



DeLaRue

De La Rue plc 2017/18 Half Year Results

21 November 2017



DE LA RUE

2017/18 HALF YEAR RESULTS

De La Rue plc (LSE: DLAR) (De La Rue, the “Group” or the “Company”) announces its half year results for 27 weeks ended 30 September 2017 (the period or half year). The comparative period was 26 weeks ended 24 September 2016.

FINANCIAL HIGHLIGHTS

- Revenue +29% and adjusted operating profit^{*(1)} +11%, reported operating profit +7%
- Currency business delivered strong growth with revenue +36% and adjusted operating profit^{*(1)} +16%, driven by high volumes
 - Banknote Paper volume +36% to 7,200 tonnes
 - Banknote Print volume +6% to 3.5bn notes
 - Polymer volume +570% to 400 tonnes
- Identity Solutions and Product Authentication revenues +3% and +20%, respectively
- Adjusted basic earnings per share +19% to 16.6p
- Net debt £137.4m, up £16.5m from the year end due to higher working capital
- Group 12 month order book of £363m as at September 2017

STRATEGIC AND OPERATIONAL HIGHLIGHTS

- Increased investment in product development
 - R&D investment increased by 33% year on year
 - Joint product development and exclusive sales agreement with security features developer and manufacturer Opalux
- Polymer momentum continues - signed 10 year contract to supply Safeguard® substrate for Bank of England new £20 notes
- DLR Analytics™ launched in May gaining further traction, with 60 central banks signed up
- Joint development agreement with Note Printing Australia for new Australian passport
- De La Rue Authentication Solutions (previously DuPont Authentication) is performing to plan

KEY FINANCIALS

	HY 2017/18 £m	HY 2016/17 £m	Change %
Revenue	244.7	189.5	+29%
Currency	185.3	136.4	+36%
Identity Solutions	39.4	38.1	+3%
Product Authentication & Traceability	20.2	16.9	+20%
Adjusted operating profit^{*(1)}	26.6	24.0	+11%
Reported operating profit	24.6	23.0	+7%
EPS basic adjusted ^{*(2)}	16.6p	14.0p	+19%
EPS basic reported	14.8p	13.2p	+12%
Dividend per share	8.3p	8.3p	0%

* This is a non-IFRS measure. Amortisation of acquired intangible assets is a non-cash item while exceptional items are non-recurring in nature. By excluding these items from the adjusted operating profit and EPS metrics, the Directors are of the opinion that these measures give a better understanding of the underlying performance of the business. “Reported” measures are on an IFRS basis. See page 26 for further explanations and reconciliation to the comparable IFRS measures

(1) Excludes exceptional item net charges of £1.8m (H1 2016/17: £1.0m) and amortisation of acquired intangible assets of £0.2m (H1 2016/17: £nil)

(2) Excludes exceptional item charges of £1.8m (H1 2016/17: £1.0m), amortisation of acquired intangible assets of £0.2m (H1 2016/17: £nil) and related tax credits of £0.2m (H1 2016/17: £0.2m)

Revenue and adjusted operating profit growth rates for the Identity Solutions and Product Authentication & Traceability reflect a change in allocation of results for these segments made in the year. See more information in Note 2 on pages 19 to 20

Martin Sutherland, Chief Executive Officer of De La Rue, commented:

“De La Rue has performed well in the first half, driven by strong growth in the Currency business and we have continued to make good progress against our strategic plan.

“Polymer has reached a significant milestone with the award of a 10 year contract to supply our polymer substrate Safeguard® for the Bank of England’s new £20 note. DLR Analytics, our cash cycle management software launched in May this year, has gained more traction. More than 60 central banks have now signed up to the pilot programme, further strengthening De La Rue’s position in the industry.

“R&D investment has increased by 33% in the first half as we continue to invest in new products and capabilities. Product Authentication grew by 20%, driven by De La Rue Authentication Solutions which is performing to plan.

“The strong revenue growth in the first half, driven by high volumes of lower margin Banknote Paper and Print orders, reflects the lumpy nature of contracts. Performance in the second half is expected to be broadly in line with the same period last year. Overall, our outlook for the year remains unchanged.”

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A conference call will take place at 9:00 am GMT on 21 November 2017, which is also accessible via webcast on www.delarue.com.

Live conference call	UK Primary: 0844 800 3850	Passcode: 658 040
	International: +44 844 800 3850	
	UK Direct: +44 (0) 20 8996 3900	

Archive conference call	UK free phone: 0800 032 9687	Passcode: 6376 4943
Available from 22 November until 29 November 2017		

For the live webcast, please register at www.delarue.com where a replay will also be available subsequently.

About De La Rue

De La Rue’s purpose is to enable every citizen to participate securely in the global economy. As a trusted partner of governments, central banks and commercial organisations, De La Rue provides products and services that underpin the integrity of trade, personal identity and the movement of goods.

As the world’s largest designer and commercial printer of banknotes, De La Rue designs, manufactures and delivers banknotes, banknote substrates and security features to customers in a world where currency will continue to be a key part of the developing payments eco-system. De La Rue is the only fully integrated supplier of both paper and polymer banknotes, and creates security features that ensure banknotes are protected against counterfeiting.

De La Rue is the world’s largest commercial designer and printer of passports, delivering national and international identity tokens and software solutions for governments in a world that is increasingly focused on the importance of a legal and secure identity for every individual.

De La Rue also creates and delivers secure product identifiers and ‘track and trace’ software for governments and commercial customers alike to help to tackle the challenge of illicit or counterfeit goods and the collection of revenue and excise duties.

De La Rue is listed on the London Stock Exchange (LSE:DLAR). For further information visit www.delarue.com

Cautionary note regarding forward-looking statements

These results include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "plans", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout these results and the information incorporated by reference into these results and include statements regarding the intentions, beliefs or current expectations of the directors, De La Rue or the Group concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of De La Rue and the industry in which it operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond De La Rue's ability to control or predict. Forward-looking statements are not guarantees of future performance. The Group's actual results of operations, financial condition, liquidity, dividend policy and the development of the industry in which it operates may differ materially from the impression created by the forward-looking statements contained in these results and/or the information incorporated by reference into these results. In addition, even if the results of operations, financial condition, liquidity and dividend policy of the Group and the development of the industry in which it operates, are consistent with the forward-looking statements contained in these results and/or the information incorporated by reference into these results, those results or developments may not be indicative of results or developments in subsequent periods.

Other than in accordance with its legal or regulatory obligations, De La Rue does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

The Group delivered strong revenue and profit growth in the first half. The strategic plan to transform the business to a technology-led security product and service provider is progressing well.

Group revenue increased by 29% to £244.7m, with good performance across all product lines. Adjusted operating profit was up 11% to £26.6m. Product mix and increased costs of raw materials such as cotton and ink put pressure on margins. There was also increased investment in R&D, product development and sales, which resulted in a lower operating margin.

Significant volume increases in both Banknote Print and Paper were the main drivers for the strong growth in Currency revenue. Momentum in Polymer continued with the award of a ten year contract to supply polymer substrate for the Bank of England's new £20 notes, a significant milestone in growing this business.

Identity Solutions (IDS) and Product Authentication & Traceability (PA&T) performed well, with revenue up 3% and 20%, respectively. Adjusted operating profit remained flat in IDS and grew 7% in PA&T as we continued to invest in product development and sales capabilities to drive future growth. We expect further investments in these two product areas in the second half.

The Group's 12 month order book was £363m (H1 2016/17: £406m) at the end of the period. The lower order book was primarily due to timing of orders, reflecting the lumpy nature of the business.

FINANCIAL RESULTS

Group revenue grew by 29% to £244.7m (H1 2016/17: £189.5m) and adjusted operating profit was up 11% at £26.6m (H1 2016/17: £24.0m). Adjusted profit before tax was 15% higher than last year at £20.9m (H1 2016/17: £18.2m). Adjusted basic earnings per share were 19% higher at 16.6p (H1 2016/17: 14.0p).

On a reported basis, operating profit was £24.6m, a 7% increase on the prior year (H1 2016/17: £23.0m). Exceptional charges were £1.8m (H1 2016/17: £1.0m) and there was £0.2m amortisation of acquired intangible assets (H1 2016/17: £nil). Profit before tax was £18.9m (H1 2016/17: £17.2m). Reported basic earnings per share were 12% higher at 14.8p (H1 2016/17: 13.2p).

Cash generated from operating activities was £10.0m (H1 2016/17: £16.7m) due to an increase in debtors because of timing of shipments. Working capital increased by £23.4m. As a result, net debt as at 30 September 2017 increased by £16.5m from the year end to £137.4m (25 March 2017: £120.9m).

STRATEGIC PROGRESS

We are half way through our five year plan and have made good progress against our strategic goals. We continue to invest in R&D, product development and sales whilst driving efficiencies in operations.

Deliver operational excellence

The project to restructure our manufacturing footprint continues into its second year and is progressing well. This programme is expected to deliver annual savings, some of which will be reinvested in R&D and product management.

Following the decommissioning of two banknote print lines in Malta and refurbishment of one line in Gateshead last year, upgrades to the remaining two lines in Kenya and Sri Lanka are now underway. In line with our strategy to create flexibility to deal with demand surges, we outsourced the printing of 110m notes during the period.

The ongoing programme to improve manufacturing efficiency is also progressing well. We have achieved higher throughput in Print, producing 7% more notes with two fewer print lines. We sold 36% more paper than the same period in the prior year.

Our view of the banknote paper market remains unchanged. We continue to engage in discussions with a view to reducing our exposure to this market.

We started to upgrade our finance systems in 2016 as part of a broader efficiency and cost saving programme. Three locations have successfully migrated to the new system with the remaining sites scheduled to migrate in the next 12 months.

Invest for growth

In order to drive growth, we continue to invest in R&D, product development and sales, focusing on areas with potential for attractive profitable growth. R&D investment increased by 33% year on year in the first half, mainly in the Invest and Growth products.

We launched the centre of excellence for security print in Malta in March 2017, with a new polycarbonate line for passport and ID. During the first half, we added a number of security label print and finishing lines, further strengthening our capability in PA&T.

We are also investing more in sales and marketing by setting up a number of regional offices and direct sales representatives. In addition to Dubai and Miami, we are opening offices in China and Kuala Lumpur and assigning sales representatives to multiple locations in Africa to be closer to our customers.

DLR Analytics™, our cash cycle management software launched in May 2017, has gained further traction. More than 60 central banks have signed up to the pilot programme. It provides intelligence and insight which help participating banks to manage their cash cycle better.

OPERATING REVIEWS

Currency

	HY 2017/18	HY 2016/17	Change
Revenue (£m)	185.3	136.4	+36%
Adjusted operating profit* (£m)	16.6	14.3	+16%
Adjusted operating margin*	9.0%	10.5%	(150bpts)
Banknote print volume (bn notes)	3.5	3.3	+6%
Banknote paper volume (tonnes)	7,200	5,300	+36%
Polymer volume (tonnes)	400	60	+570%

*Excludes exceptional item charges of £0.1m (H1 2016/17: charges of £0.1m).

The Currency business comprises Banknote Print, Banknote Paper, Polymer and Security Features.

The Currency business benefited from strong volumes, notably in Banknote Paper, which partially offset lower volumes in Security Features. Revenue grew by 36% to £185.3m (H1 2016/17: £136.4m). Increased costs of raw materials and product mix led to lower margins than prior year. Adjusted operating profit increased by 16% to £16.6m (H1 2016/17: £14.3m). Margins are expected to improve in the second half as product mix changes.

Banknote Print volume in the first half reached 3.5bn notes (H1 2016/17: 3.3bn), produced on two fewer print lines. In September, the Bank of England's new £10 note designed and printed by De La Rue successfully went into circulation.

Banknote Paper volume increased by 36% to 7,200 tonnes (H1 2016/17: 5,300 tonnes), reflecting the short term timing of contracts to be delivered. Increased cotton and raw material prices have reduced margin.

Polymer volume increased by 570% to 400 tonnes in the first half. In October, we were awarded a ten year contract to supply polymer substrate for 25% volume of the Bank of England's new £20 note due to be issued in 2020. This is for a volume of 520 tonnes over the next two years. This new win represents a significant milestone and will see our polymer substrate Safeguard® being used by one of the largest economies. We also successfully launched three new £10 polymer notes for three Scottish banks, increasing the number of denominations on Safeguard® to 28.

Security Features volumes and revenues were slightly lower due to the timing of orders. To accelerate product development, we formed a strategic partnership with security features developer and manufacturer Opalux in October 2017. This will broaden our product range by leveraging Opalux's leading technology.

At the period end the 12 month order book for Currency including estimated call-off orders for contracts was £282m (H1 2016/17: £322m).

Identity Solutions

	HY 2017/18	HY 2016/17	Change
Revenue (£m)	39.4	38.1	+3%
Adjusted operating profit* (£m)	5.4	5.4	+0%

Adjusted operating margin*	13.7%	14.2%	(50bpts)
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*Excludes exceptional items charges of £nil (H1 2016/17: £nil).

Identity Solutions revenue increased by 3% to £39.4m (H1 2016/17: £38.1m), with profit remaining flat as we continued to invest in R&D and sales to drive future growth. This trend is expected to continue in the second half of the year.

In July, we were selected by Note Printing Australia (NPA) to design and develop Australia's next generation passport. This new contract requires the integrated design of our new polycarbonate product with security features.

Our ten year contract with HMPO to produce the UK passport expires in 2019. The contract was put out to tender by HMPO earlier this year. We have submitted our bid and the outcome is expected to be announced in the first half of 2018.

Product Authentication & Traceability

	HY 2017/18	HY 2016/17	Change
Revenue (£m)	20.2	16.9	+20%
Adjusted operating profit* (£m)	4.6	4.3	+7%
Adjusted operating margin*	22.8%	25.4%	(260bpts)

*Excludes exceptional items charges of £0.4m (H1 2016/17: £nil) and amortisation of acquired intangible assets of £0.2m (H1 2016/17: £1.1m).

Product Authentication & Traceability (PA&T) performed well in the first half. Revenue increased by 20% to £20.2m (H1 2016/17: £16.9m), driven by De La Rue Authentication Solutions (DAS, previously DuPont Authentication). Adjusted operating profit in the period was up 7% to £4.6m (H1 2016/17: £4.3m) as we continued to invest in R&D and sales to drive future growth. We will continue to increase investment in the second half.

De La Rue Authentication Solutions is performing to plan.

FINANCE CHARGE

The Group's net interest charge was £2.5m (H1 2016/17: £2.2m). The IAS 19 related finance cost, which represents the difference between the interest on pension liabilities and assets was £3.2m (H1 2016/17: £3.6m).

EXCEPTIONAL ITEMS

Exceptional charges amounted to £1.8m (H1 2016/17: £1.0m), comprising £0.8m relating to the manufacturing footprint restructuring programme and £1.0m relating to the finance system upgrade programme.

TAXATION

The net tax charge for the year was £3.3m (H1 2016/17: £2.9m). The effective tax rate before exceptional items was 15.9% (H1 2016/17: 15.8%).

Net tax credits relating to exceptional items, on continuing operations, arising in the period were £0.2m (H1 2016/17 £0.2m).

CASH FLOW AND BORROWING

Cash generated from operating activities, which includes discontinued operations, was 40% lower at £10.0m (2016/17: £16.7m) due to an increase in working capital of £23.4m as a result of higher revenue and the timing of shipments towards the end of the period. Cash generated from operating activities also includes approximately £1.0m of payments in relation to exceptional items (the net cash cost of exceptional items in 2016/17 was £2.4m).

Capital expenditure for the half year was £5.9m (H1 2016/17: £6.3m). Capital expenditure for the full year is expected to be c£30m.

Net debt increased by £16.5m to £137.4m from the year end (25 March 2017: £120.9m), as cash generated from operating activities was more than offset by dividend payments of £17.0m, capital expenditure of £5.9m, tax payments of £5.5m and interest and facility fee payments of £3.8m.

The Group increased its revolving credit facility from £250m to £275m with the introduction of a new lending bank. The facility expires in December 2021. At the period end the specific covenant tests were as follows: EBIT/net interest payable of 15.3 times, net debt/EBITDA of 1.37 times.

PENSION DEFICIT AND FUNDING

The valuation of the Group's UK defined benefit pension scheme (the "Scheme") under IAS 19 indicates a post-tax deficit at 30 September 2017 of £157.1m (25 March 2017: £196.7m). On a pre-tax basis the net pension deficit was £189.1m (25 March 2017: £237.0m). The decrease was primarily due to revisions in the long term inflation rate and demographic assumptions, which were partly offset by the decrease in discount rate.

The charge to operating profit in respect of the Scheme in the first half was £1.1m (H1 2016/17: £0.6m). In addition, under IAS 19 there was a finance charge of £3.2m arising from the difference between the interest cost on liabilities and the interest income on scheme assets (H1 2016/17: £3.6m).

A change from RPI to CPI indexation in the calculation of future increases for the Scheme, effective from April 2018, was announced today. This change is expected to reduce the Scheme's liabilities and corresponding deficit by approximately £70m on an accounting basis, which will be reflected in the 2017/18 full year financial accounts.

The funding plan agreed in June 2016 to eliminate the deficit will remain in place until the conclusion of the next triennial review commencing in April 2018.

Year ended 31 March	2018	2019	2020	2021	2022	2023-2028
Annual cash contribution (£m)	13.5	20.5	21.3	22.2	23.1	23.0 p.a.

SENIOR MANAGEMENT CHANGES

On 19 June 2017, Bryan Gray was appointed Chief Operating Officer, replacing Rupert Middleton who stepped down on 20 July 2017. He is responsible for the operations of all De La Rue's manufacturing facilities. Bryan joined from Johnson Controls International, where he was the Group Vice President for Europe. He brings with him over 20 years' international experience in manufacturing, with a focus on the automotive sector.

DIVIDEND

The Board proposes to leave the dividend unchanged and is recommending an interim dividend of 8.3p per share. The interim dividend will be paid on 3 January 2018 to shareholders on the register on 8 December 2017.

OUTLOOK

The strong revenue growth in the first half, driven by high volumes of lower margin Banknote Paper and Print orders, reflects the lumpy nature of contracts. Performance in the second half is expected to be broadly in line with the same period last year. Overall, our outlook for the year remains unchanged.

- ends -

Martin Sutherland
Chief Executive Officer

Jitesh Sodha
Chief Financial Officer

21 November 2017

DIRECTORS REPORT

Principal risks and uncertainties

Throughout its global operations De La Rue faces various risks, both internal and external, which could have a material impact on the Group's performance. The Group manages the risks inherent in its operations in order to mitigate exposure to all forms of risks, where practical, and to transfer risk to insurers, where cost effective.

The Group analyses the risks that it faces under the following broad headings: strategic risks (technological revolution, strategy implementation, changes to the market environment and economic conditions), operational risks, legal/ regulatory, information risks and financial risks (currency risk, credit risk, liquidity risk, interest rate risk and commodity price risk).

As described in the 2017 Annual Report, the principal risks include breach of legal and regulatory requirements, failure to win or renew a material contract, pension fund deficit, failure to maintain and exploit competitive and technologically advanced products and services, failure to adopt performance driven culture, failure to secure strategic partnerships to address key issues, information security risk, loss of a key site, health safety or environmental failure, quality management failure, supply chain failure, and unpredictability in the timing and size of substantial contract awards. These risks, along with the risk management systems and processes used to manage them remain unchanged since the Annual Report was published.

The main risks and uncertainties faced by the Group for the remaining six months of the year and the risk management systems and processes used to manage them are unchanged from those described further in the 2017 Annual Report, a copy of which is available on request from the Company's registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 4 to 21 of the strategic report in the 2017 Annual Report. In addition, pages 107 to 109 of the 2017 Annual Report 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 liquidity position and borrowing facilities are described on page 39 of the 2017 Annual Report. As described on page 39 of the 2017 Annual 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 updated forecasts and projections, which cover a period of more than twelve months from the date of the interim statement, 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 condensed interim financial statements

A copy of the 2017 Annual Report is available at www.delarue.com or on request from the Company's registered office at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire, RG22 4BS.

Statement of Directors' responsibilities

The Interim Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the Disclosure and Transparency Rules ("DTR") of the United Kingdom's Financial Conduct Authority ("FCA").

The DTR require that the accounting policies and presentation applied to the half yearly figures must be consistent with those applied in the latest published annual accounts, except where the accounting policies and presentation are to be changed in the subsequent annual accounts, in which case the new accounting policies and presentation should be followed, and the changes and the reasons for the changes should be disclosed in the Interim report, unless the United Kingdom's FCA agrees otherwise.

The Directors confirm that to the best of their knowledge the condensed set of financial statements, which have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group, as required by DTR 4.2.2 and in particular include a fair review of:

- the important events that have occurred during the first six months of the financial year and their impact on the interim condensed consolidated set of financial statements as required by DTR 4.2.7R;
- the principal risks and uncertainties for the remaining half of the year as required by DTR 4.2.7R; and
- related party transactions that have taken place in the first half of the current financial year and changes in the related party transactions described in the previous annual report that have materially affected the financial position or performance of the Group during the first half of the current financial year as required by DTR 4.2.8R.

The Board

The Board of Directors of De La Rue plc at 25 March 2017 and their respective responsibilities can be found on pages 50 and 73 of the De La Rue plc Annual Report 2017. Since that date the following changes have taken place:

- 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

For and on behalf of the Board

Philip Rogerson
Chairman
21 November 2017

INDEPENDENT REVIEW REPORT TO DE LA RUE PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the period ending 30 September 2017 which comprises the Group condensed consolidated interim income statement, the Group condensed consolidated interim statement of comprehensive income, the Group condensed consolidated interim balance sheet, the Group condensed consolidated interim statement of cash flows, the Group condensed consolidated interim statement of changes in equity and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the period ending 30 September 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Reading, UK
21 November 2017

**GROUP CONDENSED CONSOLIDATED INTERIM
INCOME STATEMENT - UNAUDITED
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2017**

		2017/18 Half Year	2016/17 Half Year	2016/17 Full Year
	Notes	£m	£m	£m
Revenue	2	244.7	189.5	461.7
Operating expenses - ordinary		(218.3)	(165.5)	(391.1)
Operating (expenses)/income - exceptional	4	(1.8)	(1.0)	(0.4)
Total operating expenses		(220.1)	(166.5)	(391.5)
Operating profit		24.6	23.0	70.2
Comprising:				
Adjusted operating profit	2	26.6	24.0	70.7
Amortisation of acquired intangible assets		(0.2)	-	(0.1)
Exceptional items	4	(1.8)	(1.0)	(0.4)
Profit before interest and taxation		24.6	23.0	70.2
Interest income		-	-	-
Interest expense		(2.5)	(2.2)	(4.6)
Net retirement benefit obligation finance cost		(3.2)	(3.6)	(7.4)
Net finance expense		(5.7)	(5.8)	(12.0)
Profit before taxation		18.9	17.2	58.2
Comprising:				
Adjusted profit before tax		20.9	18.2	58.7
Amortisation of acquired intangible assets		(0.2)	-	(0.1)
Exceptional items	4	(1.8)	(1.0)	(0.4)
Taxation - UK		(1.8)	(1.0)	(6.3)
- Overseas		(1.3)	(1.7)	(2.4)
Total taxation		(3.1)	(2.7)	(8.7)
Profit for the period from continuing operations		15.8	14.5	49.5
Comprising:				
Adjusted profit for the period		17.6	15.3	49.4
Amortisation of acquired intangible assets		(0.2)	-	(0.1)
Expense from the period on exceptional items – net of tax	4	(1.6)	(0.8)	0.2
Loss from discontinued operations	3	(0.4)	(6.2)	(8.0)
Profit for the period		15.4	8.3	41.5
Profit attributed to equity shareholders of the company				
Profit for the period from continuing operations		15.1	13.4	47.9
Loss for the period from discontinued operations		(0.4)	(6.2)	(8.0)
Total profit attributable to equity shareholders of the company		14.7	7.2	39.9
Profit attributed to non-controlling interests				
Profit for the period from continuing operations		0.7	1.1	1.6
Total profit attributable to non-controlling interests		0.7	1.1	1.6
Profit for the period		15.4	8.3	41.5
Profit for the period attributable to the Company's equity holders				
Earnings per ordinary share				
Basic				
Basic EPS continuing operations		14.8p	13.2p	47.2p
Basic EPS discontinued operations		(0.4p)	(6.1p)	(7.9p)
Total Basic Earnings per share		14.4p	7.1p	39.3p
Diluted				
Diluted EPS continuing operations		14.7p	12.9p	46.6p
Diluted EPS discontinued operations		(0.4p)	(6.0p)	(7.8p)
Total Diluted Earnings per share		14.3p	6.9p	38.8p

**GROUP CONDENSED CONSOLIDATED INTERIM
STATEMENT OF COMPREHENSIVE (LOSS)/INCOME - UNAUDITED
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2017**

	2017/18 Half Year £m	2016/17 Half Year £m	2016/17 Full Year £m
Profit for the financial period	15.4	8.3	41.5
Other comprehensive income			
Items that are not reclassified subsequently to income statement:			
Re-measurement gains/(losses) on retirement benefit obligations	47.7	(141.0)	(25.2)
Tax related to remeasurement of net defined benefit liability	(8.2)	21.8	2.3
Items that may be reclassified subsequently to income statement:			
Foreign currency translation difference for foreign operations	1.1	(4.6)	2.6
Foreign currency translation recycled on disposal of discontinued operations	-	4.5	-
Change in fair value of cash flow hedges	(1.3)	7.1	7.8
Change in fair value of cash flow hedges transferred to income statement	(2.6)	(3.2)	(8.0)
Change in fair value of cash flow hedges transferred to non-current assets	0.1	(0.3)	(0.2)
Income tax relating to components of other comprehensive income	0.6	1.6	0.2
Other comprehensive (loss)/income for the period, net of tax	37.4	(114.1)	(20.5)
Total comprehensive (loss)/income for the period	52.8	(105.8)	21.0
Total comprehensive income for the period attributable to:			
Equity shareholders of the Company	52.1	(106.9)	19.4
Non-controlling interests	0.7	1.1	1.6
	52.8	(105.8)	21.0

**GROUP CONDENSED CONSOLIDATED INTERIM
BALANCE SHEET - UNAUDITED
AT 30 SEPTEMBER 2017**

	Notes	2017/18 Half Year £m	2016/17 Half Year £m	2016/17 Full Year £m
ASSETS				
Non-current assets				
Property, plant and equipment		164.5	162.7	167.2
Intangible assets		28.1	14.4	30.9
Investments in associates		0.1	0.1	0.1
Deferred tax assets		36.3	67.9	43.7
Derivative financial instruments	8	0.2	0.6	0.6
		229.2	245.7	242.5
Current assets				
Inventories		73.2	75.2	67.8
Trade and other receivables		133.9	91.1	109.7
Current tax assets		-	0.2	-
Derivative financial instruments	8	7.6	31.0	15.3
Cash and cash equivalents		9.0	11.6	15.4
		223.7	209.1	208.2
Total assets		452.9	454.8	450.7
LIABILITIES				
Current Liabilities				
Borrowings		(144.7)	(127.1)	(136.3)
Trade and other payables		(181.6)	(163.0)	(175.1)
Current tax liabilities		(17.0)	(20.9)	(19.6)
Derivative financial instruments	8	(6.2)	(22.6)	(7.7)
Provisions for liabilities and charges		(11.8)	(14.7)	(10.4)
		(361.3)	(348.3)	(349.1)
Non-current liabilities				
Retirement benefit obligations	10	(191.4)	(361.1)	(239.4)
Deferred tax liabilities		(4.9)	(2.9)	(4.9)
Derivative financial instruments	8	(0.1)	(1.0)	(0.6)
Provisions for liabilities and charges		(1.3)	(1.8)	(2.0)
Other non-current liabilities		(3.7)	(7.0)	(1.3)
		(201.4)	(373.8)	(248.2)
Total liabilities		(562.7)	(722.1)	(597.3)
Net liabilities		(109.8)	(267.3)	(146.6)
EQUITY				
Ordinary share capital		46.9	46.7	46.8
Share premium account		36.8	36.6	36.7
Capital redemption reserve		5.9	5.9	5.9
Hedge reserve	8	(1.2)	5.3	2.0
Cumulative translation adjustment		(8.6)	(12.4)	(9.7)
Other reserves		(83.8)	(83.8)	(83.8)
Retained earnings		(114.4)	(273.0)	(152.4)
Total equity attributable to shareholders of the Company		(118.4)	(274.7)	(154.5)
Non-controlling interests		8.6	7.4	7.9
Total equity		(109.8)	(267.3)	(146.6)

**GROUP CONDENSED CONSOLIDATED INTERIM
STATEMENT OF CASH FLOWS – UNAUDITED
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2017**

		2017/18	2016/17	2016/17
		Half Year	Half Year	Full Year
	Notes	£m	£m	£m
Cash flows from operating activities				
Profit before tax*		18.5	11.8	51.8
Adjustments for:				
Finance income and expense		5.7	5.8	12.0
Depreciation		11.9	12.0	24.3
Amortisation		1.5	1.5	2.5
(Increase)/decrease in inventories		(5.6)	(6.6)	3.4
(Increase) in trade and other receivables		(26.1)	(2.5)	(4.6)
Increase/(decrease) in trade and other payables		7.5	(1.8)	(11.9)
(Decrease) in reorganisation provisions		0.8	(0.9)	(3.6)
Special pension fund contribution		(4.2)	(4.2)	(14.6)
Loss on disposal of property, plant and equipment and software intangibles		-	0.8	1.4
Loss on disposal of discontinued operations		-	-	4.1
Other non-cash movements		-	0.8	(0.5)
Cash generated from operations		10.0	16.7	64.3
Tax paid		(5.5)	(0.8)	(5.7)
Net cash flows from operating activities		4.5	15.9	58.6
Cash flows from investing activities				
Proceeds from sale of discontinued operation		1.6	2.1	2.1
Transaction costs relating to the sale of discontinued operations		-	-	(2.5)
Purchases of property, plant and equipment and software intangibles		(5.9)	(6.3)	(24.0)
Advanced payment – non trading		5.0	-	-
Development expenditure capitalised		-	(2.5)	(2.1)
Proceeds from sale of property, plant and equipment		-	-	0.2
Acquisition of subsidiary		(1.0)	-	(17.9)
Net cash flows from investing activities		(0.3)	(6.7)	(44.2)
Net cash flows before financing activities		4.2	9.2	14.4
Cash flows from financing activities				
Proceeds from issue of share capital		0.2	1.0	1.2
Net drawdown/(repayment) of borrowings		14.0	(17.3)	(12.4)
Payment of facility fees		(1.1)	-	-
Interest paid		(2.7)	(2.0)	(4.2)
Dividends paid to shareholders		(17.0)	(16.9)	(25.4)
Dividends paid to non-controlling interests		-	(0.3)	(0.3)
Net cash flows from financing activities		(6.6)	(35.5)	(41.1)
Net (decrease)/increase in cash and cash equivalents in the period		(2.4)	(26.3)	(26.7)
Cash and cash equivalents at the beginning of the period		11.2	37.9	37.9
Exchange rate effects		(0.1)	(0.1)	-
Cash and cash equivalents at the end of the period	9	8.7	11.5	11.2
Cash and cash equivalents consist of:				
Cash at bank and in hand		9.0	9.4	13.2
Short term deposits	4	-	2.2	2.2
Bank overdrafts		(0.3)	(0.1)	(4.2)
	9	8.7	11.5	11.2

*Profit before tax includes continuing and discontinued operations. The cash flows relating to discontinued operations are included within Note 3

**GROUP CONDENSED CONSOLIDATED INTERIM
STATEMENT OF CHANGES IN EQUITY - UNAUDITED
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2017**

	Attributable to equity shareholders							Non- controlling interest	Total equity
	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Cumulative translation adjustment £m	Other reserve £m	Retained earnings £m	£m	£m
Balance at 28 March 2016	46.6	35.7	5.9	2.3	(12.3)	(83.8)	(146.6)	6.6	(145.6)
Profit for the period	-	-	-	-	-	-	7.2	1.1	8.3
Other comprehensive income, net of tax	-	-	-	3.0	(0.1)	-	(117.0)	-	(114.1)
Total comprehensive income	-	-	-	3.0	(0.1)	-	(109.8)	1.1	(105.8)
Transactions with owners of the company recognised directly in equity:									
Share capital issued	0.1	0.9	-	-	-	-	-	-	1.0
Employee share scheme: - value of services provided	-	-	-	-	-	-	(0.5)	-	(0.5)
Income tax on income and expenses recognised directly in equity	-	-	-	-	-	-	0.8	-	0.8
Dividends paid	-	-	-	-	-	-	(16.9)	(0.3)	(17.2)
Balance at 24 September 2016	46.7	36.6	5.9	5.3	(12.4)	(83.8)	(273.0)	7.4	(267.3)
Profit for the period	-	-	-	-	-	-	32.7	0.5	33.2
Other comprehensive income, net of tax	-	-	-	(3.3)	2.7	-	94.2	-	93.6
Total comprehensive income	-	-	-	(3.3)	2.7	-	126.9	0.5	126.8
Transactions with owners of the company recognised directly in equity:									
Share capital issued	0.1	0.1	-	-	-	-	-	-	0.2
Employee share scheme: - value of services provided	-	-	-	-	-	-	2.0	-	2.0
Income tax on income and expenses recognised directly in equity	-	-	-	-	-	-	0.2	-	0.2
Dividends paid	-	-	-	-	-	-	(8.5)	-	(8.5)
Balance at 25 March 2017	46.8	36.7	5.9	2.0	(9.7)	(83.8)	(152.4)	7.9	(146.6)
Profit for the period	-	-	-	-	-	-	14.7	0.7	15.4
Other comprehensive income, net of tax	-	-	-	(3.2)	1.1	-	39.5	-	37.4
Total comprehensive income	-	-	-	(3.2)	1.1	-	54.2	0.7	52.8
Transactions with owners of the company recognised directly in equity:									
Share capital issued	0.1	0.1	-	-	-	-	-	-	0.2
Employee share scheme: - value of services provided	-	-	-	-	-	-	0.9	-	0.9
Income tax on income and expenses recognised directly in equity	-	-	-	-	-	-	(0.1)	-	(0.1)
Dividends paid	-	-	-	-	-	-	(17.0)	-	(17.0)
Balance at 30 September 2017	46.9	36.8	5.9	(1.2)	(8.6)	(83.8)	(114.4)	8.6	(109.8)

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, the 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

1 *Statement of compliance*

These consolidated financial statements have been prepared on the going concern basis and using the historical cost convention, modified for certain items carried at fair value, as stated in the Group's accounting policies.

The financial information set out above does not constitute the Group's statutory accounts for the periods ended 30 September 2017 or 24 September 2016. The financial information for the period ended 30 September 2017 is derived from the statutory accounts for the period ended 30 September 2017 which will be delivered to the registrar of companies. The auditor has reported on the accounts for the period ended 25 March 2017; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Significant accounting policies

The preliminary announcement for the period ended 30 September 2017 has been prepared consistently with International Accounting Standards and International Financial Reporting Standards (collectively "IFRS") as adopted by the European Union (EU) at 30 September 2017. Details of the accounting policies applied are those set out in De La Rue plc's annual report 2017.

In applying the accounting policies, management has made appropriate estimates in many areas, and the actual outcome may differ from those calculated. The key sources of estimation uncertainty at the balance sheet date were the same as those that applied to the consolidated financial statements of the Group for the period ended 30 September 2017.

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.

Forthcoming accounting standards

IFRS 15 "Revenue from Contracts with Customers" will be effective for accounting periods beginning on or after 1 January 2018 (year-ended 31 March 2019 for De La Rue). It supersedes IAS 18 "Revenue" and establishes a principles-based approach to revenue recognition and measurement based on the concept of recognizing revenue when performance obligations are satisfied. The Group has an ongoing project to assess the impact to its financial statements. This project involves reviews of the Group's key contracts and the use of questionnaires and detailed contract discussions with finance and business teams to identify the most likely areas of change across the Group's segments and different revenue streams. Based on the Group's preliminary assessment from work performed to date, the Group believes that areas such as multiple element arrangements and non valued performance obligations in certain contracts, are areas where there is an anticipated impact from IFRS 15. Once this diagnostic phase is complete, any relevant transition differences will be calculated and transitional disclosures drafted. Detailed quantitative analysis of any impact will be provided in the 2017/18 annual report.

IFRS 16 Leases was issued by the IASB in January 2016 (effective for the year ending 28 March 2020) replaces IAS 17. Under the new standard all 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 continues to assess the impact of the new standard.

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 continues to assess the impact of the new standard.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

2 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, measured on an IFRS basis.

The Group's segments are:

- Currency – provides printed banknotes, banknote paper and polymer substrates and banknote security features
- Identity Solutions – involved in the provision of passport, ePassport, national ID and eID, driving licence and voter registration schemes
- Product Authentication and Traceability – 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 Decision Maker has started reviewing information including its numbers 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 since the Full Year 2016/17 between the IDS and PA&T segment. The Half Year 2016/17 figures have also been adjusted for comparability.

Prior to restatement amounts reported in Half Year 2016/17 were as follows: Identity Systems: Revenue (£33.5m), Operating profit (£3.4m), Assets (£35.8m) and Liabilities (£25.8m). Product Authentication and Traceability: Revenue (£21.5m), Operating profit (£6.3m), Assets (£22.3m) and Liabilities (£9.6m). All other amounts are as originally reported.

Analysis by operating segment

	2017/18 Half Year £m	2016/17 Restated Half Year £m	2016/17 Full Year £m
Revenue by operating segment			
Currency	185.3	136.4	350.6
Identity Solutions	39.4	38.1	80.6
Product Authentication and Traceability	20.2	16.9	34.6
Eliminations	(0.2)	(1.9)	(4.1)
Total of Continuing operations	244.7	189.5	461.7
Discontinued operations	-	4.9	4.9
Unallocated – discontinued operations	-	-	-
	244.7	194.4	466.6

Operating profit by operating segment

Currency	16.6	14.3	50.3
Identity Solutions	5.4	5.4	11.4
Product Authentication and Traceability	4.6	4.3	9.0
Adjusted operating profit	26.6	24.0	70.7
Discontinued operations	(0.4)	(2.3)	(2.3)
Adjusted operating profit (before exceptional items)	26.2	21.7	68.4
Exceptional items - Currency	(0.1)	0.1	1.9
Exceptional items - Identity Solutions	-	-	-
Exceptional items - Product Authentication and Traceability	(0.4)	-	(0.9)
Exceptional items – Discontinued operations	-	(3.1)	(4.1)
Exceptional items – unallocated	(1.3)	(1.1)	(1.4)
Amortisation of acquired intangibles	(0.2)	-	(0.1)
Operating profit	24.2	17.6	63.8
Net finance expense	(2.5)	(2.2)	(4.6)
Retirement benefit obligations net finance expense	(3.2)	(3.6)	(7.4)
Profit before taxation	18.5	11.8	51.8

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

Analysis by operating segment (continued)			
	2017/18	2016/17	2016/17
	Half Year	Restated Half Year	Full Year
	£m	£m	£m
Assets by operating segment			
Currency	256.8	240.0	243.4
Identity Solutions	48.3	40.3	46.3
Product Authentication and Traceability	24.8	17.8	23.1
Unallocated assets	123.0	156.7	137.9
Total Continuing operations	452.9	454.8	450.7
Discontinued operations	-	-	-
	452.9	454.8	450.7
Liabilities by operating segment			
Currency	(109.6)	(123.4)	(113.0)
Identity Solutions	(37.4)	(27.4)	(30.3)
Product Authentication and Traceability	(9.6)	(8.0)	(10.4)
Unallocated liabilities	(406.1)	(563.3)	(443.6)
Total Continuing operations	(562.7)	(722.1)	(597.3)
Discontinued operations	-	-	-
	(562.7)	(722.1)	(597.3)

3 Discontinued operations

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. During the half year 2017/18 a contingent consideration payment of £0.8m has been received which was payable on the first anniversary of the transaction in addition to £0.8m relating to a closing working capital adjustment. A further contingent consideration amount of £0.8m is payable on the second anniversary of the transaction. The Group is entitled to further contingent consideration following the sale of up to £6m if certain performance related and event driven milestones are achieved by CPS.

The loss in the period from discontinued operations relates to remaining costs associated with the closure of the business.

No pension liability was transferred as part of the disposal.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

3 Discontinued operations (continued)

Results of the discontinued operation:

		2017/18 Half Year	2016/17 Half Year	2016/17 Full Year
		£m	£m	£m
Revenue	2	-	4.9	4.9
Operating expenses - ordinary		(0.4)	(7.2)	(7.2)
Operating expenses - exceptional		-	(3.1)	(4.1)
Total operating expenses		(0.4)	(10.3)	(11.3)
Operating loss		(0.4)	(5.4)	(6.4)
Comprising:				
Adjusted operating profit	2	(0.4)	(2.3)	(2.3)
Exceptional items		-	(3.1)	(4.1)
Loss before interest and taxation		(0.4)	(5.4)	(6.4)
Interest income		-	-	-
Interest expense		-	-	-
Net finance expense		-	-	-
Loss before taxation		(0.4)	(5.4)	(6.4)
Comprising:				
Adjusted profit before tax		(0.4)	(2.3)	(2.3)
Exceptional items		-	(3.1)	(4.1)
Taxation		-	(0.8)	(1.6)
Loss for the period from discontinued operations		(0.4)	(6.2)	(8.0)
Comprising:				
Adjusted profit for the period		(0.4)	(2.3)	(2.2)
Loss for the period on exceptional items		-	(3.9)	(5.8)

Cash flows from discontinued operations

	2017/18 Half Year	2016/17 Half Year	2016/17 Full Year
	£m	£m	£m
Net cash from/(used in) operating activities	(0.4)	5.1	5.1
Net cash used in investing activities	1.6	-	-
Net cash used in financing activities	-	(0.1)	(0.1)
Net cash from/(used in) discontinued operations	1.2	5.0	5.0

Exceptional items on discontinued operations

	2017/18 Half Year	2016/17 Half Year	2016/17 Full Year
	£m	£m	£m
Loss on disposal of discontinued operations	-	(3.1)	(4.1)
Total exceptional items	-	(3.1)	(4.1)
Exceptional items – tax (charge)/credit	-	(0.8)	(1.7)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

4 Exceptional Items

	2017/18 Half Year £m	2016/17 Half Year £m	2016/17 Full Year £m
Site relocation and restructuring	(1.8)	(1.6)	(0.2)
Warranty provisions	-	0.5	0.5
Sale of land	-	0.1	0.2
Asset impairment	-	-	-
Acquisition related	-	-	(0.9)
Total exceptional items	(1.8)	(1.0)	(0.4)
Exceptional items – tax credit	0.2	0.2	0.6

Site relocation and restructuring costs

Net exceptional charge in the period was £1.8m (H1 2016/17: £1.0m charge, Full Year 2016/17: £0.4m charge) and related to restructuring costs as part of the continuing redesign of the organisational structure, including investment on our finance system upgrade, and the optimisation of our manufacturing capabilities.

Warranty provisions

Surplus warranty provisions were credited to exceptional items in Half Year 2016/17 and Full Year 2016/17 of £0.5m in each period consistent with where the cost of the original provisions was recorded in the financial statements. No such releases have been made in Half Year 2017/18.

Sale of land

The gains on land sales in Half Year 2016/17 and Full Year 2016/17 relate to several individual small land sales. No such sales have been made in Half Year 2017/18.

Tax credit on exceptionals

Tax credit relating to exceptional items arising in the period were £0.2m (H1 2016/17: £0.2m, Full Year 2016/17: £0.6m).

Net cash cost of exceptionals

The cash cost of exceptional items in the period was £1.0m (H1 2016/17: £2.4m) predominantly reflecting site relocation and restructuring costs from the current and prior periods.

5 Taxation

A tax charge of 15.9% (H1 2016/17: 15.8%, Full Year 2016/17: 15.8%) has been provided based on management's best estimate of the effective rate of tax for the year arising on the profits before exceptional items giving rise to tax for the period of £3.3m. This is offset by tax credits of £0.2m on exceptional items recognised in the period as described in note 4, resulting in an overall tax charge for the period of £3.1m.

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) were substantively enacted as at 6 September 2016. This will reduce the company's future current tax charge accordingly. The UK deferred tax asset at 30 September 2017 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

6 Earnings per share

	2017/18 Half Year pence per share	2016/17 Half Year pence per share	2016/17 Full Year pence per share
Earnings per share			
Basic earnings per share from continuing operations	14.8	13.2	47.2
Diluted earnings per share from continuing operations	14.7	12.9	46.6
Basic earnings per share from discontinued operations	(0.4)	(6.1)	(7.9)
Diluted earnings per share from discontinued operations	(0.4)	(6.0)	(7.8)
Basic earnings per share	14.4	7.1	39.3
Diluted earnings per share	14.3	6.9	38.8
Adjusted earnings per share			
Basic earnings per share from continuing operations	16.6	14.0	47.1
Diluted earnings per share from continuing operations	16.4	13.7	46.5
Basic earnings per share from discontinued operations	(0.4)	(2.3)	(2.3)
Diluted earnings per share from discontinued operations	(0.4)	(2.2)	(2.2)
Basic earnings per share	16.2	11.7	44.8
Diluted earnings per share	16.0	11.5	44.3

Earnings per share are based on the profit for the period attributable to equity shareholders as shown in the Group condensed consolidated income statement. The weighted average number of ordinary shares used in the calculations is 101,839,970 (H1 2016/17: 101,462,770; FY 2016/17: 101,582,354) for basic earnings per share and 102,883,099 (H1 2016/17: 103,725,369; FY 2016/17: 102,829,946) for diluted earnings per share after adjusting for dilutive share options.

The Directors are of the opinion that the publication of the adjusted earnings per share is useful as it gives a better indication of adjusted business performance.

Reconciliations of the earnings used in the calculations are set out below.

	2017/18 Half Year £m	2016/17 Half Year £m	2016/17 Full Year £m
Earnings for basic earnings per share – continuing operations	15.1	13.4	47.9
Earnings for basic earnings per share - discontinued operations	(0.4)	(6.2)	(8.0)
Earnings for basic earnings per share	14.7	7.2	39.9
Add: Amortisation of acquired intangibles	0.2	-	0.1
Add: Exceptional items (excluding non-controlling interests)	1.8	4.1	4.4
Less: Tax on exceptional items	(0.2)	0.6	1.1
Earnings for adjusted earnings per share	16.5	11.9	45.5

7 Equity dividends

	2017/18 Half Year £m	2016/17 Half Year £m	2016/17 Full Year £m
Final dividend for the year ended 26 March 2016 of 16.7p paid on 3 August 2016	-	16.9	16.9
Interim dividend for the period ended 24 September 2016 of 8.3p paid on 11 January 2017	-	-	8.5
Final dividend for the year ended 25 March 2017 of 16.7p paid on 30 June 2017	17.0	-	-
	17.0	16.9	25.4

The Directors declared a dividend of 8.3p per share for the half year ended 30 September 2017 which will be paid on 3 January 2018 and will utilise £8.5m of shareholders' funds.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

8 Financial Instruments Carrying amounts versus the fair value

	Total fair value Sep 2017 £m	Carrying amount Sep 2017 £m	Restated total fair value Mar 2017 £m	Restated carrying amount Mar 2017 £m
Financial assets				
Trade and other receivables ¹	120.5	120.5	102.6	102.6
Cash and cash equivalents	9.0	9.0	15.4	15.4
Derivative financial instruments:				
- Forward exchange contracts designated as cash flow hedges ³	1.6	1.6	4.5	4.5
- Short duration swap contracts designated as fair value hedges ³	0.2	0.2	0.2	0.2
- Foreign exchange fair value hedges - other economic hedges ³	1.9	1.9	0.9	0.9
- Embedded derivatives ³	4.1	4.1	10.3	10.3
- Interest rate swaps ³	-	-	-	-
Total financial assets	137.3	137.3	133.9	133.9
Financial liabilities				
Unsecured bank loans and overdraft	(146.4)	(146.4)	(136.3)	(136.3)
Trade and other payables ²	(168.3)	(168.3)	(174.7)	(174.7)
Derivative financial instruments:				
- Forward exchange contracts designated as cash flow hedges ³	(2.9)	(2.9)	(1.6)	(1.6)
- Short duration swap contracts designated as fair value hedges ³	(0.1)	(0.1)	(0.1)	(0.1)
- Foreign exchange fair value hedges - other economic hedges ³	(2.3)	(2.3)	(5.5)	(5.5)
- Embedded derivatives ³	(0.9)	(0.9)	(0.7)	(0.7)
- Interest rate swaps ³	(0.1)	(0.1)	(0.4)	(0.4)
Total financial liabilities	(321.0)	(321.0)	(319.3)	(319.3)

(1) Excludes prepayments

(2) Excludes deferred income. The prior period comparatives have been restated to include accrued expenses, and payments received on account

(3) Level 2 valuation

Fair Value measurement for derivative financial instruments

Fair value is calculated based on the future principal and interest cash flows, discontinued at the market rate of interest at the reporting date. The valuation bases are classified according to the degree of estimation according to the degree of estimation required in arriving at the fair values. Level 1 valuation 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.

9 Analysis of net debt

	2017/18 Half Year £m	2016/17 Half Year £m	2016/17 Full Year £m
Cash at bank and in hand	9.0	9.4	13.2
Short term bank deposits	-	2.2	2.2
Bank overdrafts	(0.3)	(0.1)	(4.2)
Cash and cash equivalents	8.7	11.5	11.2
Other debt due within one year	(146.1)	(127.0)	(132.1)
Net debt at end of period	(137.4)	(115.5)	(120.9)

The Group has a revolving credit facility of £275m. As the draw downs on this facility are typically rolled over on terms of between one and three months the borrowings are disclosed as a current liability. This is notwithstanding the long term nature of this facility which expires in December 2021.

As at 30 September 2017, the Group has a total of undrawn committed borrowing facilities, all maturing in more than one year, of £129m (24 September 2016: £123m, 25 March 2017: £118m, all maturing in more than one year). The amount of loans drawn on the £275m facility is £146m.

Net debt above is presented excluding unamortised pre-paid borrowing fees of £1.7m.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

10 Retirement benefit obligations

The Group has pension plans, devised in accordance with local conditions and practices in the country concerned, covering the majority of employees. The assets of the Group's plans are generally held in separately administered trusts or are insured.

	2017/18 Half Year £m	2016/17 Half Year £m	2016/17 Full Year £m
UK retirement benefit obligations	(189.1)	(358.7)	(237.0)
Overseas retirement benefit obligations	(2.3)	(2.4)	(2.4)
Retirement benefit obligations	(191.4)	(361.1)	(239.4)

The majority of the Group's retirement benefit obligations are in the UK:

Amounts recognised in the consolidated Balance Sheet:

Fair value of plan assets	964.7	1,007.8	974.5
Present value of funded obligations	(1,147.2)	(1,357.9)	(1,204.7)
Funded defined benefit pension plans	(182.5)	(350.1)	(230.2)
Present value of unfunded obligations	(6.6)	(8.6)	(6.8)
Net liability	(189.1)	(358.7)	(237.0)

Amounts recognised in the consolidated Income Statement:

Included in employee benefits expense:

Administrative expenses	(1.1)	(0.6)	(1.5)
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Included in net finance cost:

Net retirement benefit obligation finance cost	(3.2)	(3.6)	(7.4)
Total recognised in the consolidated Income Statement	(4.3)	(4.2)	(8.9)

Principal actuarial assumptions:

	2017/18 Half Year UK %	2016/17 Half Year UK %	2016/17 Full Year UK %
Future pension increases – past service	3.60	3.60	3.65
Discount rate	2.70	2.10	2.75
Inflation rate	3.10	3.10	3.30

At 30 September 2017 mortality assumptions were based on tables issued by Club Vita, with future improvements in line with the CMI model, CMI_2016 and a long term rate of 1.25 per cent per annum.

Recognition of the deficit in accordance with IFRS results in the negative net assets shown on the balance sheet. The Group announced on 1 July 2016 that it has 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 will be £13.5m in 2018, increasing to £20.5m in 2019 and increasing by 4% a year to 2022. The amount of contributions 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, (excluding the PPF levy) 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

11 Related party transactions

During the year the Group traded on an arms length basis with the associated company Fidink (33.3% owned). The Group's trading activities with Fidink in the period comprise £17.0m (H1 2016/17: £10.2m) for the purchase of ink and other consumables on an arms length basis. At the balance sheet date there was £5.1m (H1 2016/17: £2.5m) owing to this company.

12 Contingent assets and 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, disputes and investigations by regulatory authorities can never be predicted with certainty, having regard to legal advice received and the insurance arrangements of the Company and its subsidiaries, the Directors believe that adequate provision has been made to cover these matters. The Group 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.

Contingent assets and liabilities exist in relation to the sale of the CPS business – see Note 3 for further information.

13 Capital commitments

	2017/18 Half Year £m	2016/17 Half Year £m	2016/17 Full Year £m
The following commitments existed at the balance sheet date:			
Contracted but not provided for in the accounts	10.5	16.3	6.5

14 De La Rue financial calendar: 2017/18

Ex dividend date for interim dividend	7 December 2017
Record date for interim dividend	8 December 2017
Payment of interim dividend	3 January 2018
Financial year end	31 March 2018

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – UNAUDITED

15 Non-IFRS Financial 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.

	2017/18 Half Year £m	2016/17 Half Year £m	2016/17 Full Year £m
Operating profit from continuing operations on an IFRS basis	24.6	23.0	70.2
- Amortisation of intangible assets	0.2	-	0.1
- Exceptional items – operating	1.8	1.0	0.4
Adjusted operating profit from continuing operations	26.6	24.0	70.7

Adjusted basic earnings per share

	2017/18 Half Year £m	2016/17 Half Year £m	2016/17 Full Year £m
Profit attributable to equity shareholders of the Company from continuing operations on an IFRS basis	15.1	13.4	47.9
- Amortisation of intangible assets	0.2	-	0.1
- Exceptional items – operating	1.8	1.0	0.4
- Tax on exceptional items	(0.2)	(0.2)	(0.6)
Adjusted profit attributable to equity shareholders of the Company from continuing operations	16.9	14.2	47.8
Weighted average number of ordinary shares for basic earnings	101.8	101.5	101.6

	2017/18 Half Year Pence per share	2016/17 Half Year Pence per share	2016/17 Full Year Pence per share
Basic earnings per ordinary share continuing operations on an IFRS basis	14.8	13.2	47.2
Adjusted basic per ordinary share for continuing operations	16.6	14.0	47.1