes continued

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

	2017 £m	2016 £m
At 26 March 2016/28 March 2015	**(1,079.5)**	(1,125.7)
Interest cost on liabilities	**(37.0)**	(35.2)
Effect of changes in financial assumptions	**(168.9)**	58.7
Effect of changes in demographic assumptions	**12.9**	(12.3)
Effect of experience items on liabilities	**16.0**	(3.7)
Benefits paid (including transfers)	**45.0**	38.7
At 25 March 2017/26 March 2016	**(1,211.5)**	(1,079.5)

During 2015/16, the Group made special funding payments of £19.1m (including scheme administration fees). The Group's formal triennial valuation of the UK defined benefit Scheme was finalised in June 2016. The underlying funding deficit was valued at £252m. The Group agreed a revised funding plan with the Trustee to eliminate the deficit over a period of 12 years from 31 March 2016. The plan will see the existing funding payment schedule extended from 2022 to 2028.

The cash contributions to the Scheme of £13.0m (in addition to the regular contributions outside of the revised funding plan) have been made in the current year and £13.5m will be made in 2018, increasing to £20.5m in 2019 and then rising by 4% per annum to 2022. It will be frozen at £23.0m per year between 2023 and 2028. The Group will continue to pay annual fees of £1.6m for managing the Scheme in addition to the cash contributions. In the year ended 25 March 2017, the Group made funding payments and management fees totalling £14.8m. The next triennial funding valuation is due in April 2018.

(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 £8.8m (2015/16: £9.4m).

24 Employee information

	2017 number	2016 number
Average number of employees		
United Kingdom and Ireland	**2,041**	2,018
Rest of Europe	**447**	630
The Americas	**30**	125
Rest of world	**633**	793
	3,151	3,566
Average number of employees		
Currency	**2,536**	2,626
Identity Solutions	**313**	327
Product Authentication and Traceability	**222**	162
Cash Processing Solutions	**80**	451
	3,151	3,566

	2017 £m	2016 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	**116.1**	125.6
Social security costs	**10.3**	11.7
Share incentive schemes	**0.5**	2.5
Sharesave schemes	**0.4**	0.1
Pension costs	**8.8**	9.4
	136.1	149.3

More detailed information regarding the Directors' remuneration, shareholdings, pension entitlement, share options and other long-term incentive plans is shown in the directors' remuneration report on pages 84 to 89.

25 Capital commitments

	2017 £m	2016 £m
The following commitments existed at the balance sheet date:		
– Contracted but not provided for in the accounts	**6.5**	10.3

26 Contingent liabilities

De La Rue has extensive international operations and is subject to various legal and regulatory regimes, including those covering taxation matters from which, in the ordinary course of business, contingent liabilities can arise. While the outcome of litigation and 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. For these and any item where a provision has not been made, the likelihood of a material additional outflow is considered remote. The Group also 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.

27 Related party transactions

During the year the Group traded on an arms length basis with the associated company Fidink S.A. (33.3 per cent owned). The Group's trading activities with this company included £20.8m (2015/16: £24.2m) for the purchase of security ink and other consumables. At the balance sheet date there were creditor balances of £6.4m (2015/16: £3.2m) with Fidink S.A.

Intra-Group transactions between the parent and the fully consolidated subsidiaries or between fully consolidated subsidiaries are eliminated on consolidation.

Key management compensation

	2017 £'000	2016 £'000
Salaries and other short term employee benefits	**2,959.9**	3,356.6
Termination benefits	**–**	237.7
Retirement benefits:		
– Defined contribution	**90.4**	230.4
Share based payments	**190.9**	827.0
	3,241.2	4,651.7

Key management comprises members of the Board (including the fees of Non-executive Directors) and the Executive Leadership Team. 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.

28 Events since the balance sheet date

Since the year end the following material events have occurred:

On 11 April 2017, the Company announced that Rupert Middleton, Chief Operating Officer and Executive Director would be stepping down from the Board with effect from the close of the AGM on 20 July 2017.

Notes to the accounts continued

29 Subsidiaries and associated companies as at 25 March 2017

A full list of subsidiary and associated undertakings is below. Unless otherwise stated all Group owned shares are ordinary.

Country of incorporation and operation		Activities	De La Rue interest %
Europe			
United Kingdom	DLR (No.1) Limited	Holding company	100
	DLR (No.2) Limited*	Holding company	100
	De La Rue Holdings Limited	Holding and general commercial activities	100
	De La Rue International Limited	Trading	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
	Bradbury Wilkinson Holdings Limited (in liquidation)	(in liquidation)	100
	De La Rue Consulting Services Limited	Trading	100
	De La Rue Healthcare Trustee Limited	Dormant	100
	De La Rue Pension Trustee Limited	Dormant	100
	De La Rue Scandinavia Limited	Holding company	100
	Harrison & Sons Limited[a]	Non-trading	100
	Portals Holdings Limited	Dormant	100
	Portals Property Limited	Trading	100
	De La Rue House Jays Close Viables Basingstoke Hampshire RG22 4BS, United Kingdom		
Channel Islands	The Burnhill Insurance Company Limited	Insurance	100
	Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ, Guernsey		
	De La Rue (Guernsey) Limited	Non-trading	100
	PO Box 142, The Beehive, Rohais, St Peter Port, GY1 3HT, Guernsey		
Ireland	Thomas De La Rue and Company (Ireland) Limited	Dormant	100
	Suite 3, One Earlsfort Centre, Lower Hatch Street, Dublin 2, Ireland		
Malta	De La Rue Currency and Security Print Limited	Trading	100
	De La Rue Services Limited	Trading	100
	B40/43 Industrial Estate, Bulebel, Zejtun, Malta		
The Netherlands	De La Rue BV	Trading	100
	Asterweg 17A1, 1031 HL Amsterdam, Netherlands		
Poland	Harrison & Sons Sp. Z o.o	Dormant	100
	Mokotowska 24, 00-561, Warsaw, Poland		
Sweden	De La Rue (Sverige) AB	Non-trading	100
	Box 14055, 104 40, Stockholm, Sweden		
Switzerland	Thomas De La Rue A.G.	Holding company	100
	Rue de Morat 11, 1700 Fribourg, Switzerland		
North America			
USA	De La Rue North America Holdings Inc.[b]	Holding company	100
	50 Chestnut Ridge Road, Suite 208, Montvale, NJ 07645, United States		
	De La Rue Authentication Solutions Inc.	Trading	100
	1750 North 800 West, Logan, Utah 84321, USA		
Canada	De La Rue Canada One Limited	Trading	100
	160 Elgin Street, Suite 2600, Ottawa, ON KIP 1C3, Canada		

29 Subsidiaries and associated companies as at 25 March 2017 continued

Country of incorporation and operation		Activities	De La Rue interest %
South America			
Mexico	De La Rue Mexico Comercial, S.A. de C.V	Trading	100
	Sierra Mojada No 626, Col. Lomas Barrilaco, C.P. 11010, Mexico		
Brazil	De La Rue Cash Systems Industrias Limitada[c]	Trading	100
	De La Rue Cash Systems Limitada[c]	Trading	100
	Rua Boa Vista, 254, 13th Floor, Suite 41, Centro, Sao Paulo, 01014-90, Brazil		
Saint Lucia	De La Rue Caribbean Limited	Trading	100
	Meridan Place, Choc Estate, Castries, Saint Lucia		
Africa			
Kenya	De La Rue Currency and Security Print Limited	Trading	100
	De La Rue Kenya EPZ Limited	Dormant	100
	De La Rue Kenya Limited	Dormant	100
	ABC Towers, 6th Floor, ABC Place, Waiyaki Way, Nairobi, Kenya		
Angola	De La Rue Angola LDA Limitada	Trading	100
	Rua Engrácia Fragoso 60, Edifcio Kalunga Atrium, Escritòrio 104, Letra D, Distrito Urbano da Ingombota, Luanda, Angola		
Nigeria	De La Rue Commercial Services Limited	Trading	100
	7th Floor, Marble House, 1 Kingsway Road, Ikoyi, Lagos, Nigeria		
Senegal	De La Rue West Africa SARL	Trading	100
	VDN Keur Gorgui Imm Hermes 1, 2e Etage No Dakar-Liberte, BP 10700, Senegal		
South Africa	De La Rue Global Services (Pty) Limited	Trading	100
	3rd Floor, 54 Melrose Boulevard, Melrose Arch, Gauteng, 2196, South Africa		
Australia and Oceania			
Australia	De La Rue Australia Pty Limited	Trading	100
	Level 22, MLC Centre, 9 Martin Place, Sydney, NSW 2000, Australia		
Far East and Asia			
Hong Kong	Thomas De La Rue (Hong Kong) Limited	Dormant	100
	Suite 1106-8, 11/F Tai Yau Building, No 181 Johnson Road, Wanchai, Hong Kong		
Sri Lanka	De La Rue Lanka Currency and Security Print (Private) Limited	Trading	60
	No 9/5 Thambiah Avenue, Colombo 7, Sri Lanka		
India	De La Rue India Private Limited	Trading	100
	1404, 14 Floor, Tower B, Signature Towers, South City 1, Gurgaon, Haryana, India		
Singapore	De La Rue Currency and Security Print Pte Ltd	Trading	100
	80 Raffles Place, #32-01, UOB Plaza, 048624, Singapore		
United Arab Emirates	De La Rue FzCo	Trading	100
	Dubai Airport Free Zone Authority, Building 6 West Wing A, Office #820, PO Box 371683, Dubai		
Associates			
Switzerland	Fidink S.A.	Trading	33

* Ordinary shares held directly by De La Rue plc.
[a] Ordinary shares, cumulative preference shares and deferred shares.
[b] Common stock.
[c] Quotas.

Notes to the accounts continued

30 Non-controlling interest

The Group's only subsidiary with a material non-controlling interest is De La Rue Lanka Currency and Security Print (Private) Limited, whose country of incorporation and operation is Sri Lanka. The accumulated non-controlling interest of the subsidiary at the end of the reporting period is shown on the Group balance sheet. The following table summarises key information relating to this subsidiary, before intra-group eliminations:

	2017 £m	2016 £m
Non-current assets	**14.2**	15.1
Current assets	**18.5**	21.6
Non-current liabilities	**(1.8)**	(1.9)
Current liabilities	**(10.7)**	(18.1)
Net assets (100%)	**20.2**	16.7
Revenue	**41.8**	35.1
Profit for the year	**4.0**	3.0
Non-controlling interest percentage	**40%**	40%
Profit allocated to non-controlling interest	**1.6**	1.2
Dividends paid to non-controlling interest	**0.3**	0.3
Cash flows from operating activities	**2.0**	15.0
Cash flows from investment activities	**(1.1)**	(0.4)
Cash flows from financing activities	**(10.7)**	–
Net increase in cash and cash equivalents	**(9.8)**	14.6

31 Business Combinations

On 12 December 2016, De La Rue entered into a Share Purchase Agreement ('SPA') to acquire 100% of the outstanding capital stock of Dupont Authentication Inc (subsequently renamed to De La Rue Authentication Solutions ('DAS'). The acquisition completed on 6 January 2017, for a total consideration of $26.2m (£21.3m). This included the initial cash payment of $24.8m (equivalent to £20.2m) and a closing working capital adjustment of $1.4m (£1.1m) as per the terms of the SPA.

DAS is a leading global producer of photopolymer holographic films and 3D holograms and associated software. Its technology is used to authenticate products ranging from consumer electronics to spirits and also to secure identity documents. Its products are based on the highly specialised and secure Lippmann holography technology. Based in Utah, USA and with operations in Delaware, DAS has a well established global customer base in brand protection and identity authentication. This acquisition is in line with De La Rue's five year strategic plan to transform the Group into a technology led Security product and service provider. It will strengthen De La Rue's Security Features, Product Authentication & Traceability, and Identity Solutions product lines. DuPont Authentication's proprietary technology will also provide a solid platform for De La Rue to create new applications for the Currency market.

Goodwill of $12.1m (£9.8m) was recognised on the acquisition, being the excess of the purchase consideration over the fair value of net assets acquired as set out below. Through the acquisition of DAS, DLR has acquired the intellectual property, trade names and existing customer relationships and these intangible assets have been valued at $8.9m (£7.2m).

Valuation techniques and key valuation assumptions and estimates

The principle intangible assets recognised were intellectual property (£4.6m) and customer relationships (£2.3m). The key assumptions used in valuing these were:

Intellectual property

Valued on a 'relief from royalty basis'. Key valuation assumptions were the appropriate third party royalty rate used to calculate the royalties saved from owning this intellectual property and estimations of future forecast sales levels. Management has also made judgements on the useful economic life of this asset and consequently the period of time over which forecasted cash flows should be estimated. Discount rate has been determined using the 'internal rate of return' for the transaction with an incremental risk premium added based on the perceived additional risk for this asset as compared to the acquired business as a whole.

31 Business Combinations continued

Customer relationships

Valued using the ‘multi-excess earnings method’. Key valuation assumptions were the future attrition rate for customers existing at the acquisition date and the expected growth in sales from the remaining customers in the future. Judgements have also been made with regards to estimated future forecast sales and cost levels. Management has also made judgements on the useful economic life of this asset and consequently the period of time over which forecasted cash flows should be estimated. Discount rate has been determined using the ‘internal rate of return’ for the transaction with an incremental risk premium added based on the perceived additional risk for this asset as compared to the acquired business as a whole.

Goodwill

The goodwill recognised represents the expected synergies to be derived from the acquisition, the value of the assembled workforce on acquisition and assets that do not qualify for separate recognition at the acquisition date.

	Provisional 2017 £m
ASSETS	
Non-current assets	
Property, plant and equipment	2.1
Intangible assets	7.2
	9.3
Current assets	
Inventories	2.7
Trade and other receivables	1.1
Cash and cash equivalents	2.3
	6.1
Total assets	15.4
LIABILITIES	
Current liabilities	
Trade and other payables	0.7
	0.7
Non-current liabilities	
Deferred tax liabilities	3.2
Total liabilities	3.9
Total identifiable net assets	11.5
Goodwill	9.8
Total consideration	21.3

Consideration was fully satisfied in cash. The closing working capital adjustment of $1.4m (£1.1m) was paid post year end.

Acquisition related costs of £0.5m were recognised in the Income Statement (See Note 4 ‘exceptional items’).

DAS contributed £2.2m of revenue and loss of £0.1m to the group’s profit (£0.3m profit based on Adjusted Operating profit which excludes £0.4m unwind of the fair value adjustment to acquired inventory – see note 4 for further details) since acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, revenues included in the Group’s results for the period would have been £10.6m and the profit included in the Group’s results would have been £1.0m (£1.7m based on Adjusted Operating profit).

Company balance sheet at 25 March 2017

	Notes	2017 £m	2016 £m
Fixed assets			
Investments in subsidiaries	4a	152.4	152.4
		152.4	152.4
Current assets			
Debtors receivable within one year	5a	80.6	27.8
Cash at bank and in hand		1.7	1.1
		82.3	28.9
Creditors: amounts falling due within one year			
Borrowings	6a	–	(0.2)
Other creditors	7a	(4.2)	(6.7)
		(4.2)	(6.9)
Net current assets		78.1	22.0
Total assets less current liabilities		230.5	174.4
Net assets		230.5	174.4
Capital and reserves			
Share capital	8a	46.8	46.6
Share premium account		36.7	35.7
Capital redemption reserve		5.9	5.9
Retained earnings		141.1	86.2
Total shareholders' funds		230.5	174.4

Approved by the Board on 23 May 2017

Philip Rogerson
Chairman

Jitesh Sodha
Chief Financial Officer

Company statement of changes in equity for the period ended 25 March 2017

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 28 March 2015	46.5	35.5	5.9	111.7	199.6
Share capital issued	0.1	0.2	–	–	0.3
Profit for the financial year	–	–	–	(2.6)	(2.6)
Dividends paid	–	–	–	(25.3)	(25.3)
Employee share scheme:					
– value of services provided	–	–	–	2.4	2.4
Balance at 26 March 2016	46.6	35.7	5.9	86.2	174.4
Share capital issued	0.2	1.0	–	–	1.2
Profit for the financial year	–	–	–	79.7	79.7
Dividends paid	–	–	–	(25.4)	(25.4)
Employee share scheme:	–	–		–	–
– value of services provided	–	–	–	0.6	0.6
Balance at 25 March 2017	**46.8**	**36.7**	**5.9**	**141.1**	**230.5**

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.

Accounting policies – Company

Basis of preparation

The financial statements of De La Rue plc (the Company) have been prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (FRS 102) as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

In the transition to FRS 102 from old UK GAAP, the Company made no measurement and recognition adjustments.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemption was taken in these financial statements: Separate financial instruments – carrying amount of the Company's cost of investment in subsidiaries is its deemed cost at transition date, 30 March 2014.

In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and did apply the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period
- Cash Flow Statement and related notes
- Key Management Personnel compensation

As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share Based Payments
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1
- The Company proposes to continue to adopt FRS 102 with the above disclosure exemptions in its next financial statements

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the Company did not retrospectively change its accounting under old UK GAAP for derecognition of financial assets and liabilities before the date of transition, hedge accounting for any hedging relationships that no longer existed at the date of transition, accounting estimates or discontinued operations.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed on page 108.

The accounts have been prepared as at 25 March 2017, being the last Saturday in March. The comparatives for the 2015/16 financial period are for the period ended 26 March 2016.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, and financial instruments classified at fair value through the profit or loss.

Foreign currencies

Amounts receivable from overseas subsidiaries which are denominated in foreign currencies are translated into sterling at the appropriate period 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 102, 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.

Investments in subsidiaries

These are separate financial statements of the company. Investments in subsidiaries are carried at deemed cost.

Employee benefits

Defined benefit plans

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 and is closed to future accrual. The Group agrees deficit funding with the scheme Trustees and Pension Regulator. The Company is a participating employer but the Group has adopted a policy whereby the scheme funding and deficit are recorded in the main UK trading subsidiary of the Company, De La Rue International Limited, which pays all contributions to the scheme and hence these are not shown in the Company accounts. Full details of the scheme and its deficit (measured on an IAS 19R basis) can be found in note 23 to the consolidated financial statements.

Share-based payment transactions

Full details of the share based payments Schemes operated by the Group are found in note 20 to the consolidated financial statements.

Taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102.

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 Limited. For details of Directors' remuneration, refer to disclosures in the directors' remuneration report on pages 74 to 92.

	2017 Number	2016 Number
Average employee numbers	**5**	5

2a Auditor's remuneration

Auditor's remuneration is borne by De La Rue Holdings Limited. For details of auditor's remuneration, see note 3 to the consolidated financial statements.

3a Equity dividends

For details of equity dividends, see note 8 to the consolidated financial statements.

4a Investments

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

	2017 £m	2016 £m
Investments comprise:		
Investments in subsidiaries	**152.4**	152.4

	2017 £m	2016 £m
Cost		
At 25 March 2017 and 26 March 2016	**152.4**	152.4

For details of investments in Group companies, refer to the list of subsidiary and associated undertakings on pages 144 to 145.

5a Debtors

Other receivables are measured at amortised cost, which approximates to fair value. Trade and other receivables are discounted when the time value of money is considered material.

	2017 £m	2016 £m
Amounts due within one year		
Amounts owed by Group undertakings	**80.6**	27.8

6a Borrowings

	2017 £m	2016 £m
Short term borrowings		
Bank loans and overdrafts	**–**	0.2

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

	2017 £m	2016 £m
US dollar	**–**	–
Euro	**–**	–
Sterling	**–**	0.2
Other currencies	**–**	–
	–	0.2

Notes to the accounts – Company continued

7a Other creditors

	2017 £m	2016 £m
Amounts falling due within one year		
Amounts due to Group undertakings	**2.9**	5.4
Accruals and deferred income	**1.3**	1.3
Other creditors	**4.2**	6.7

8a Share capital

For details of share capital, see note 19 to the consolidated financial statements.

9a 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 102 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 102. 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 20 to the consolidated financial statements and the directors' remuneration report on pages 74 to 96.

10a 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 27 to the consolidated financial statements.

Non-IFRS measures

De La Rue plc publishes certain additional information in a non-statutory format in order to provide readers with an increased insight into the underlying performance of the business. The Directors are of the opinion that these measures give a better understanding of the underlying performance of the business. Amortisation of acquired intangible assets is a non-cash item and by excluding this from the adjusted operating profit metrics this is deemed to be a more meaningful metric of the contribution from the underlying business. The measures the Group uses along with appropriate reconciliations where applicable are shown below.

Adjusted operating profit

Adjusted operating profit represents earnings from continuing operations adjusted to exclude exceptional items and amortisation of acquired intangible assets.

	2015 £m	2016 £m	**2017 £m**
Operating profit from continuing operations on an IFRS basis	52.2	66.8	**70.2**
– Amortisation of acquired intangible assets	–	–	**0.1**
– Exceptional items	16.9	3.6	**0.4**
Adjusted operating profit from continuing operations	69.1	70.4	**70.7**

Adjusted basic earnings per share

Adjusted earnings per share are the earnings attributable to equity shareholders, excluding exceptional items and amortisation of acquired intangible assets and discontinued operations divided by the weighted average number of ordinary shares dual share in issue. It has been calculated by dividing the De La Rue plc's adjusted operating profit from continuing operations for the period by the weighted average number of ordinary shares in issue excluding share held in the employee share trust.

	2015 £m	2016 £m	2017 £m
Profit attributable to equity shareholders of the Company from continuing operations on an IFRS basis	32.1	47.4	**47.9**
– Exceptional items	16.9	3.6	**0.4**
– Amortisation of acquired intangibles	–	–	**0.1**
– Tax on exceptional items	(2.4)	(2.3)	**(0.6)**
Adjusted profit attributable to equity shareholders of the Company from continuing operations	46.6	48.7	**47.8**
Weighted average number of ordinary shares for basic earnings	101.0	101.3	**101.6**

	Restated 2015 pence per share	2016 pence per share	**2017 pence per share**
Basic earnings per ordinary share continuing operations on an IFRS basis	31.8p	46.8p	**47.2p**
Basic adjusted earnings per ordinary share for continuing operations	46.1p	48.1p	**47.1p**

Non-IFRS measures continued

Adjusted EBITDA and adjusted EBITDA margin

Adjusted EBITDA represents earnings from continuing operations before the deduction of interest, tax, depreciation, amortisation and exceptional items. The EBITDA margin percentage takes the applicable EBITDA figure and divides this by the continuing revenue in the period.

	2015 £m	2016 £m	**2017 £m**
Profit before interest and taxation from continuing operations on an IFRS basis	52.2	66.8	**70.2**
– Depreciation	23.0	23.0	**24.3**
– Amortisation	1.7	3.0	**2.5**
EBITDA on an IFRS basis	76.9	92.8	**97.0**
– Exceptional items	16.9	3.6	**0.4**
Adjusted EBITDA	93.8	96.4	**97.4**

EBITDA margin on an IFRS basis	18.2%	20.4%	**21.0%**
Adjusted EBITDA margin	22.2%	21.2%	**21.1%**

Return on capital employed (ROCE)

Return of capital employed is the ratio of the operating profit before exceptional items and adjusting items over capital employed, where capital employed equals net assets, excluding pensions, tax interest and long term liabilities.

Cash conversion

Cash conversion is the ratio of adjusted operating cash flow divided by the adjusted operating profit.

Five year record

Income statement

	2013[1] £m	2014[1] £m	2015 £m	2016 £m	**2017 £m**
Revenue	483.7	513.3	422.8	454.5	**461.7**
Operating profit					
– Adjusted operating profit	61.5	89.3	69.1	70.4	**70.7**
– Amortisation of acquired intangible assets	–	–	–	–	**(0.1)**
– Exceptional items – operating	(7.6)	(17.5)	(16.9)	(3.6)	**(0.4)**
Total	53.9	71.8	52.2	66.8	**70.2**
Share of profits of associated companies	–	–	–	–	**–**
Exceptional items – non-operating	–	–	–	–	**–**
Profit before interest	53.9	71.8	52.2	66.8	**70.2**
Net interest expense	(3.6)	(4.7)	(4.6)	(4.8)	**(4.6)**
Retirement benefit obligation net finance expense	(6.6)	(7.3)	(7.0)	(7.1)	**(7.4)**
Profit before taxation	43.7	59.8	40.6	54.9	**58.2**
Taxation	(5.5)	(11.9)	(7.7)	(6.3)	**(8.7)**
Profit after taxation from continuing operations	38.2	47.9	32.9	48.6	**49.5**
Profit/(loss) from discontinued operations	–	–	2.2	(31.0)	**(8.0)**
Equity non-controlling interests	(1.0)	(0.6)	(0.8)	(1.2)	**(1.6)**
Profit for the year	37.2	47.3	34.3	16.4	**39.9**
Dividends	(42.1)	(42.2)	(36.8)	(25.3)	**(25.4)**
Retained (loss)/profit for the period	(4.9)	5.1	(2.5)	(8.9)	**14.5**
Basic earnings per ordinary share continuing operations	37.4p	47.3p	31.8p	46.8p	**47.2**
Basic earnings per ordinary share discontinued operations	–	–	2.2.p	(30.6p)	**(7.9)**
Diluted earnings per share continuing operations	36.9p	47.0p	31.3p	46.2p	**46.6**
Diluted earnings per share discontinued operations	–	–	2.1p	(30.2p)	**(7.8)**
Adjusted earnings per ordinary share continuing operations	38.5p	60.7p	46.1p	48.1p	**47.1**
Adjusted earnings per ordinary share discontinued operations	–	–	(0.8p)	(7.1p)	**(2.3)**
Dividends per ordinary share[2]	42.3p	42.3p	25.0p	25.0p	**25.0p**
Adjusted profit before taxation	51.3	77.3	57.5	58.5	**58.7**

Balance sheet

	£m	£m	£m	£m	**£m**
Non-current assets	251.3	240.4	244.0	226.5	**242.5**
Net current liabilities[3]	(58.6)	(40.8)	(30.7)	(35.0)	**(20.0)**
Net debt	(76.7)	(89.9)	(111.0)	(106.1)	**(120.9)**
Non-current liabilities	(182.6)	(180.1)	(249.2)	(231.0)	**(248.2)**
Equity non-controlling interests	(4.7)	(5.1)	(5.7)	(6.6)	**(7.9)**
Total equity attributable to shareholders of the Company	(71.3)	(75.5)	(152.6)	(152.2)	**(154.5)**

Notes

1 Not restated in respect of discontinued operations.

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

3 Excludes amounts included in net debt.

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)370 703 6375
Fax: +44 (0)370 703 6101

Annual general meeting

The AGM will be held at 10:30am on 20 July 2017 at The Hampshire Court Hotel, Centre Drive, Great Binfields Road, Chineham, Basingstoke, RG24 8FY. 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.investorcentre.co.uk/eproxy

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)370 703 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 dividend confirmation 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%, 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% 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)370 703 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 1%, with a minimum charge of £25 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 2016/17 final dividend	29 June 2017
Record date for final dividend	30 June 2017
Payment of 2016/17 final dividend	3 August 2017

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 25 March 2017

	Shareholders		Shares	
By range of holdings	Number	%	Number	%
0 – 1,000	4,361	75.83	1,434,202	1.41
1,001 – 5,000	1,027	17.86	2,034,558	2.00
5,001 – 10,000	120	2.09	855,836	0.84
10,001 – 100,000	140	2.43	5,274,830	5.18
100,001 – 500,000	100	1.74	65,929,581	64.78
500,001 and above	3	0.05	26,238,256	25.78
Total	**5,751**	**100.00**	**101,767,263**	**100.00**

This report is printed on Magno Satin paper. This paper has been independently certified as meeting the standards of the Forest Stewardship Council (FSC®), and was manufactured at a mill that is certified to the ISO14001 and EMAS environmental standards.

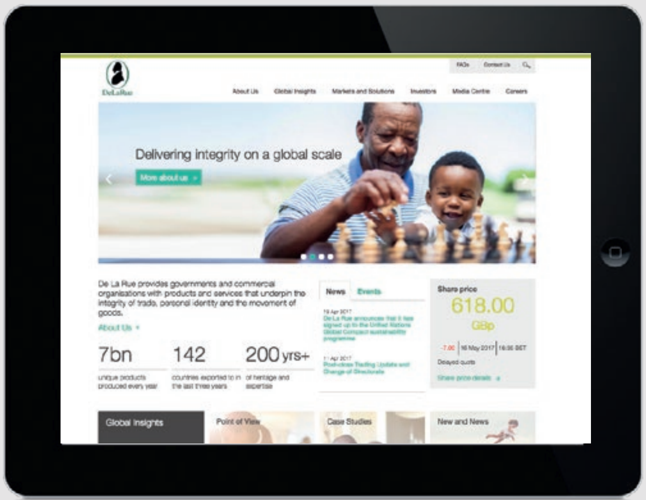
Designed and produced by

Radley Yeldar
www.ry.com

Printed at

CPI Colour Printing Company which is ISO14001 certified, CarbonNeutral®, Alcohol Free Printer, FSC and PEFC chain of custody certified. The inks used are all vegetable oil based.

Visit us online
www.delarue.com



De La Rue plc

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

T +44 (0)1256 605000
F +44 (0)1256 605004
www.delarue.com