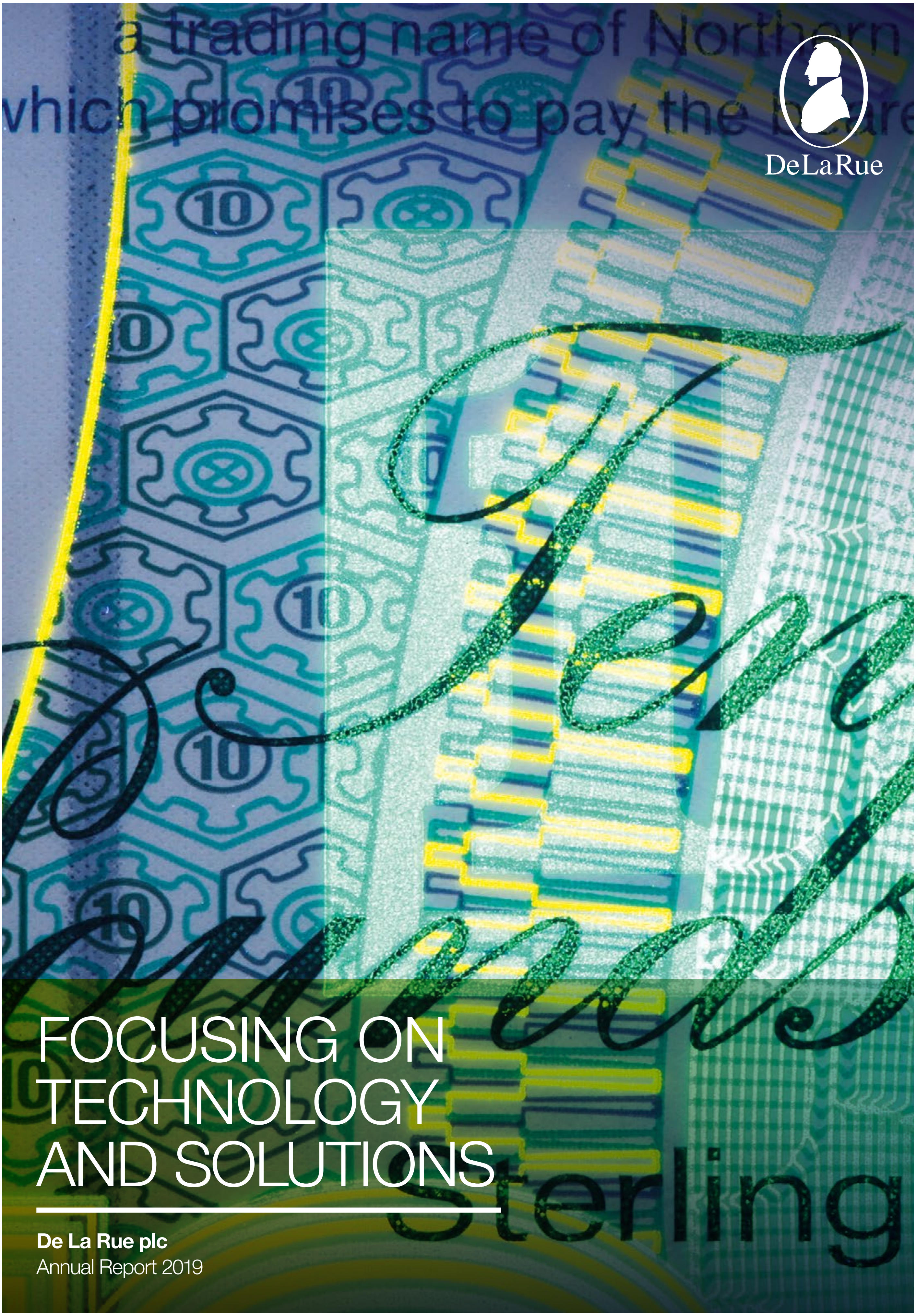


DeLaRue

FOCUSING ON TECHNOLOGY AND SOLUTIONS

De La Rue plc

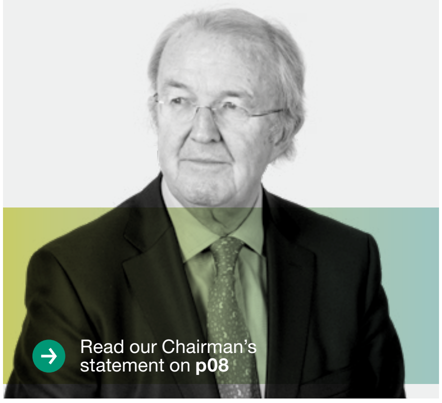
Annual Report 2019

Contents

INSIDE THIS YEAR'S ANNUAL REPORT

08
Chairman's statement

A YEAR OF TRANSITION



Read our Chairman's statement on **p08**

10
Interview with the CEO

QUESTIONS AND ANSWERS WITH MARTIN SUTHERLAND

Read our interview with the CEO on **p10**

INNOVATION EVERYDAY

HELPING TO STOP ILLICIT TRADE

Helping to stop illicit trade **p02**

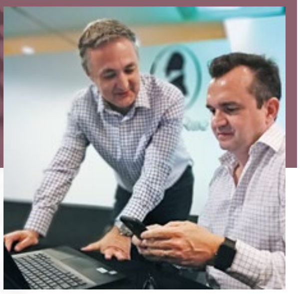
CASH IS PART OF THE FUTURE

Cash is part of the future **p04**

TECHNOLOGY TO BEAT THE COUNTERFEITS

Technology to beat the counterfeits on **p06**

Andrew Gilbert and Jerome Pichot



Dr Nikki Strickland

Julia Dean

It's been a challenging year, but we remain confident about the future. The marketplace we are in is an exciting one. One that is demanding more innovative and effective ways to protect against fraud and identity.

While our heritage in secure manufacturing and banknote printing remains crucial, our future is focused on building De La Rue into a more technology led security solutions business. There's lots of work we are doing in this area which we explain over the following pages.

Front cover image: shows a close up visual under UV light of the Danske Bank new £10 note that launched into Northern Irish circulation in March 2019. The note was designed and produced by De La Rue and is printed on our house polymer substrate Safeguard®.

INNOVATION EVERYDAY

HELPING TO STOP ILLICIT TRADE

With Andrew Gilbert and Jerome Pichot

De La Rue's approach is to incorporate the benefits of existing systems and software platforms for all stakeholders.

Andrew Gilbert (left), track and trace solutions expert.
Jerome Pichot (right), product authentication specialist and veteran in cross border trades.

Illicit trade stunts economic growth, damages brands, and risks the health and safety of consumers. Illicit activity – such as smuggling, diversion, counterfeit, fraud and tax evasion – is a major strategic problem for governments.

Illicit trade is the fastest area of growth in organised crime. It's currently valued at $1.7tn, equivalent to the GDP of the tenth largest economy in the world. One in 10 cigarettes is illegal; over a quarter of alcohol consumption is believed unrecorded or illicit; and nearly a quarter of consumers have unintentionally bought counterfeit goods online. It really is big business. Product authentication and track and trace solutions can help address the challenges of illicit trade. And once established, the same solution can be easily rolled out across other product types, including alcohol, tobacco and sugary drinks. All of this will help governments raise tax revenues and reduce health risks to citizens.

Changing regulatory environment

Although governments haven't made product authentication of tobacco compulsory, the massive loss of revenue and increasing pressure from the World Health Organisation point to the potential benefits that a tax scheme would bring. The FCTC (Framework Convention for Tobacco Control) has been a key influencing factor. Its Illicit Trade Protocol for Tobacco Products is an international treaty that aims to eliminate all forms of illicit trade in tobacco products. It calls for countries to cooperate and create a global solution to a global problem.

The guidelines refer to a solution that includes secure authentication combined with a digital code for data management, supply chain control and full track and trace from source to consumption. This would help volume control, tax collection, and detection of illicit products, meeting the international obligations of the FCTC.

An integrated approach

Trade today travels through complex cross border supply chains involving governments, manufacturers, regulators and distributors. To bring all these stakeholders together in the fight against illicit trade, the various systems must be able to operate as one.

De La Rue's approach to product authentication is to incorporate the benefits of existing systems and software platforms of all stakeholders. This means working with all parties to ensure we meet their needs, while also providing control and visibility of regulation for the authorities. This way, we can implement a flexible, modular and open-source model quickly and at low risk.

We're already operating a number of complex supply chain track and trace contracts across Europe, the Middle East and Africa. And this new integrated approach is one that builds trust and confidence for all players in the system.

US $1.7tn

Current value of illicit trade, the fastest area of growth in organised crime

INNOVATION EVERYDAY

CASH IS PART OF THE FUTURE

With Dr Nikki Strickland

Cash in circulation will continue to grow well into the future. Our role is to make sure banknotes meet the needs of future users and future cash cycles.

Dr Nikki Strickland, cash matters subject expert and inventor of cash cycle management software DLR Analytics™.

The value of cash in circulation continues to rise in nearly every country around the world. In fact, there are approximately $7tn worth of banknotes and coins in circulation today.

Cash continues to play an integral role in the global economy. It's meeting people's needs in a unique way. Millions of people around the world depend on it, and significant portions of society would be severely disadvantaged if they couldn't get or use cash when they needed to.

In short, the world cannot function without it. Even in the UK, a country where alternative payment mechanisms are widely available, a recent 'access to cash' report concluded that 17% of the population would struggle to cope without cash[1]. It would need huge investments, over long timescales, all around the world, to match the universal nature of cash.

Clearly there are alternative payment methods, which have grown rapidly with new technologies, and research shows that many different payment methods will co-exist with cash. But globally, the growth in value of cash in circulation over time continues to remain closely correlated with growth in GDP and population.

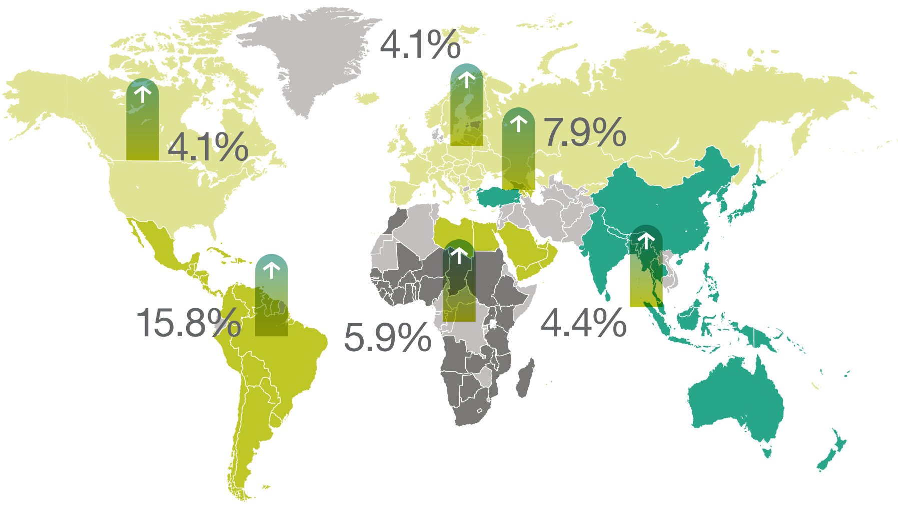
Cash has a certain resilience to sudden changes. For example, there was a programme announced in India in November 2016 to move away from cash reliance toward digital payments. But two years later, there is more currency in circulation and its use is growing faster than before.[2]

At De La Rue, we play a key role in keeping cash relevant, viable and competitive. We design banknotes that are fit for purpose – those for storing wealth have very different needs to those used in daily transactions. Our Safeguard® polymer is durable, and suitable for use in harsh circulating environments. We also design security features that anticipate the future purpose of banknotes. And we use our DLR Analytics™ cash cycle service to help central banks reduce the cost of providing cash.

In summary, cash in circulation continues to grow and is expected to do so well into the future. Our role is to make sure banknotes meet the needs of future users and future cash cycles.

Regional CAGR % growth of the volume of cash in circulation

Numbers are based on bank statistics, annual reports of 134 issuing authorities, IMF data 2013-17, and specific central bank web pages. Two countries with high inflation in Latin America have pushed up the average in the region, which would otherwise be 5.8%.



Notes:
1 https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf
2 https://www.indiatoday.in/india/story/demonetisation-more-cash-rbi-data-1384452-2018-11-08

INNOVATION EVERYDAY

TECHNOLOGY TO BEAT THE COUNTERFEITS

With Julia Dean

Criminals are always innovating and the ability and skill of counterfeiters is constantly improving. In an industry that contributes to the trust, security and integrity of critical infrastructures that enable society to function, we have to be even more innovative in order to stay ahead. Collectively, we have seen more development and innovation in our industry in the last 30 years than in the previous 300, and there is no sign of this trend slowing.

Julia Dean, material development expert.

The intricacy of counterfeit today means that no single feature remains completely safe. But by taking a combination of approaches to layer with multiple features you create high barriers to entry and a solution that requires so much unweaving and detailed decoding it makes any attempt of tampering simply futile. Below, we briefly examine some of the approaches that we use to fight against such threats.

Intelligent layering

There are several techniques to ensure our products are intelligently layered and offer the maximum security possible. One of the first methods is to create a solution that is so eye-catching, physically interactive and easy to authenticate that it immediately draws the user's attention to any tamper evidence or variance from the original. This puts the consumer in control and at the first line of defence. De La Rue's Ignite® is a case in point – a security thread that layers dramatic colour shift technique with advanced microstructure technology to create a highly distinctive effect and easy end user authentication.

Clever design integration is a tool we also use to stay ahead. By combining the visible with the invisible design techniques to create a hidden layer under the surface, and by adding bespoke forensic properties, such as magnetics and taggants, it enables machine readability and provides even greater protection against the threat of counterfeit or alteration. De La Rue's Enigma®, for instance, combines physical and digital security with highly specialised, chemically created elements with a unique signature and can only be detected by special sensors.

We blend the visible and invisible in our identity offerings too. The bio-data page is by far the most protected in a passport. Here, the holder's personal details will be printed onto a uniquely watermarked page with additional design features and print layers, then further safeguarded via a holographic laminate patch which is heat sealed to the sheet. For a polycarbonate datapage, details are lasered into the very core of the component and this is then further protected with additionally applied surface features and techniques.

Digital integration

Adding in digital security is another method that we use to fight against counterfeit and fraud. As part of our track and trace solution, we can identify where a product is within the supply chain and by scanning its code, we can authenticate when and where it was made and where it is destined for. We use layers of unique coding in combination with physical labels and features to prove its journey from source to consumption. Intelligent tags, Near Field Communication (NFC) and multi-factor authentication (MFA) also enhance protection. Digital tools such as blockchain will become more prominent as the market continues to evolve.

Expert security

With over 200 years of experience across the banknote, identity and product authentication sectors, De La Rue has always remained one step ahead of the counterfeiter. We use global expertise, extensive analysis, multiple technologies and a sophisticated layering of overt, covert, forensic and digital features while also always looking for new approaches, new innovations and new security methods, which ensures we will always remain at the forefront of this fight.

Chairman's statement

A YEAR OF TRANSITION

The Group has achieved a reasonable underlying performance and has continued its strategic progress in a year of transition.

Our continued investment in R&D and sales in the past few years has started to bear fruit. Despite having fewer business lines**, the Group's turnover and intake of orders have been the strongest we have seen in five years. We are also making progress in diversifying our revenue, from providing banknotes into more digital and service-oriented businesses. Here we have won several new contracts in Product Authentication & Traceability (PA&T), a business we expect to double revenues in the next three years.

The conclusion of the UK passport contract later this year, and our expectation that the strong demand for banknotes of the past few years will weaken somewhat, leading to pressure on prices, will create a challenging couple of years ahead. We shall, therefore, take immediate action to ensure our business is fit for purpose for the future.

We are announcing a proposal to realign the Group's operating model into two divisions focused on Currency and Authentication. The growth businesses, represented mainly by PA&T and Security Features, will command the greater share of R&D expenditure, while the Banknote Print and Polymer businesses, aligned mainly to the slower growing banknote market, will focus primarily on the cost effective delivery of high quality products.

The realignment of the operating model will provide each of our divisions with the opportunity to focus better on their respective markets, and will create future strategic options.

Our three year cost reduction programme, aimed at delivering cost savings of in excess of £20m by FY22, will partially mitigate the pricing pressure in Banknote Print, and support the growth agenda for the growth businesses. This growth will be achieved organically, supplemented as appropriate by partnerships and acquisitions. Martin comments more fully on this in the Review of Strategy and Operations on pages 24 to 31.

The higher than expected level of net debt was disappointing. Detailed commentary on cash flow and borrowings is included in the Financial Review on pages 32 to 34. We have taken further measures to improve cash management and there remains much to do.

The Board

Martin Sutherland will be stepping down as Chief Executive Officer and as a Director of the Company. The Board has commenced a process to identify Martin's successor and Martin has agreed to continue to serve as CEO until his successor is in place in order to assist an orderly succession.

For the past five years, Martin has brought tremendous energy and strategic insight to moving the Company from a traditional manufacturing business to a service-oriented business building on leading edge technological solutions, as well as refocusing the business on its core strengths and bringing greater balance to the portfolio. The Company is now well-positioned to move to the next phase of this journey. I would like to take this opportunity to thank Martin on behalf of the Board and colleagues for all that he has achieved. I would also like to thank him for his commitment to ensuring a smooth handover of his responsibilities.

Helen Willis joined De La Rue as Chief Financial Officer on 19 July 2018, and was appointed to the Board after the annual general meeting on 26 July 2018. Her extensive experience in finance and manufacturing, gained with a number of large international businesses, is a valuable addition to the Board.

> The Group's turnover and intake of orders have been the strongest we have seen in five years.

The Board recognises the importance of having an inclusive and diverse culture, and we aim to reflect this within its composition. Today, two of seven Directors, or nearly 30% of the Board, are female. The range of experience, knowledge and expertise within the Board provides support to management, and challenges decisions in an effective manner.

Culture and people

The Board considers leadership, culture and good governance as essential factors in the Group's ongoing transformation. Since 2015, the Group has been aiming to forge a dynamic, responsive and high performing culture, and the Board supports this fully.

Our commitment to high ethical standards is incorporated in our Code of Business Principles, which our colleagues, business partners, and other third party suppliers must adhere to.

Our people are our greatest assets, and are vital to the success of the business, and to fulfilling our purpose. We have appointed a Non-executive Director responsible for workforce engagement. FY19 was a particularly challenging year for our colleagues and the UK passport loss has had an impact on people's morale and pride. However, they have stayed strong, and despite many uncertainties, achieved a solid set of results. On behalf of the Board, I would like to express our thanks for their hard work and dedication.

Financial performance

Group revenue increased by 12% to £516.6m (FY18: £461.4m) excluding paper† and by 14% on a reported basis to £564.8m (FY18: £493.9m).

Adjusted operating profit* excluding paper† increased by 6% to £60.1m (FY18: £56.9m). The growth in adjusted operating profit on an excluding paper† basis was a reflection of a greater volume of jobs but with more complexity and lower margin in the currency division; higher profits in Identity Solutions largely reflecting the fact that the prior year included the write off of the costs of £3.7m in respect of the UK passport bid, and FY19 included a non-recurring credit due to the release of a bad debt provision where the cash was received; and lower profits in PA&T due to product investment for future growth and operating expenses relating to the new contracts. Overall, adjusted operating profit* excluding paper† included £6.9m benefit from IFRS 15, and a net credit of £4.0m due to the release of an accrual relating to a dispute which arose out of the well publicised events of 2010 concerning one of De La Rue's key customers, and the recognition of a net significant bad debt expense (excluding amounts relating to Venezuela). FY18 adjusted operating profit* also benefited from a similar value of non-recurring credits from certain provision and accrual releases.

IFRS operating profit was substantially lower at £31.5m (FY18: £123.0m), primarily because of the impact of the gain relating to the change in indexation methodology on the UK pension scheme in the prior year, as well as the recording of an £18m credit loss associated with the accounts receivable balance of a customer in Venezuela in FY19.

Adjusted basic earnings per share* excluding paper† increased by 12% to 42.9p (FY18: 38.2p).

IFRS basic earnings per share were down 80% at 18.8p (FY18: 93.7p) due to the impact of the gain on the change in pension indexation in FY18 and additional exceptional charges in FY19.

Cash generated from operating activities was an outflow of £4.6m (FY18: inflow of £73.5m). Net debt increased to £107.5m (31 March 2018: £49.9m).

More detail of the Group's financial performance including cash flow and net debt is covered in the Financial Review section on pages 32 to 34.

Capital allocation

The Board has adopted a capital allocation framework designed to increase shareholder value in the execution of the Group's strategy. The Group's capital allocation priorities are:

- organic growth investments – capital projects, investment in R&D and sales
- dividend payment – aim to at least maintain dividend per share in the short to medium term
- mergers and acquisitions – explore value-enhancing opportunities

The Board is committed to maintaining an efficient balance sheet, appropriate to the Group's medium term investment requirement. We intend to keep the Group's capital structure under regular review.

Dividend

To maintain the Group's financial flexibility to sustain growth, the Board proposes to keep the dividend unchanged, and is recommending a final dividend of 16.7p per share. This, together with the 8.3p paid in January 2019, will make a full year dividend of 25.0p per share. Subject to shareholders' approval, we will pay the final dividend on 2 August 2019, to shareholders on the register on 5 July 2019.

Outlook

We will face some big challenges in the next couple of years with the conclusion of the UK passport contract and the anticipated margin pressure in banknote printing. We must raise our game and stay competitive. In the near term, the proposed realignment of our operating model will allow better strategic focus on the two very different markets and bring cost benefits.

In the medium to long term, the Board remains confident about the future of the business as the cost-out programme, expected to complete in FY22, will partially mitigate the margin impact on banknote print and support the growth agenda. You can find a viability assessment of the business on page 41.

* 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. See page 153 for further explanations and reconciliation to the comparable IFRS measures.

† Reported figures included in this report include the paper business results in FY18 as originally reported and in FY19 they include £48.2m of revenue on non-novated contracts with nil profit margin. Figures reported on the 'excluding paper' basis have been adjusted to exclude revenue from non-novated contracts in FY19. In FY18 'excluding paper' figures exclude the results of the paper business. In addition, Security Features sales of £35.0m, which would have previously been treated as internal, have been added back to present the comparative numbers in FY18 on a basis consistent with the IFRS accounting treatment applied in FY19. This change has been made to provide a more meaningful presentation of the financial performance of the business during the period.

** The Group disposed of Cash Processing Solutions business in 2016 and the paper business in 2018.

Financial highlights

£516.6m
Revenue excluding paper†
2018: £461.4m

£79.3m
Adjusted EBITDA*†1
2018: £78.4m

£60.1m
Adjusted operating profit*†2
2018: £56.9m

42.9p
Adjusted basic earnings per share*†3
2018: 38.2p

25.0p
Dividend per share
2018: 25.0p

£51.4m
IFRS EBITDA
2018: £148.2m

£31.5m
IFRS operating profit
2018: £123.0m

18.8p
IFRS basic earnings per share from continuing operations[4]
2018: 93.7p

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

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

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 and on an excluding paper basis.

4 Continuing operations only, excluding the Cash Processing Solutions business which was sold on 22 May 2016.

Interview with the CEO

QUESTIONS AND ANSWERS WITH MARTIN SUTHERLAND

Q

How do you plan to deal with the loss of the UK passport contribution in a year's time?

For identity, we offer two different things. There is the solutions side, based on our identity software, and supplying the identity token such as passports and ID cards, and the security features and components that make the token difficult to counterfeit.

After the decision of the UK passport retender in April 2018, we conducted a review of the cost base and competitiveness of our identity business and concluded that while the identity business has a strong foundation and good growth potential, the market dynamics have changed. The truth is that the identity solutions market has been consolidating, and we are not big enough to compete in it.

The more attractive growth opportunity for us is identity related security features and components, where the market is more fragmented, and we can differentiate ourselves. So, while the UK passport retender result means we lose half our identity business, this market remains attractive. But it will mean a shift in sales focus, targeting a different group of customers such as the state print works sector.

Q

What's the key driver for the proposed realignment of the operating model and how will it help you deliver the strategy?

We have made good progress in achieving our strategic objectives in the past four years. The shape of our business has changed significantly, particularly after exiting the Cash Processing Solutions and the paper business. The strong growth momentum in Product Authentication and Traceability (PA&T) and Security Features will transform the business in the next few years, into one that is less capital intensive and more technology led.

To reflect the current state of the business and the different characteristics of the four remaining products: Banknote Print, Polymer, Security Features and PA&T, we are announcing a proposal to realign our operating model and better align our resources with our strategy.

The proposed operating model will focus on two market areas: Currency and Authentication. Currency encompasses Banknote Print and Polymer substrate. Authentication combines the existing PA&T business with Security Features and components. Given their distinctive characteristics and market dynamics, the two divisions require different approaches. This structure will ensure that each division has the necessary management focus, investment profile and cultural attributes to succeed.

The banknote print market continues to grow but remains unpredictable due to the irregular buying patterns of customers and fluctuating overspill orders from state print works. Priorities for this division are to improve cost competitiveness through optimisation of the manufacturing footprint, efficiency improvements and greater operational flexibility.

In contrast, the Authentication division is exposed to higher growth markets in brand protection and product traceability, with a greater value attributed to technology and integration. The priority for this division is to maximise the growth opportunity with both government and enterprise customers through an innovative portfolio of security and value-add components, software and services. This will equip the Authentication business to accelerate growth in existing markets, as well as positioning it for diversification into adjacent areas, such as brand enhancement. Each division will be led by a managing director with operational responsibility from sales to delivery.

Q

As the business is becoming smaller and more streamlined, do you require the same level of investment?

As a counter-counterfeiting business, intellectual property is one of the most valuable assets for us. It underpins the integrity of our products, whether banknotes, ID cards or authentication labels. To stay ahead of the counterfeiters, we must continue to invest in new technology.

We have an excellent heritage in this but had fallen behind when I took over. So we have increased our investment in R&D by 82% since 2015. Frankly, the first couple of years we were just playing catch up, but we've developed some new technologies in the last few years. We are spending more of our R&D budget on disruptive technology, to future proof the business. We are also investing more in software development, to continue to enhance our digital offerings, such as DLR Certify and DLR Analytics. We think the current level of R&D investment is about right. The focus right now is maximising the return on our technology platforms.

Building capabilities is also important for the future success of the business. An increasing proportion of our capital expenditure will be invested in new capabilities and technologies that will drive either greater efficiency or future growth.

Q

What are De La Rue's competitive strengths, and what's driving growth?

We have a foundation of 200 years of history – a fantastic brand, a strong record of innovation, and a best-in-class security print design facility. We operate in growth markets and have huge potential to further diversify our revenue streams. We are making good progress on this front, but still have a long way to go.

Product Authentication is growing for primarily two reasons. Firstly, governments wanting to protect revenues, and secondly the need to protect brands and consumers from counterfeit goods, which is being driven by increased globalisation and e-commerce.

We're focusing on niche markets where we combine the physical and digital worlds. In the UAE, for example, we provide a track and trace solution compliant with the World Health Organisation's Framework Convention for Tobacco Control, as well as secure tax stamps. This helps the government generate more tax revenue, while reducing the risk to citizens' health. In the Kingdom of Saudi Arabia, we are helping the government with a similar mechanism for sugary drinks, to help improve citizens' health.

These factors are all driving growth, but also, despite stories to the contrary, cash is still growing. It accounts for 17 of every 20 transactions around the world, and the number of banknotes in circulation rises by 3% to 4% each year. Three quarters of the world's population live in countries where 95% of all transactions are cash.

Even in the developed world – the UK, Eurozone and the US – cash in circulation is rising 5% to 6% a year. Other digital payment methods will clearly work alongside cash, but these technologies tend to replicate each other due to their similarity, as we have seen with mobile payment and contactless cards. So, I can assure you, cash will still be a vital part of the payment ecosystem alongside these other payment methods for a long time to come.

Q

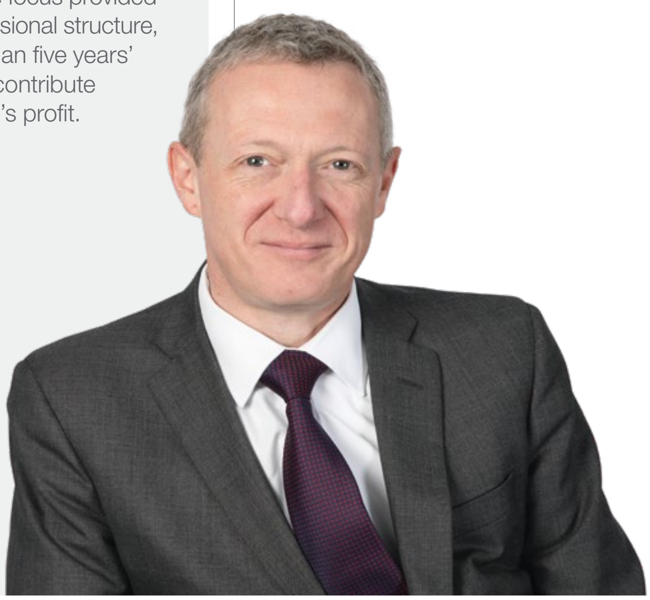
Where would you like to see the business in five years' time?

It's been a busy few years and I think we've accomplished a lot. We've become far more streamlined and focused. However, some things haven't moved as fast as I would have liked, and there's still a lot to do. We need to look at how we can do things better, faster and cheaper, while taking costs out.

We will become much more of a technology led business, investing in automation and robotics, with the aim of becoming a world class manufacturer. We already have strong products and solutions to compete in our fast changing markets. And within the next three to five years, we're aiming to launch some disruptive technologies we're working on, which will keep us ahead of the marketplace.

Our goal is to grow the business, both organically and through acquisition, into one with leading positions in all our chosen markets. With the focus provided by our proposed new divisional structure, it is my aim that in less than five years' time, Authentication will contribute the majority of the Group's profit.

We have become far more streamlined and focused. However, there is still a lot to do. We need to look at how we can do things better, faster and cheaper, while taking costs out.



At a glance

PROVIDING INNOVATIVE SOLUTIONS GLOBALLY

Our purpose is to enable every citizen to participate in the global economy.

FY19 Revenue** £m

£516.6m

Currency	77%
Identity Solutions	15%
Product Authentication	8%

FY19 Adjusted operating profit* £m

£60.1m

Currency	69%
Identity Solutions	21%
Product Authentication	9%

Key facts

#1

In banknote and passport markets by volume.

159 years

Longest customer relationship (with Mauritius).

1/3

Of the world's total banknote denominations in circulation in 2018 were designed by De La Rue.

140

Countries served in the last three years.

Find out more about our business www.delarue.com/ar2019

Currency

Banknote Print

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

7.5bn notes

Banknotes sold in FY19 (FY18: 7.3bn notes)

Polymer

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

998 tonnes

Polymer substrate sold in FY19 (FY18: 810 tonnes)

Security Features

We create features that underpin the integrity of our currency, identity and authentication products.

4.7m m^2

Security features sold in FY19 (FY18: 3.8m m^2)

Identity Solutions

We create and deliver passports and identity solutions for governments.

13.5m

Passports sold in FY19 (FY18: 12.0m)

Product Authentication

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

1.8bn

Authentication labels sold in FY19 (FY18: 1.6bn)

For more information about our future structure see page 22.

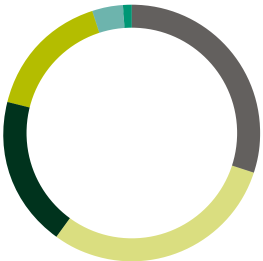
** Excluding the £48.2m revenue from the non-novated contracts related to the paper business sold in March 2018.

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

FY19 Revenue** by region %

£516.6m

Middle East and Africa	30%
The Americas	30%
UK	19%
Asia	16%
Rest of Europe	4%
Rest of world	1%



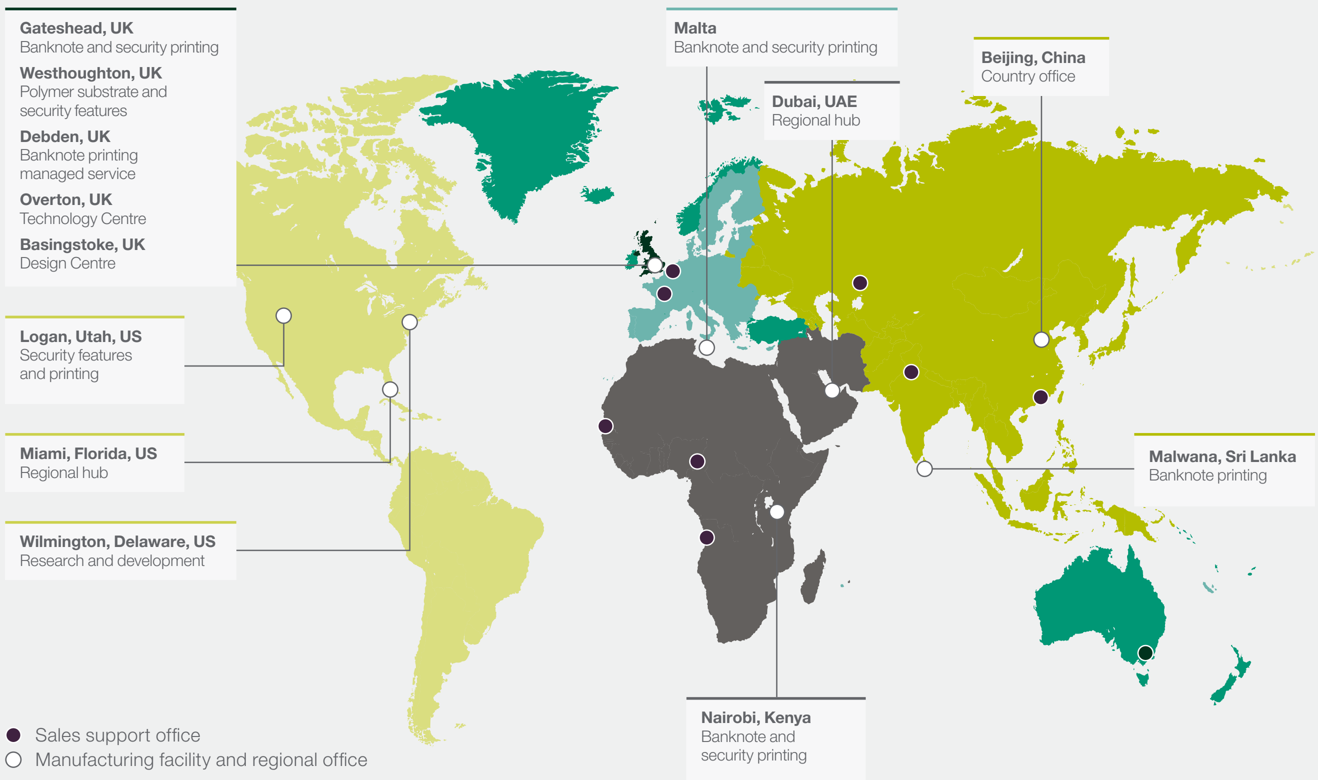
FY19 Employees by region %

2,827

UK	57%
Rest of Europe	18%
Middle East and Africa	12%
Asia	11%
The Americas	2%

Our global footprint

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



Our Values

- Drive change and innovate
- Act with integrity
- Take responsibility
- Excel in what we do
- Work together

Our markets

STRONG PROSPECTS FOR LONG TERM SUSTAINABLE GROWTH

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

Currency market

A close up image of Ignite®, our next generation security thread for banknotes.

The total amount of cash in world circulation has been growing at c3% a year over the past decade, and is expected to continue to increase at a similar rate in coming years.

Population growth and the increasing number of ATMs are among the main reasons for this. Although electronic payment is growing as a proportion of total payments, cash remains the most commonly used payment method. Of all the world's transactions, 85% are still cash based[2]. Even in developed countries, such as Germany and Japan, cash accounts for over 80% of total number of transactions.

In addition to its use for payment, using cash as a store of value also creates a demand. Cash is increasingly seen as a safer way to store value during political and economic uncertainty, such as the 2008 financial crisis.

There has been a growing trend that more central banks are changing their procurement practice, moving from fixed contracts to tendering.

Although many customers buy finished banknotes from a single supplier, some use multiple suppliers. This model involves separating their note buying into individual components: printing, substrate and security features.

Printing

Most banknotes are printed by the state print works (SPWs) of their issuing countries. The rest are printed by commercial banknote printers.

The number of countries outsourcing their banknote production has been stable in the past decade, and we expect it to remain unchanged in the near future. Around 11%, or c20 billion, of the 171 billion banknotes issued globally[3] in 2018 were available for printing in the commercial market. This market is highly concentrated, with four major operators sharing two thirds of it. De La Rue is the market leader, with 28% market share.

While the increase in cash in circulation creates growth in the commercial banknote printing market, the timing of orders can be unpredictable. This degree of uncertainty is exacerbated by the SPWs being unable to meet internal demand. The overspill orders created typically account for 2% to 4% of the total banknote market, and so can have a profound effect on the commercial printing market.

Polymer substrate

Of the banknotes in circulation, c3% are printed on next-generation substrates such as polymer[4]. As central banks seek to reduce the cost of printing cash, polymer is becoming more popular, thanks to its durability, sustainability and greater security[5].

More economies are switching, or considering switching, paper banknotes to polymer ones. Forty two countries have already issued, or are about to issue, one or more denominations on polymer. We expect the market to double in size by 2023[6].

Currently there are only two commercial suppliers of polymer substrate. Although second in the market, De La Rue has been growing fast and now has 20% share by volume[7]. Polymer also offers opportunities to service the countries printing their own banknotes, yet sourcing substrate from the commercial market, thus increasing the size of the addressable market.

Security features

Security features underpin the integrity of our products. Customers are increasingly looking to gain the benefits of added value security features, such as threads and holograms, and this is making ownership of such innovations an attractive opportunity.

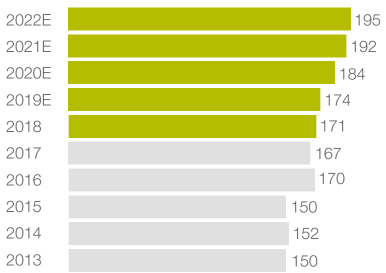
There are two types of security feature: covert and overt. Covert features can be detected only by using special devices or machines, such as UV inks and taggants. Overt features are easily seen and recognised by the public, such as threads and holograms.

Typically, security features have a long life cycle. This is because the design of the product – such as a banknote or passport – tends to last between five and 10 years, and security features are usually integrated into the design.

Almost all countries buy security features or IP licences on the commercial market. About 90% of the 171 billion banknotes issued in 2018 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 adoption rate of polymer banknotes increases.

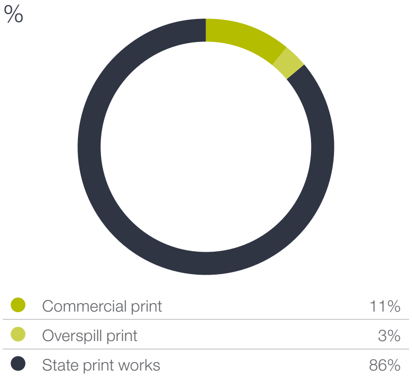
Compared to print and polymer, the security features market is fragmented, with more than a dozen suppliers, ranging from banknote printers to firms that offer security features only. De La Rue is the third largest commercial supplier of security features.

Global banknote issuance
Billion of notes



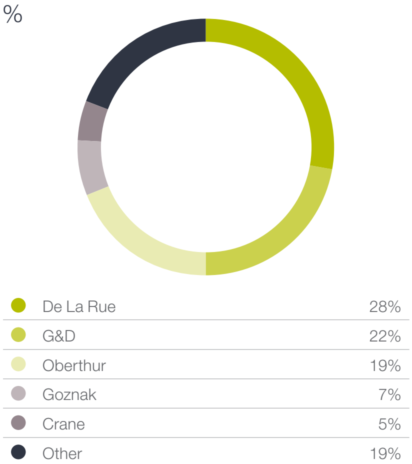
Source: De La Rue estimates.

Commercially available print markets
%



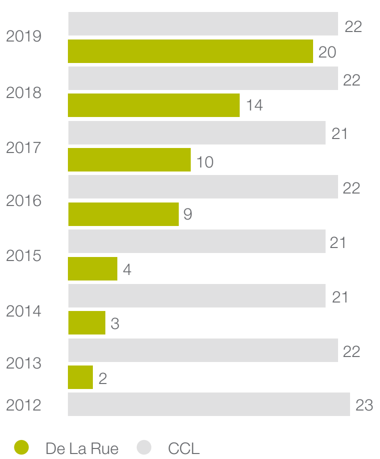
Source: De La Rue estimates.

Commercial print market by volume
%



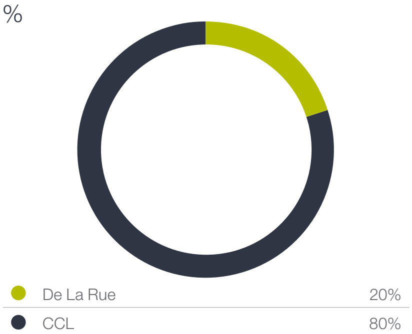
Source: De La Rue estimates. Excluding overspill orders.

Polymer substrate market share by number of customers



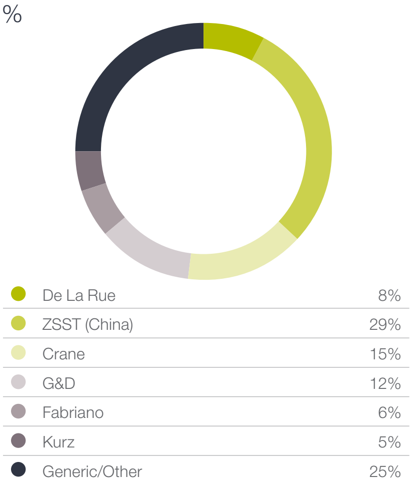
Source: De La Rue estimates.

Polymer market share by volume
%



Source: De La Rue estimates.

Security features market by volume
%



Source: De La Rue estimates.

Our markets continued

Identity market

A close up image under a UV light showing invisible design features and embedded candy stripe fluorescent fibres on an end page of our house passport, the De La Rue River Book.

The global identity market is valued at around £3.9bn today, and expected to grow at c6% a year.

The global identity market includes passports, ID cards, and associated digital solutions. With the increasing world population and greater globalisation, demand for identity products and services continues to rise, as governments increasingly focus on improved border security, authentication and their citizens' access to services.

Although many countries have security print capabilities in-house, many still choose to buy printing or individual components from the commercial market. More than half of the identity market is available to commercial manufacturers.

With annual growth of c8%, the passport market remains attractive. Around 165 million passports are issued globally each year, and a quarter of this production is available to commercial security printers. Customers increasingly value security features, such as a polycarbonate data page, and holograms.

Around 100 of the world's 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 are chip based. Technological advances in recent years have enabled new types of ID schemes that combine traditional ID functionality with payment methods.

Commercial passport market by volume %

De La Rue	32%
Gemalto	12%
CBN	12%
IDEMIA	9%
G&D	8%
Other	27%

Source: De La Rue estimates.

Product authentication market

Image shows reels of tax stamp base before personalisation with unique reference numbers and being applied to product.

The global market for brand protection is forecast to grow at 7% a year, rising to $3.6bn by 2022.

A significant increase in counterfeit goods and illicit trade means governments are losing billions of dollars in tax revenues. This undermines legitimate businesses and brand owners, erodes consumer confidence and puts their health at risk.

Excisable fast moving consumer goods such as tobacco and alcohol are widely recognised to be among the most illegally traded products in the world. One in every 10 cigarettes lit up in the world is illicit, a total valued at almost $40bn, with a corresponding tax loss to governments. The need to protect tax revenue, together with continuing changes to governments' policies due to international treaties (such as the EU Tobacco Products Directive and the World Health Organisation Framework Convention on Tobacco Control), are the key factors behind growth in the tax stamp market. This market is expected to grow 12% a year until 2024.

There are over a dozen suppliers in the tax stamp market, ranging from small local firms that make tax stamps, to international conglomerates that provide track and trace technology.

De La Rue is one of the two leading providers that supply both physical tokens and end to end software systems.

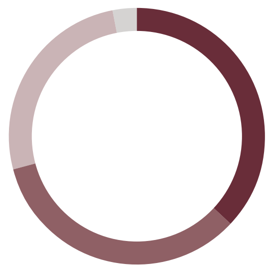
The rise of counterfeit goods, unauthorised production, and the diversion of distribution channels also mean businesses and brand owners are losing revenue and brand equity. The rapid growth of e-commerce and easy global shipping have exacerbated the problem. The total world value of counterfeit and pirated goods is expected to be $2.8tn in 2022, a 150% increase from 2013[8]. The global market for brand protection – including track and trace, product authentication, tamper evidence and anti-theft technologies – is forecast to grow from $2.7bn in 2017 to $3.6bn in 2022[9].

Similar to tax stamps, the brand protection market is 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. These provide a combination of highly secure labels, unique ID, and systems that can track, trace and authenticate products throughout the supply chain. Authenticating products through smartphones or other handheld devices is also becoming a trend as brand owners increasingly look to engage with their customers.

Global brand protection market $bn

Source: The future of anti-counterfeiting, brand protection and security packaging to 2022, Smithers Pira.

Global brand protection market by technology 2017 %



Track and trace	37%
Tamper evidence	34%
Product authentication	26%
Anti-theft	3%

Source: The future of anti-counterfeiting, brand protection and security packaging to 2022, Smithers Pira.

Notes:
1 De La Rue estimate
2 McKinsey/CapGemini
3 De La Rue estimate
4 De La Rue estimate
5 Bank of England survey
6 De La Rue estimate
7 De La Rue estimate
8 The economic impacts of counterfeiting and piracy, Frontier Economics
9 The future of anti-counterfeiting, rand protection and security packaging to 2022, Smithers Pira

Business model

HOW WE CREATE VALUE

Our unique resources

7
Manufacturing footprint
Our seven centres of excellence give us a global presence.

1,000+
IP and shared knowledge
Our knowledge is underpinned by over 200 years of continuous innovation.

2,827
Our people
We have dedicated and passionate employees across four continents.

1
Global supply chain
We work with suppliers and partners all over the world to ensure sustainability and reliable delivery to our customers.

Find out more about our strategy on page 22.

The value we create

The world around us

Enabling everyone's secure participation in the economy

Supporting social and financial inclusion by securing legal identities and providing currency

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

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

Our people

Engaging and developing a world class workforce

Building local skills and capabilities with strong partnerships in key countries

Our business

£60.1m
Adjusted operating profit*

42.9p
Adjusted basic earnings per share*

25.0p
Full year dividend

* This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on page 153.
** Excluding the £48.2m revenue from the non-novated contracts related to the paper business sold in March 2018.

A focus on innovative solutions across all areas of the business

Revenue**
£516.6m

INNOVATION EVERYDAY

Currency	Identity Solutions	Product Authentication Solutions

Intellectual property
Our 1,000+ patents with 600 pending are the result of our increased R&D spend.

Digital solutions
Identity management and track and trace increasingly require robust and flexible online solutions.

Consulting
We work with governments worldwide on all aspects of cash, identity and security solutions.

Data analytics
We use our award winning software to provide intelligence to support customer decision making.

Design
World class design of banknote and passports. Fourteen international awards since 2007.

Training and development
We support our customers, by advising them on all aspects of best practice regarding security identity and fraud avoidance.

Today
We are focused on being a world class print manufacturer

Tomorrow
We have a vision to be a technology led security solutions provider

Revenue**
£398.9m
Resilient and stable currency revenue

Trust

Revenue
£117.7m
Innovative solutions from identity and product authentication

Find out more about our business
www.delarue.com/ar2019

Resources and relationships

THE RESOURCES WE RELY ON

Here, we look at the resources and relationships we rely on to provide solutions to our customers' challenges – as summarised in the left hand 'inputs' column of our business model on pages 18 and 19.

Our people

Our business depends on the skills, experience and commitment of over 2,827 employees at 22 locations. We're careful to maintain a blend of 'home grown' talent and people from outside our industry – as the external hires bring a range of skills and perspectives that can add a new dimension to our business.

We take on talented people and reward them through a performance based incentive scheme.

Find out more about our business
www.delarue.com/ar2019

We also offer every employee the opportunity to develop their knowledge and ability through a range of training and development programmes. We encourage people to care about both our company and our local communities – an approach we hope will flourish in our supportive, open and collaborative working environment. We have high ethical standards alongside extensive health, safety and wellbeing programmes.

Intellectual property and shared knowledge

Innovation is the driving force behind De La Rue. Over 200 years, we've amassed a huge store of expertise in how to stay ahead of the counterfeiter, which now includes digital security solutions. We add to that resource every day, and have doubled our R&D spend in the last four years. We have more than 1,000 current patents, with another 600 pending. With our increased investment in, and focus on, R&D, we're launching more products and services, faster and more regularly. We also accelerate product development through partnerships and, where appropriate, mergers and acquisitions.

Find out more about our business
www.delarue.com/ar2019

Our aim is to develop once but use many times, by sharing technology across our three segments using a platform based approach. This means all our customers can benefit from our innovation. We also provide our expertise to customers, regulators and policymakers, through forums such as the International Civil Aviation Organisation, World Customs Organisation and the Global Compact for Migration, as well as through industry affiliations such as the Secure Identity Alliance, and collaborations such as our Joint Charter with the Bank of England. In doing so, we create a more secure world for everyone.

Manufacturing excellence

We manufacture at seven centres of excellence on four continents. Here we aim to maintain stable and flexible operations, to manage fluctuations in demand or product mix.

We continue to invest in these manufacturing capabilities, with more than half of our capital expenditure being spent on new machinery and equipment. We also work closely with our manufacturing partners to ensure high quality products and efficient delivery.

Each site maintains strict international standards – with all our main manufacturing sites having OHSAS18001 certification for their health and safety management systems.

We assure quality through ISO standards and common working practices across all operations. These have established De La Rue as a beacon of manufacturing excellence. Our plant in Kenya is the only site in Africa to have achieved ISO14298 – the highest possible level of secure printing accreditation.

Find out more about our business
www.delarue.com/ar2019

Suppliers and partners

We depend on our suppliers for timely and cost effective delivery of high quality components for banknotes, ID documents and authentication labels. We secure these supplies through strong and long-lasting relationships with trusted suppliers, all of whom we expect to comply with our ethical and environmental standards and our Code of Business Principles.

We recognise the value of close partnerships, and work with our industry's leading suppliers to encourage innovation that leads to benefits for society at large.

Find out more about our business
www.delarue.com/ar2019

For example, we operate technical partnerships with ink suppliers and manufacturers of printing equipment to develop secure print features and identify efficiency savings.

We also work with our manufacturing and commercial partners to ensure we provide the best quality products and services to our customers. Just as suppliers and partners support our aims, so we support theirs – sharing best practice in order to boost efficiency and achieve common goals.

Strategic update

A MORE STREAMLINED, FOCUSED BUSINESS

In May 2015, we announced a five year plan to transform De La Rue into a less capital intensive, more technology led security product and services provider, with a more balanced business portfolio that will deliver growth and improve quality of earnings, as well as reduce volatility in the business. The main priorities were:

- Divesting non-core business
- Reducing our exposure to the volatility of the paper market
- Improving predictability and competitiveness in Banknote Print
- Diversifying revenue by growing Polymer, Security Features, IDS, and PA&T
- Reducing our pension deficit

We have made good progress against these priorities, making De La Rue a very different business today than it was four years ago. We have divested the underperforming CPS business. We have sold the paper business, removing our exposure to an over supplied market whilst maintaining surety of supply of a key raw material. And we have also grown Polymer, Security Features and PA&T, the product lines in the growth area.

The strategic review of our international identity business is ongoing, and we have made good progress.

Our pension deficit has been reduced by £157.3m since 2015. Our aim is to eradicate the deficit in the coming years to give us more strategic optionality in the future.

The shape of our business today is materially different to four years ago. We are now embarking on the next phase of transformation of the Group into a technology led security product and service provider.

Authentication

This division is focused on a high growth market. The market is growing in both the commercial and government sectors. In the commercial sector there is consumer demand for protection against counterfeit goods, particularly in the context of more and more retail moving online. Meanwhile brand owners are seeking new and innovative ways of not only protecting their consumers against counterfeit but also better connecting with them.

Proposed Group operating model realignment

Our business is now focused on two clear markets: Currency and Authentication. We announced on 30 May 2019 the proposed realignment of the Group operating model into two market focused divisions, namely:

Currency

Encompassing our Banknote Print and Polymer product lines, focused on the provision of finished Banknotes and advanced Banknote substrate into central banks and state print works.

Authentication

Encompassing our Security Features, identity related security components and Product Authentication product lines, focused on the supply of products and services to authenticate goods as genuine and to assure tax revenues.

The market dynamics of these two divisions are different, in terms of the solutions that customers seek, customer buying behaviours and the competitive landscape. This in turn offers very different opportunities for De La Rue in terms of the growth rates and margin opportunities available to us in each sector. By aligning the Group structure into two divisions focused on our chosen markets, we will not only optimise the operations of each division to the market dynamics they face, but we will also give ourselves strategic optionality in the future.

Governments have a desire to frustrate illicit trade, partly to protect citizens from dangerous goods, but also to raise taxes. We are seeing a structural shift in the Government Revenues Solutions (GRS) market due to more and more countries adopting the World Health Organisation's Framework Convention on Tobacco Control into law.

Combining differentiated security features with digital and service offerings is also important in this market. The investments we have made over recent years in software capabilities, ongoing service provision and R&D focused on IP generation all underpin our solutions in this market.

Currency

The currency market continues to grow but remains unpredictable due to the volatile nature of overspill and customers' irregular buying patterns. Cash remains the pre-eminent payment mechanism around the world due to its inclusivity, resilience, anonymity and low cost of use for both consumers and retailers. However, alternative payment mechanisms continue to erode share of cash transactions in some countries.

Normalisation of overspill volumes from recent levels means there is currently over capacity in the industry, leading to pricing pressure.

The priority for this division is to maintain our leading market position in Banknote Print, continuing to grow our market share in Polymer, whilst remaining competitive by improving efficiency, optimising capacity and cutting costs.

With demand for banknotes expected to normalise, we will now, as first set out in 2015, complete the programme to match our banknote print capacity with the estimated long term average demand of circa 6bn notes per annum. This includes access to one print line at Debden under our agreement with the Bank of England.

The priorities below were set out in our 2015 strategy plan. The following pages report against these priorities. In future we will report against the new divisional structure.

Our strategic priorities	2020 goals	
1 DELIVER OPERATIONAL EXCELLENCE		Read more about operational excellence on page 24.
• Divest non-core business • Limit exposure to paper market volatility • Reduce banknote print volatility • Drive efficiency	• Standardised footprint with flexibility to deal with demand surges • Improved return on capital employed (ROCE) • Better quality of earnings	
2 INVEST FOR GROWTH		Read more about investing for growth on page 25.
• Invest in skills and new capabilities • Invest in new technologies and service solutions • Accelerate growth through partnerships and acquisitions	• Mid-single digit revenue growth 2015–2020 CAGR* • More diversified revenue streams • Double R&D investment by 2020	
3 STRENGTHEN BALANCE SHEET		Read more about strengthening the balance sheet on page 26.
• Manage working capital more efficiently • Maintain prudent capital investment • Manage pension deficit effectively	• Improved cash flow • Reduced pension deficit	
4 DRIVE CULTURAL CHANGE		Read more about cultural change on page 27.
• Improve performance management • Training and development	• Dynamic, high performing culture • Diverse skilled workforce with high ethical standards	

* CAGR = Compound Average Growth Rate.

Review of strategy

1 DELIVER OPERATIONAL EXCELLENCE

This strategic priority is about cost and efficiency management across the Group, with a relevance to Banknote Print and Polymer substrate.

The downside risk of Banknote Print lies with the unpredictability of market demands. The number of central banks outsourcing banknote printing is relatively stable. However, overspill from state print works, which could be significant, has caused fluctuations of demand in the commercial market. Central banks' irregular order patterns add another layer of uncertainty.

To address this potential downside risk, we look to both supply and demand. On the supply side, we aim to reduce our internal banknote printing capacity to match long term average demands, while creating flexibility through outsourcing to external partners to cover any surge in demand.

In November 2018, we announced that we were evaluating a number of cost saving initiatives. We have concluded the evaluation process and have developed a cost out plan that is expected to deliver a total annualised saving in excess of c£20m by FY22. This includes:

Corporate efficiency: we will reduce corporate overheads by delayering the organisation structure and as a benefit of moving to a divisional structure.

Manufacturing optimisation: we will continue to monitor any changes in market conditions and review our manufacturing footprint on a regular basis to ensure we have the optimum footprint to deal with the changes. We will also continue to optimise cost of quality, procurement and manufacturing fixed costs.

Automated manufacturing

As technology progresses and becomes more affordable, automation and robotics are no longer limited to high volume operations. With industrial automation, we can maximise what we can produce in any given space. This means we can raise output and productivity without the need for an expensive factory extension or relocation. We can also retain or establish production in a country with high labour costs.

This doesn't necessarily mean we should automate everything. We must base decisions on whether we can achieve and sustain improvements, and see a return on investment. We also need to factor into production decisions softer benefits such as employee satisfaction levels and workplace culture, both of which are vital to running a successful growing business.

Industrial automation allows us to maximise our workflow and output within a given space.

Alan Newman,
Advanced Manufacturing Engineering Director

On the demand side, orders can be sparse and vary in size, which creates uncertainties in cash supply in each country as well as in the commercial market. We look to build trusted partnerships with our customers, by helping them better understand the cash cycle in their countries and, over a longer term, to manage the buying cycle for them. 'Banknote-as-a-service', a managed service model enabled by our proprietary cash cycle management software, DLR Analytics, will ensure 'just-in-time' delivery, helping customers to better manage their budgets and to reduce inventory. Building more long term partnerships like this will improve our visibility of orders, thus reducing volatility in performance.

DLR Analytics, which more than 85 central banks are using, expanded its service offering with the launch of its forecasting functionality in June 2018. During the year, two central banks that use DLR Analytics have signed up to test our banknote-as-a-service offering. Following its success at the Central Banking Awards in January 2018, De La Rue Analytics was awarded the 'Currency Technology Provider of the Year' at the Central Banking's FinTech and RegTech Global Awards in 2019.

2 INVEST FOR GROWTH

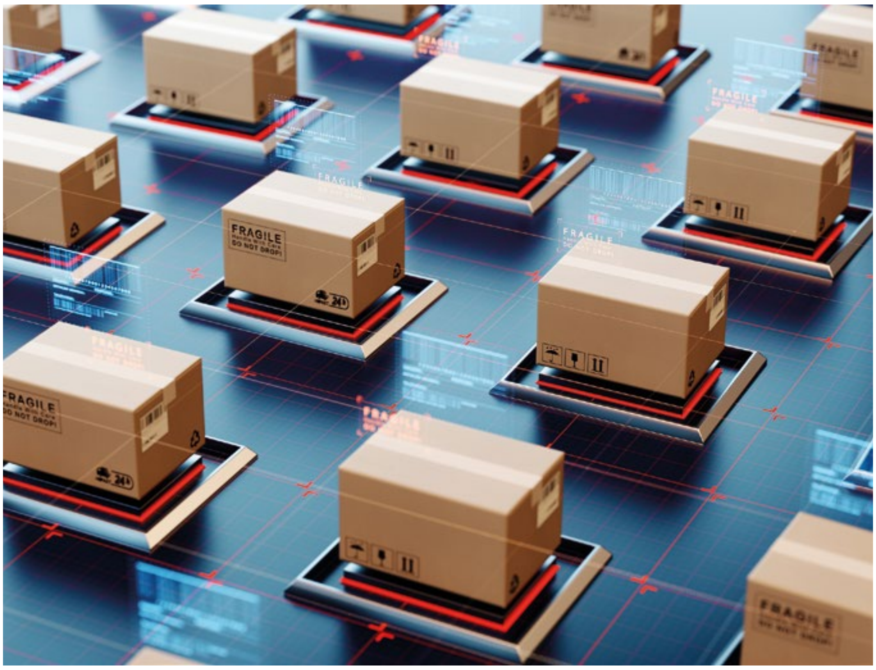
We continue to drive growth through organic investment and, if appropriate, through acquisitions and partnerships.

Innovation is a key differentiator for us – we aim to counter the counterfeiters at every turn, and that means having access to the best technology. As set out in the 2015 strategy, we plan to double R&D investment from 2015 to 2020, to improve product offerings and drive growth, and we have almost achieved that this year, with R&D investment up 82% since 2015.

As a result of the investment and improved focus, the number of patents filed and granted over the past four years has totalled 137 and 133, respectively.

We invest in R&D primarily in two areas: material science and software development. We are world leaders in physical authentication and aim to continue to strengthen our position. We are placing more focus on exploiting existing technology platforms, such as holographics, as well as creating disruptive technologies.

To encourage long term recurring revenues, we continue to invest in building our digital and service offering. We have enhanced our existing software platforms such as track and trace system DLR Certify and online cash cycle management platform DLR Analytics by adding new modules and expanding the offerings. We are also exploring new frontier technologies such as blockchain as part of our brand protection solutions for customers looking for better ways to ensure supply chain integrity.



Exploring a new frontier

Blockchain is a secure ledger technology. Transactional and contract data within a ledger are stored as blocks, and each block is linked to the previous one using public cryptography and a timestamp. Due to its highly secure method of transferring and storing data, blockchain technology is being used in a number of areas, the most widely known today is crypto currencies. The technology is also well-positioned for use in other industries that require secure data solutions, such as supply chain management.

It can help to prevent counterfeits by allowing real time tracking of genuine goods, stop unauthorised products entering the market and authorised goods entering unauthorised distribution channels. Although the technology is still in its infancy, it is predicted to be the most used technology in world trade by 2030. At De La Rue, we are actively exploring various possibilities of how to best engage and adopt this new approach into our existing lines of business.

Read more on www.delarue.com

"Blockchain is predicted to be the most used technology in world trade by 2030. We are exploring possibilities of how to adopt it into our lines of business."

Brett Nelson,
Digital Product Manager,
Product Authentication & Traceability

Review of strategy continued

3 STRENGTHEN BALANCE SHEET

We aim to strengthen our balance sheet through improving profit and managing cash prudently.

We have adopted a capital allocation framework designed to create increasing shareholder value, based on executing our strategy. Our capital allocation priorities are:

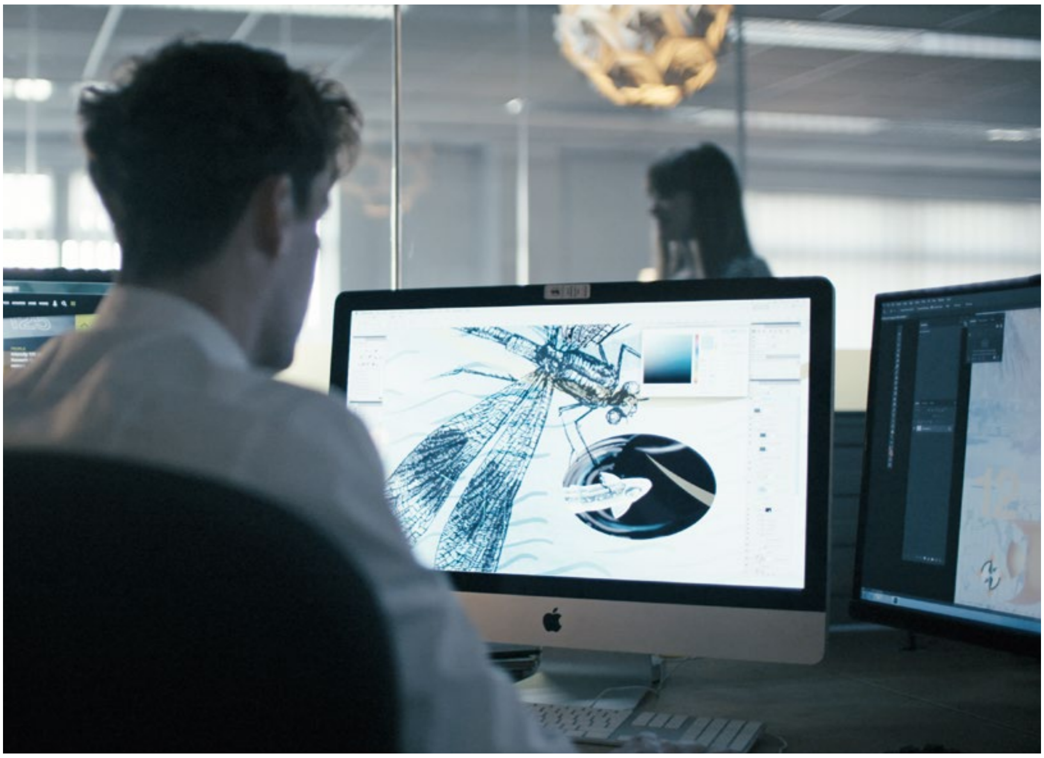
- organic growth investments – capital projects, investment in R&D and sales
- dividend payment – aim to at least maintain dividend per share in the short to medium term
- mergers and acquisitions – explore value enhancing opportunities

We are disciplined in allocating our capital resource. Investing to keep our factories and equipment functioning efficiently is important, so is investing in technology and capability. In the next few years, we expect an increasing proportion of our capital expenditures to be invested in new capabilities and technologies that will drive either greater efficiency or future growth. The Group's return on capital employed average in the past four years was 40%, demonstrating our ability to generate good returns on our investments.

Given the nature of our business, the size of contracts and timing of orders and shipments vary significantly, which could have a profound effect on our working capital.

We look to manage our working capital better through a number of ways: 1) tighter control on inventory; 2) better vendor management; 3) credit control. During the year, we appointed inventory managers to each site, and set up a credit control function. We also renegotiated payment terms with our key suppliers.

In FY19, our year end net debt was £107.5m (31 March 2018: £49.9m). The year on year increase was due to adverse working capital movement. Further details on net debt is provided in the Financial Review section on pages 32 to 34.



The finest designs are always based on best practice. De La Rue's expertise has come from working across the globe, creating a diverse range of complex bespoke design solutions.

Julian Payne, Creative Director

Design precision

Banknotes and identity documents are arguably some of the most widely recognised and iconic products in the world. And a lot of thoughts and skills go into their design. The process starts with an understanding of how they are going to be used – whether by people or machines – and the specific security threats they need to counter throughout their lifetime. Our design team works closely with customers and end users on this.

We also use insights and data from our work around the world, and keep abreast of all technological developments. Plus the complex and highly skilled process of converting artwork into technically accurate, print-ready files. The precision applied by our design team in translating graphics, patterns and engravings to high security print is measured in microns – a millionth of a metre.

4 DRIVE CULTURAL CHANGE

Our culture underpins every aspect of our business. It's the strategic priority that enables us to manage all the other priorities effectively.

Since 2015, we have been creating a dynamic, results oriented, and high performing culture. Our programme has four main strands: accelerating performance management culture; improving leadership skills and capabilities; improving recognition; building confidence in the business through improved communication.

There is strong evidence of better performance management across the Group in FY19. We achieved this by better alignment of objectives across functions at all levels of the organisation, as well as enhanced succession development. Last year, half the appointments to the senior leadership team were of internal candidates.

We have been focusing over the last three years on training our managers and leaders in the skills required to improve performance, through an established leadership development programme. We have also changed the senior leadership team structure, streamlining operations and reducing layers.

The platform put in place in 2016 to enable De La Rue colleagues to recognise others' effort and commitment is now becoming the norm. People have sent 100,000 recognitions since it was launched. We continued to improve our internal and external communications by adding more initiatives in the last year.

As announced in May 2019, we will undergo some significant changes during the next 12 months. The proposed delayering of structure and the changing of the operating model will change the way we operate, as well as the way we think and behave. It requires a more agile and high performing culture to sustain it.

Award winning

We always strive for the best and are proud to be recognised as leaders in both innovation and design. In recent years, we have won 14 industry awards for design, four Queen's Award for innovation, and two Central Banking Innovation awards for our cash cycle management software DLR Analytics.

In 2019 we were awarded the prestigious Currency Services Provider of the Year by Central Banking. Most recently, De La Rue has been recognised as one of the Superbrands in the UK.

Read more on www.delarue.com

Looking ahead

In the next two years, we will face some significant challenges. Replacing the contribution from the UK passport contract will be hard, and the anticipated market pressure in the banknote print market will have an impact on margin. That said, we must raise our game to stay competitive.

The proposed reorganising and right sizing of the business will allow better strategic focus and bring cost benefits in the short term.

For the long term, riding on the strong momentum in the GRS market and stable growth in brand protection, we expect PA&T to double its revenue within the next three years. The cost out programme to reduce corporate and factory overhead and production costs will enable us to compete more effectively in the banknote print market, and to partially offset the impact on margin. Thus, we remain confident about the long term future of the business.

Review of operations

Currency

	Excluding Paper†			Reported		
	FY19	FY18	Change	**FY19**	FY18	Change
Revenue (£m)	**398.9**	344.1	+16%	**447.1**	371.8	+20%
Adjusted operating profit* (£m)	**41.7**	40.5	+3%	**n/a**	n/a	n/a
Adjusted operating margin*	**10.4%**	11.8%	-140bpts	**n/a**	n/a	n/a
IFRS operating profit (£m)	**n/a**	n/a	n/a	**21.0**	30.7	-32%
IFRS operating profit margin	**n/a**	n/a	n/a	**4.7%**	8.3%	-360bpts
Banknote print volume (bn notes)	**7.5**	7.3	+3%	**7.5**	7.3	+3%
Polymer volume (tonnes)	**998**	810	+23%	**998**	810	+23%

* Excludes exceptional item charges of £2.6m (FY18: net charges of £14.4m). This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on page 153.

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

Excluding paper†, the Currency business delivered 16% growth in revenue to £398.9m (FY18: £344.1m), benefiting from strong growth across all Currency product lines. Adjusted operating profit was up 3% to £41.7m (FY18: £40.5m). The Currency business operating margin reduced year on year due to a mix with more complex and lower margin jobs this year, and continuing competitive pressures and investment.

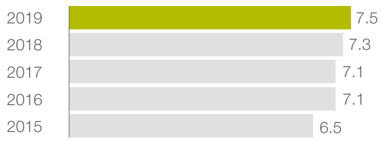
On a reported basis, revenue was up 20% and IFRS operating profit was 32% lower than FY18 driven by the loss of operating profits from the paper business following the disposal on 29 March 2018, the impact of the reduced margins and investment referred to above alongside increased exceptional charges, with £18m credit loss associated with the accounts receivable balance of a customer in Venezuela in FY19 exceeding the exceptional items in FY18 of £14.4m relating to the Portals disposal.

Adjusted and IFRS operating profit were also impacted by a net non-recurring credit of £2.3m due to the release of an accrual relating to a dispute which arose out of the well-publicised events of 2010 concerning one of De La Rue's key customers, and the recognition of a significant bad debt expense (excluding amounts relating to Venezuela).

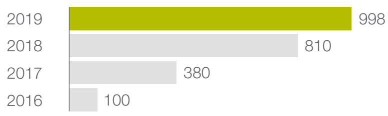
Currency revenues benefited from the impact of the adoption of IFRS 15 (revenue from contracts with customers) with a net additional amount of £11.9m being recognised on an 'over time basis' in FY19 whereas under IAS 18 the majority of this revenue would have been recognised in FY20 on final delivery to the customer. The operating profit impact was £6.6m on both an adjusted and IFRS basis. Excluding the impact of IFRS 15 Currency revenues would have been up 13% excluding paper† and 17% on an IFRS basis. Adjusted operating profit would have been £35.1m, lower by 13% compared to FY18.

At the year end, the 12 month order book for Currency was £202m (FY18: £272m).

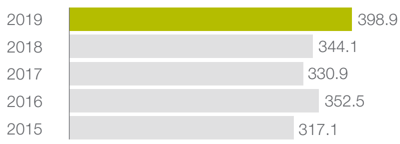
Banknote print volume
Billion of notes



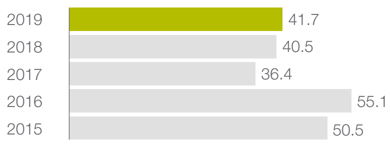
Polymer volume
Tonnes



Currency revenue
£m



Currency adjusted operating profit*
£m



† Reported figures included in this release include the paper business results in FY18 as originally reported and in FY19 they include £48.2m of revenue on non-novated contracts relating to the disposal of the paper business with nil profit margin. Figures reported on the 'excluding paper' basis have been adjusted to exclude revenue from non-novated contracts in FY19. In FY18 'excluding paper' figures exclude the results of the paper business and include pro-forma Security Features sales of £35.0m, which were previously treated as internal, to present the comparative numbers in FY18 on a basis consistent with the IFRS accounting treatment applied in FY19. This is a change in presentation of FY18 results in this release compared to those previously reported in the release in May 2018.

Security Features

On an excluding paper† basis Security Features revenue grew by 38% year on year, with volumes growing 24% to 4.7m m^2 this year. We have seen early traction with Ignite® and PureImage™, the banknote features launched in May 2018, with our first customer for PureImage secured in September 2018. As typical for banknote products, security features have a long sales cycle which could take up to 24 months. Therefore, the early adoption is particularly encouraging.

Banknote Print

Banknote Print volumes increased by 3% to 7.5bn notes (FY18: 7.3bn), and revenue was up 12%. The higher volumes were supported by higher overspill demand, in particular from Venezuela.

As previously announced, the formation of the joint venture between De La Rue with the Government of Kenya was completed on 18 April 2019. De La Rue retains a 60% stake of the joint venture and will continue to manage and control the day to day operations. The move has further strengthened our ties with the country and secured our position as a regional supply hub for security printing.

Polymer

Total Polymer volumes increased in the year by 23% to 998 tonnes, 667 tonnes of which related to direct sales of polymer substrate. Including the notes on order, our Safeguard® substrate is currently, or will be, adopted by 26 note issuing authorities across 61 denominations (FY18: 24 note issuing authorities and 50 denominations).

We continue to differentiate and we have been investing in developing special materials that can be embedded into the polymer substrate, as well as design and security features that make our polymer note stand out. Illuminate™, a new design feature launched in December 2018 in the Mauritius 200 Rupee, is one of the latest innovations designed to complement our Safeguard substrate.

Transforming Debden

Debden was one of our first factories to be able to print polymer banknotes. From 2014 to 2018, the factory went through a transformation programme that included installing two new print lines and launching the Bank of England's £5 and £10 polymer banknotes.

The transformation itself was based on a culture of problem solving, with Toyota Kata – a continual improvement process – being the primary problem solving tool. Innovations at the site included the world's first single pass tactile emboss machine, as well as a laser guided device to measure tactile feature height, and an unblocking machine invented by a De La Rue engineer, that won a UK Works Management Employee Innovation award. During this period, productivity for printing on polymer increased by over 50%.

> We have a culture of innovation and problem solving that enables us to implement new products and technology.

Barry McDonnell,
Manufacturing Director, UK

Digitalising holography

Holograms are a key security feature, but most hologram forgeries are based on simulating the effect rather than re-constructing the holographic image. To address this, we can develop more complex structures, or create brighter holograms. Using digital holography, we can create multicolour and multiplexed holographic images, but this technique is widely used in the low security commercial market. There are, however, only a handful of companies expert in making 'classical' holography or advanced 'rainbow' holography, and we are the world leader in this field.

Given our expertise, we apply an advanced form of digital holography to augment our classical method, and it's the combination of these two different methods that gives us a near unique holographic origination capability and versatility.

> The majority of hologram counterfeits are based on mimicking the effect rather than re-originating the holographic image. One approach to addressing this is to develop more complex structures and to create brighter holograms.

Brian Holmes,
Chief Scientist

Review of operations continued

Identity Solutions

	Excluding Paper†			Reported		
	FY19	FY18	Change	**FY19**	FY18	Change
Revenue (£m)	**78.4**	78.9	-1%	**78.4**	82.0	-4%
Adjusted operating profit* (£m)	**12.7**	7.0	+81%	**n/a**	n/a	n/a
Adjusted operating margin*	**16.2%**	8.9%	+730bpts	**n/a**	n/a	n/a
IFRS operating profit	**n/a**	n/a	n/a	**12.2**	7.5	+63%
IFRS operating profit margin	**n/a**	n/a	n/a	**15.6%**	9.1%	+650bpts

* Excludes amortisation of acquired intangible assets of £0.5m (FY18: £0.6m). This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on page 153.

Excluding paper†, revenues were largely flat year on year, as lower volumes in the international identity business were offset by increased UK passport volumes following a spike in demand at the end of the year. Adjusted operating margin increased by 730bpts in the year, or by 260bpts excluding the £3.7m write off of the UK passport bid costs in the prior year, driven by the timing and mix of contracts within this business.

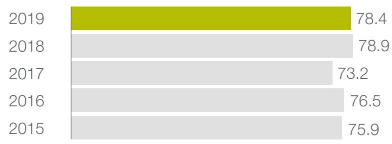
On a reported basis, revenue was 4% lower and IFRS operating profit was 63% higher than the prior year in line with the growth in adjusted operating profits.

Adjusted and IFRS operating profit also benefited from the release of a credit loss provision of £1.7m which was recorded in a previous year and as the customer paid the underlying balance in the FY19 was not required.

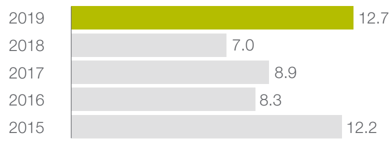
Identity Solutions revenue benefited from £0.3m recognised in the year relating to IFRS 15. This revenue has been recognised on an 'over time basis' in FY19 which is different to the previous timing of recognition under IAS 18.

In May 2019, we have agreed an exit plan for the UK passport contract and now have a clear timeline for the service transfer to the new supplier. We are currently in joint consultation with the new supplier and our employees who may be affected by the changes. This consultation process will conclude by the end of September. Operations for UK passport production will have concluded by end March 2020.

Identity Solutions revenue £m



Identity Solutions adjusted operating profit* £m



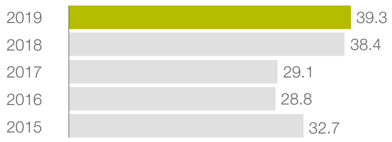
† Reported figures included in this release include the paper business results in FY18 as originally reported and in FY19 they include £48.2m of revenue on non-novated contracts relating to the disposal of the paper business with nil profit margin. Figures reported on the 'excluding paper' basis have been adjusted to exclude revenue from non-novated contracts in FY19. In FY18 'excluding paper' figures exclude the results of the paper business and include pro-forma Security Features sales of £35.0m, which were previously treated as internal, to present the comparative numbers in FY18 on a basis consistent with the IFRS accounting treatment applied in FY19. This is a change in presentation of FY18 results in this release compared to those previously reported in the release in May 2018.

Product Authentication & Traceability

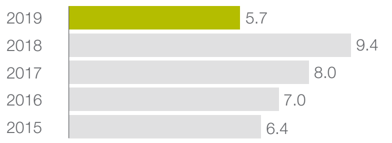
	Excluding Paper†			Reported		
	FY19	FY18	Change	**FY19**	FY18	Change
Revenue (£m)	**39.3**	38.4	+2%	**39.3**	40.1	-2%
Adjusted operating profit* (£m)	**5.7**	9.4	-39%	**n/a**	n/a	n/a
Adjusted operating margin*	**14.5%**	24.5%	-1000bpts	**n/a**	n/a	n/a
IFRS operating profit	**n/a**	n/a	n/a	**3.4**	7.7	-56%
IFRS operating margin	**n/a**	n/a	n/a	**8.7%**	19.2%	-1050bpts

* Excludes exceptional items charges of £2.1m (FY18: £1.6m) and amortisation of acquired intangible assets of £0.2m (FY18: £0.1m). This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on page 153.

Product Authentication & Traceability revenue £m



Product Authentication & Traceability operating profit* £m



PA&T performed in line with our expectations. Revenue increased by 2% on increased volumes. Adjusted operating profit excluding paper† was 39% lower due to £1.2m of upfront operating expenses associated with the tax stamp projects in the UAE and the Kingdom of Saudi Arabia, as well as a £2.3m impact of the move of our PA&T production line from Gateshead to Malta in the first half of the year. We anticipate that the operating margin of this business will improve going forwards as the upfront costs are not repeated, and as the production line gets fully established and optimised.

On a reported basis, revenue declined by 2% and IFRS operating profit was 56% lower due to the loss of operated profits for the paper business and higher exceptional item charges in FY19 compared to FY18.

The digital tax stamp system being rolled out for the Federal Tax Authority of the UAE is now in operation and excisable tobacco products carrying the stamp and digital code are being imported into the Emirates. The system will deliver a scheme fully compliant with the World Health Organisation's FCTC.

Momentum in government revenue solutions (GRS) has gathered pace. In February 2019, we were awarded a five year contract by Her Majesty's Revenue and Customs to implement a track and trace system for all tobacco products sold in the UK to comply with the requirements of the EUTPD, a first digital only contract for PA&T. Also in support of the EUTPD we secured contracts to supply more than 3.5bn tax stamps each year to be applied on tobacco products sold in the UK, France, Austria, Sweden, Finland and Cyprus. Continuing our work to help governments secure excise revenues and meet regulatory requirements, De La Rue signed a five year contract with the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia to implement and operate a digital tax stamp solution for all tobacco products and soft drinks sold in the Kingdom.

On brand protection, DAS has performed well, winning eight new programmes. It has also released several new and enhanced products for Izon® and Traceology®.

Strong momentum in GRS, together with stable growth in brand protection, will drive our PA&T business to double revenue within the next three years.

Financial review

Revenue

Excluding paper†, Group revenue was up 12% to £516.6m (FY18: £461.4m) with growth coming from Currency (up 16%) and PA&T (up 2%). On a reported basis (which includes the impact of non-novated paper contracts) Group revenue grew to £564.8m from £493.9m in FY18 representing a 14% increase and was generated by growth in Currency, the impact of which was partially offset by slightly lower PA&T and Identity Solutions revenue due to the impact of the loss of paper. Further detail on the revenue performance by division is included in our Review of Operations on pages 28 to 31.

Group revenue also benefited from the impact of the adoption of IFRS 15 (revenue from contracts with customers) with a net impact of £12.2m being recognised on an 'over time basis' in FY19 whereas under IAS 18 the majority of this revenue would have been recognised in FY20 on final delivery to the customer. Excluding the impact of IFRS 15 Group revenue would have increased by 9% on an excluding paper† basis and 12% on a reported basis.

Operating profit

Adjusted operating profit excluding paper† increased by 6% to £60.1m (FY18: £56.9m). This growth of £3.2m was a driven by:

- £1.2m increase in Currency operating profit reflecting a greater volume of jobs but with more complexity and lower margin
- £5.7m increase in Identity largely reflecting the fact that the prior year included the write off of bid costs of £3.7m in respect of the UK passport bid, and FY19 included a non-recurring credit due to the release of a bad debt provision where the cash was received from the customer
- £3.7m decrease in PA&T due to product investment for future growth and operating expenses relating to the new contracts that is not expected to recur in 2020

Overall, adjusted operating profit excluding paper† was impacted by £6.9m benefit from IFRS 15 and a net non-recurring credit of £4.0m due to the release of an accrual relating to a dispute which arose out of the well-publicised events of 2010 concerning one of De La Rue's key customers, and the recognition of a net significant bad debt expense (excluding amounts relating to Venezuela). FY18 adjusted operating profit also benefited from a similar value of non-recurring credits from certain provision and accrual releases.

IFRS operating profit on a reported basis was £31.5m and substantially lower than FY18 (FY18: £123.0m) primarily because of the impact of the gain in the prior period relating to the change in indexation methodology on the UK pension scheme, as well as the recording in FY19 of an £18.1m credit loss associated with the accounts receivable balance of a customer in Venezuela. IFRS operating profit also included the benefit of the £6.9m from the adoption of IFRS 15 as referred to above.

In accordance with the Group's policy, the credit loss relating to the customer in Venezuela has been recorded in exceptional items due to the circumstances surrounding the ability of the customer to pay and the size and non-recurring nature. Revenue and standard margin recognised under IFRS 15 when the original sales were recorded have remained in the income statement in adjusted operating profit, as at the point of recognition collectability issues were not anticipated.

Finance charge

The Group's net interest charge was £4.4m (comprising a gross interest expense of £4.5m and gross interest income of £0.1m) (FY18: £3.8m) excluding IAS 19 finance charge and interest income due from the loan notes and preference shares obtained as part of the disposal of Portals paper. Net interest expense in FY19 (excluding IAS 19 finance charge and interest and preference share interest income) was higher than FY18 as the prior period benefited from the release of accruals for potential interest charges relating to tax liabilities, the impact of which was offset by lower interest charges on borrowings due to the lower average level of net debt during the current period as compared to prior period.

† Reported figures included in this release include the paper business results in FY18 as originally reported and in FY19 they include £48.2m of revenue on non-novated contracts relating to the disposal of the paper business with nil profit margin. Figures reported on the 'excluding paper' basis have been adjusted to exclude revenue from non-novated contracts in FY19. In FY18 'excluding paper' figures exclude the results of the paper business and include pro-forma Security Features sales of £35.0m, which were previously treated as internal, to present the comparative numbers in FY18 on a basis consistent with the IFRS accounting treatment applied in FY19. This is a change in presentation of FY18 results in this release compared to those previously reported in the release in May 2018.

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

The IAS 19 related finance cost, which represents the difference between the interest on pension liabilities and assets was £2.1m (FY18: £5.6m). The lower charge reflects the substantial reduction in the pension deficit following the change in indexation methodology which occurred in the second half of FY18, the benefit of which has been in place for whole of FY19.

Interest due on the loan notes and preference shares held in Mooreco Limited (obtained as part of the consideration for the Portals paper disposal) amounted to £0.5m in FY19 (FY18: £nil). The loan notes and preference shares are included in the balance sheet as Other Financial Assets.

The total Group net finance charge is £6.0m (FY18: £9.4m).

Exceptional items

The exceptional items during the period resulted in a net charge of £27.9m (FY18: net gain of £60.9m). These comprise:

- £18.1m credit loss provision associated with the accounts receivable of a customer in Venezuela currently unable to transfer funds due to non-UK related sanctions. In accordance with the Group's policy, the credit loss relating to the customer in Venezuela has been recorded in exceptional items due to its size and non-recurring nature
- £4.8m site relocation and restructuring costs including £1.9m net charges in relation to the completion of the manufacturing footprint review announced in 2015 and costs of £1.3m relating to the finalisation of the finance system upgrade. In addition, costs of £1.6m were incurred in the period following a review of our cost base as reported in HY19
- £2.6m additional loss on disposal net of transaction costs relating to the sale of the paper business due to finalisation of the disposal accounting post-year end and final estimates of associated transaction costs now being known
- £1.7m charge relating to the initial estimate of the impact of the equalisation of pension benefits between men and women, relating to Guaranteed Minimum Payments (GMP)

See note 4 'exceptional items' for further details.

Taxation

The net tax charge in respect of continuing operations for the year was £4.8m (FY18: £16.8m). The effective tax rate on continuing operations before exceptional items and the movement on acquired intangibles was 16.1% (FY18: 15.5%). The effective tax rate for FY20 is expected to be 15-16%.

There was a net tax credit relating to exceptional items in the period of £1.7m (FY18: tax charge of £9.7m).

Earnings per share

Basic Adjusted EPS excluding paper† was up 12% at 42.9p as compared to the prior year figure of 38.2p.

On an IFRS basis, basic EPS on a reported basis was down 80% at 18.8p (FY18: 93.7p) due to the impact of the gain on the change in indexation methodology on the pension scheme in FY18.

Loss from discontinued operations

The loss on discontinued operations in the period, of £2.4m (comprising net charges of £2.8m and £0.4m associated to tax credits), relates to costs associated with a loss-making CPS contract that was not novated post-disposal and other costs associated with the winding down of remaining activity related to CPS. In addition receivables due from CPS totalling £1.4m have been provided for in the year as these are now not expected to be received.

Dividend

The Board is recommending a final dividend of 16.7p per share (FY18: 16.7p per share). This, together with the 8.3p paid in January 2019, would make a full year dividend of 25.0p per share. Subject to shareholders' approval, the final dividend will be paid on 2 August 2019 to shareholders on the register on 5 July 2019.

Cash flow and borrowings

Cash generated from operating activities was an outflow of £4.6m (FY18: inflow of £73.5m). The outflow in the current year was primarily driven by:

- An adverse working capital movement:
  - increased trade receivables primarily due to the phasing of revenue in the current year (negative impact £19m) and the impact of outstanding balances relating to sales to Venezuela (negative impact £18m)
  - a build in accrued income relating to revenue recognised over time under IFRS 15 (impact £9m)
  - the impact of a build in inventory relating to the PA&T segment ahead of the anticipated growth in FY20 (£4.7m)
  - the impact of the above adverse working capital movements was partially offset by higher receipts of advanced payments in the year (positive impact £16m)

Financial review continued

- The overall adverse working capital impact of transactions with Portals De La Rue was £17m, made up of:
  - The one off impact of the £16m paid to Portals in H1 FY19 relating to the payment of previous intercompany balances which were converted to third party working capital following the sale and paid in H1 FY19
  - The impact of an initial build of receivables due from Portals on direct sales of Security Features (negative impact £12m), offset by the impact of payables to Portals for finished banknote paper (positive impact £11m)
- Higher special pension funding payments of £20.5m as compared to £13.5m in FY18

Cash outflow from investing activities was £24.5m and was related to spend on capex and development assets as we invest in the business. Cash flows from investing activities in FY18 were an inflow of £38.0m as capex spend was more than offset by the sales proceeds of the Paper business (£55.8m) and the receipt of £5.0m in advance of the completion of the formation of the new Kenya joint venture which was announced in April 2019.

Cash flows from financing activities were a net cash inflow of £27.2m as dividend payments of £25.7m were more than offset by net cash proceeds on the draw down on the revolving credit facility of £53.5m.

Net debt increased to £107.5m from £49.9m at 31 March 2018 driven by the factors referred to above.

The Group has a revolving credit facility of £275m. The facility expires in December 2021. At the period end the specific covenant tests were as follows: EBIT/net interest payable 12.9 times (covenant of ≥4.0 times), net debt/EBITDA 1.46 times (covenant of ≤3.0 times).

Cash conversion ratio for the year was 53%. The year on year decrease was driven by adverse year on year working capital flows, mainly from accounts receivable as explained in the Cash flows and borrowings section. Cash conversion is the ratio of adjusted operating profit adjusted for depreciation, amortisation and the movement in working capital over adjusted operating profits.

Pension deficit and funding

The valuation of the Group's UK defined benefit pension scheme (the 'Scheme') under IAS 19 indicates a deficit at 30 March 2018 of £76.8m (31 March 2018: £87.6m). The decrease reflects positive asset performance in the year, the impact of higher special funding contributions of £20.5m compared to £13.5m in FY18, the benefit of which was partially offset by an increase in the gross liability position due to a lower discount rate used at 30 March 2019 as compared to 31 March 2018 and the impact of recording the £1.7m additional liability relating to the GMP adjustment.

The charge to operating profit in respect of the Scheme in the period was £2.7m (FY18: £2.3m). In addition, under IAS 19 there was a finance charge of £2.1m arising from the difference between the interest cost on liabilities and the interest income on scheme assets (FY18: £5.6m).

A triennial review of the Scheme's valuation and the funding plan started in April 2018. The existing funding plan agreed in June 2016 will remain in place until the review is concluded. Cash contribution to the Scheme for FY19 was £20.5m and will rise by 4% in FY20.

Capital structure

At 30 March 2019 the Group had net liabilities of £29.2m (31 March 2018: £20.7m).

The Company had shareholders' funds of £190.8m (31 March 2018: £210.5m) and had 103.8m fully paid ordinary shares in issue (31 March 2018: 102.4m) at the year end.

How we performed

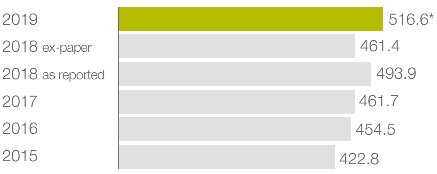
FINANCIAL KPIs

Linking to performance

Performance measures which directly affect the remuneration of our Directors.

See Directors' remuneration report on pages 74-91.

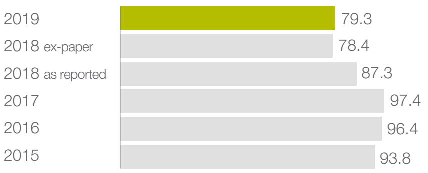
Revenue excluding paper
£m



£516.6m*

Revenue increased by 12% year on year vs 2018 excluding paper and grew by 15% on a reported basis. This growth was driven by strong sales across all Currency product lines and also within PA&T.

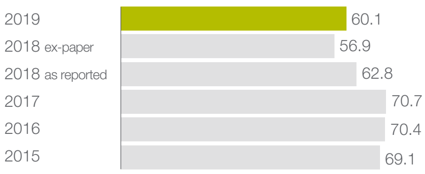
Adjusted EBITDA[1]
£m



£79.3m

Adjusted EBITDA was up by 1% as a strong growth in revenue was offset by market pressures in the Currency segment and upfront costs incurred in PA&T related to the contract wins announced in FY19.

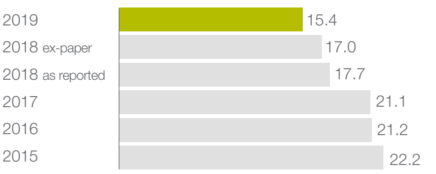
Adjusted operating profit[2]
£m



£60.1m

Adjusted EBITDA was up by 1% as a strong growth in revenue was offset by market pressures in the Currency segment and upfront costs incurred in PA&T related to the contract wins announced in FY19, mitigated by a lower deprecation charge.

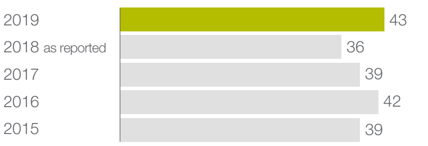
Adjusted EBITDA margin[1]
%



15.4%

The year on year decline despite strong revenue growth is a reflection of the market pressures in the Currency segment and upfront costs incurred in PA&T related to the contract wins announced in FY19.

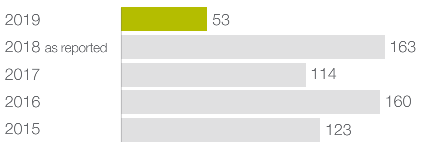
Return on capital employed[4]
%



43%

The year on year increase was primarily driven by a lower average capital employed through the period than the prior year, following the disposal of the capital intensive paper business at the end of FY18.

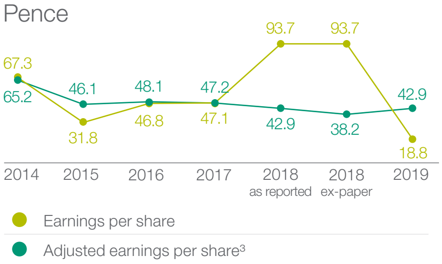
Cash conversion[5]
%



53%

The year on year decrease was driven by adverse year on year working capital flows, mainly on accounts receivable.

Earnings per share
Pence



* Excluding Portals Pass through revenue of £48.2m.

Notes:

1 Adjusted EBITDA represents earnings before the deduction of interest, tax, depreciation, amortisation and exceptional items and on an excluding paper basis.

2 Adjusted operating profit represents operating profit adjusted to exclude exceptional items and amortisation of acquired intangible assets and on an excluding paper basis.

3 Adjusted basic earnings per share are the earnings attributable to equity shareholders excluding exceptional items and on an excluding paper basis, divided by the weighted average number of ordinary shares outstanding during the year.

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

5 Cash conversion is the ratio of operating cash flow (adjusted operating profit plus depreciation and amortisation and working capital movement) divided by the adjusted operating profit.

For further explanations of non-IFRS measures and reconciliations to comparable amounts, see page 153.

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 (ELT). The Risk Committee is accountable for identifying, mitigating and managing risk. Further details about the Committee can be found on page 69. Our formal risk identification process 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, the key controls and management processes we have established to mitigate these risks, and the investment and timescales agreed to reduce the risk to an acceptable level within the Board's risk appetite.

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 ELT meetings, while the Audit Committee also reviews the Group's risk report. The ELT undertakes a risk workshop each year to challenge whether it has identified the principal risks that could impact the business in the context of the environment in which we operate.

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 68 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. There may be other risks that we currently believe to be less material. 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 and assess the Group's risk capacity. See page 41 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.

Risk appetite

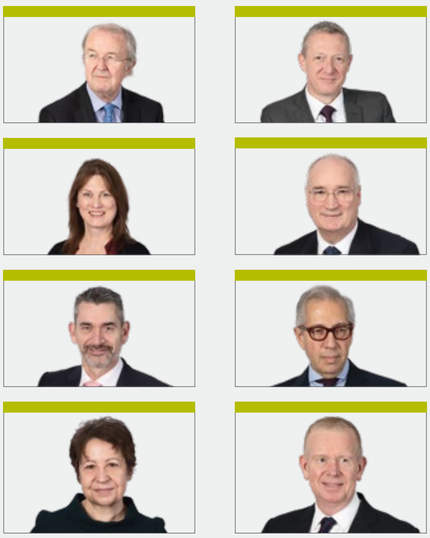
The Board has reviewed our principal risks and considered whether they reflect an acceptable level of risk. Where this is not the case, the Board has also considered what further investment is being made to reduce the likelihood and potential impact of the risk. The Board either approves the level of 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 whistleblowing hotline. All members of the ELT have individual ownership for one or more of the principal risks. Management of those risks forms part of their personal objectives.

De La Rue's risk management framework

Board of Directors and Company Secretary



- Responsible for risk management and internal controls
- Defines risk appetite and tolerance
- Approves the risk profile

Audit Committee
- Reviews the effectiveness of internal controls
- Approves the annual internal and external audit plans
- Reviews findings from selected assurance providers

Risk Committee
- Reviews and proposes the business risk profile
- Monitors the management of key risks
- Tracks implementation of actions to mitigate risks

Ethics Committee
- Reviews ethical risks, policies and standards

Health, Safety and Environment (HSE) Committee
- Sets HSE standards
- Agrees and monitors implementation of HSE strategy
- Monitors HSE performance

Executive Leadership Team
- Accountable for the design and implementation of the risk management process and the operation of the control environment

Group policies
- Policies for highlighting and managing risks
- Procedures and internal controls

Functional management
- Ensures that risk management is embedded into business culture, practice and operations

PRINCIPAL RISKS AND UNCERTAINTIES RANKED BY NET PREDICTED IMPACT

Key for strategic focus

1 Deliver operational excellence
2 Invest for growth
3 Strengthen balance sheet
4 Drive cultural change

Key for risk outlook

Increasing
Decreasing
No change

Exposure	Impact	Mitigation	Impact on strategy	Outlook
Bribery and corruption				
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. A successful prosecution under anti-bribery legislation could see the Company barred from participating in major tenders.	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. There is zero tolerance to non-compliance and it is dealt with through disciplinary procedures. We have a particular focus on raising awareness through local Ethics Champions as well as training on anti-bribery and corruption, and competition law. Our policies and processes are independently audited. Our rigorous 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. This is further enhanced by external due diligence checks. To reduce the exposure of TPPs, we are working on migrating them to employee relationships. Our whistleblowing policy and associated procedures are integral aspects of the compliance framework, which is complemented by a whistleblowing hotline.	4	No change
Failure to integrate and execute M&A activity				
We are seeking to grow our business both organically and through appropriate partnerships and acquisitions.	Acquiring or partnering with third parties carries a level of inherent risk that the transaction may not achieve the expected business benefits over the medium to long term.	We have a controlled process for reviewing all opportunities that have to meet certain criteria before being able to progress to full due diligence and offer stage. This process is led by a skilled in-house M&A team which is supported by each function within the Company and experienced legal and financial advisers. The Board has to approve all such transactions before they can proceed.	2	No change
Failure to innovate and modernise to be competitive				
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 e-commerce, 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 R&D to ensure a steady flow of ideas into our innovation pipeline. Our product roadmaps are designed to meet our customers' needs and to ensure a clear and tested product roadmaps and lifecycle methodology. We continue to invest in modern and cost effective techniques and emerging technologies to enable us to advance our R&D and manufacturing capabilities, and have increased our focus on digital technologies since the strategy review in 2015. We operate an active digital scouting for technology and digital companies, and collaboration with universities to ensure that we remain aware of new technologies.	2	Decreasing
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 fines or warranty costs.	We operate an established end to end quality management system with defined standards and acceptable limits for all products across all production sites. The process is run by dedicated quality professionals. 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. In 2018/19, we introduced further capital and operational investment to prioritise on automated detection technologies to enhance quality across all product lines and ensure customer focused delivery.	1	Decreasing

Risk and risk management continued

PRINCIPAL RISKS AND UNCERTAINTIES RANKED BY NET PREDICTED IMPACT

Key for strategic focus

1 Deliver operational excellence
2 Invest for growth
3 Strengthen balance sheet
4 Drive cultural change

Key for risk outlook

Increasing
Decreasing
No change

Exposure	Impact	Mitigation	Impact on strategy	Outlook
Failure of a key supplier				
We have close trading relationships with a number of key suppliers, including unique producers of specialised components that we incorporate into our finished products. With the sale of Portals De La Rue Limited, our paper supplier now moves to become a third party supplier.	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.	Where we rely on external supply, we have strengthened procedures for identifying possible risks for each supplier as part of the Procurement Transformation Programme, launched in November 2017. Key suppliers are monitored and managed through supplier analytics and contract management programmes. This ensures that all key supplier contracts have been reviewed on their financial strength and their ability to deliver to our quality standards and security, as well as their business continuity arrangements as a part of the onboarding process. Key suppliers are audited on a rotational basis and have a recovery plan in case of failure. As a contingency, alternative suppliers are pre-qualified wherever possible and where necessary we retain higher levels of stocks.	1	No change
Inability to accurately forecast financial information				
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 variance against our predicted financial performance.	We maintain close and regular contact with customers as part of a data driven customer relationship management programme 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. This has included a core focus on improving month end close procedures. We also actively monitor and track actions or any delays in order confirmation on a weekly basis. This enables us to maintain flexibility in the supply chain as far as possible, 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.	3	No change
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 business involves tendering for long term contracts on a constant basis. We have dedicated bid specialists and where necessary contract in additional resources for the largest strategic bids. We have continued engagement with national and international governments to enable expansion of new markets. We employ complex sales methodologies to identify and qualify opportunities. These measures, along with our strong focus on customer service and improving our quality, mean that 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 continued acquisition of new opportunities as they arise. However, as the UK passport contract award announced in March 2018 shows, there can be no certainty that we will win all major contract tenders.	3	No change
Management lack of bandwidth and clear prioritisation to execute the strategy and run the business				
Our business has seen a considerable level of organisational change over the last three years. The Board expects there to be a similar level of change over the next two to three year period.	All grades of staff may become demoralised by the level of constant change in the organisation. Processes, procedures, and control environments may suffer as the ELT continues to implement change.	Our change goals of Transform, Fix and Run are incorporated into the annual objectives each year and cascade via each functional area to provide line of sight to strategy so that all staff understand and are familiar with our priorities. All change initiatives are reviewed and approved by the ELT following risk analysis. All change initiatives are managed through programme managers with progress monitored and reported to the ELT and Board.	4	No change

Exposure	Impact	Mitigation	Impact on strategy	Outlook
Pension fund liability				
The Group's UK defined benefit pension scheme (the 'Scheme') is in deficit. As at 30 March 2019 the deficit as accounted for under IAS 19 was £76.8m (31 March 2018: £87.6m).	We have created a joint working group with the pension trustees to proactively manage our pension obligations. The next triennial valuation is near to completion.	We continue to work with the pension trustees to explore methods of improving the return of the Scheme's assets and reducing the Scheme's liabilities. As announced in November 2017, the trustees changed the primary index for increased Scheme benefits to the Consumer Prices Index. The movements in the assets and liabilities as measured under IAS 19 are in note 24 of the financial statements. We have also appointed external advisers to the Company, who are advising on how to reduce the risk to the Company balance sheet.	3	
Loss of a key site or process				
All our manufacturing sites are exposed to business interruption risks.	The total loss of any one of these 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 and Gateshead UK are accredited to the ISO22301:2012 Business Continuity standard. This is supported by site based business continuity coordinators who ensure that all other sites are aligned to ISO22301:2012 standards. We maintain a 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. These controls are monitored via internal auditing and through monthly business continuity forums, quarterly business continuity management steering committee meetings and annual ELT/audit committee. Risk outlook has increased due to number of reported site risks and escalations.	1	
Failure in health, safety and environment controls				
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 HSE resources and a robust 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, which are being updated to meet ISO45001:2018 requirements. 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 4	
Breach of information security				
A breakdown in the control environment including collusion, non-compliance or an external attack could lead to a cyber security breach resulting in the loss of critical data.	Any compromise in the software functionality or confidentiality of information could impact our reputation with current and potential customers.	Our corporate information systems are accredited to the ISO27001 Information Security standard. This is supported by an independent information security team which is focused on ensuring that all hardware and software deployed has compliant and secure security built in. We maintain a strict control environment to enforce disciplined software development and information security practices and behaviours. A number of key technical controls are in place to manage this risk, including agile software development techniques, behaviour analytics, quality reviews, regular testing, network segregation, access restrictions, system monitoring, security reviews and vulnerability assessments of infrastructure and applications. We also conduct supplier reviews on a risk basis and ensure all of our employees undertake mandatory information security e-learning. Our processes and policies are monitored and audited internally and externally.	1 4	

Risk and risk management continued

PRINCIPAL RISKS AND UNCERTAINTIES RANKED BY NET PREDICTED IMPACT

Key for strategic focus

1 Deliver operational excellence
2 Invest for growth
3 Strengthen balance sheet
4 Drive cultural change

Key for risk outlook

Increasing
Decreasing
No change

Exposure	Impact	Mitigation	Impact on strategy	Outlook
Breach of 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 dedicated security personnel, robust standardised physical security and materials control policies and procedures at our production sites, which reduce the risk of inadvertent loss or theft during manufacturing. This is overseen and monitored by Group Security, HSE and Risk to ensure compliance. Vetting of personnel, training and auditing is conducted in line with the Group Baseline Security Manual. We apply risk assessed stringent operational procedures – and use vetted and approved carriers and personnel – to handle movements of security materials between our sites and onward delivery to customers. All movements are monitored, risk managed and conducted in line with TAPA standards. We also maintain a comprehensive global insurance programme. We also ensure that product security verification and reconciliation are embedded and monitored throughout all sites to ensure that product is stored, shipped, reconciled and destroyed securely and safely.	4	No change
Breach of sanctions				
Entering a contract or other commitment with a customer, supplier or partner which is subject to a sanction or trade embargo could lead De La Rue to be in breach of sanctions. This is a new risk in FY19. Following review by the Audit Committee and in light of continuing developments in this area, the Board considers being in breach of sanctions to be a key risk in achieving the Group's objectives.	Breach could result in imprisonment and substantial fines for individuals, the leadership team, the Board and the Company. In addition it may lead to a withdrawal of our banking facilities, as well as disbarment from future tenders.	We utilise strong policies and processes to ensure national and international sanction compliance. This will be overseen by the newly created Sanctions Board and external auditing of the programme. Commercial opportunities are considered against the sanction risk as standard within the RFA process and we utilise customer relationship management systems to identify medium and high sanction risk opportunities. If identified these are investigated by legal, treasury and commercial teams to ensure compliance.	3	

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.

Whilst 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 and mitigations as set out in pages 37 to 40 and considered plausible scenarios of one or more of the principal risks crystallising in the same time period in the context of its strategic plan.

The two risks identified as having the largest impact on the viability of the Group were:

- Failure to innovate and modernise
- Failure to win or renew a material contract

The Directors have focused on principal risks that could plausibly occur and result in the Group's future operational results, financial condition and future prospects to materially differ from current expectations, including the ability to maintain a dividend, meet current investment plans and comply with Banking covenants. The Board has focused on the impact of these risk scenarios on Group EBITDA, as the limiting factor is the Net Debt/EBITDA covenant, not the absolute value of net debt.

Scenarios that the Directors see as implausible (or outside of the Group's control eg 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 2023. The current facility expires in December 2021, however the Directors are comfortable that the facility will be renewed with the same covenant requirements as the Company enjoys continued strong support from its relationship banks.

Based on the forecasts, net of mitigations for the three years modelled, the maximum reduction in EBITDA that could be supported by the Group before the net debt/EBITDA covenant is breached is 35-40%.

The Directors have reviewed a detailed report of four scenarios over the three year timeframe and the impact that the materialisation of the risks has on the Group's EBITDA and net debt, in order to assess the ability of the Group to maintain its operations within the facility and covenant headroom of its current banking facilities.

Based on the review of these scenarios over the three year period, the Directors are comfortable that there are no recurring breaches of the Group's net debt/EBITDA covenant and therefore have a reasonable expectation that the Group is viable and will be able to meet its obligations as they fall due up to March 2022.

This conclusion is based on the current strategic plan approved by the Board and we acknowledge that we operate in a changing commercial environment which may cause this plan to adapt. In responding to changing conditions, we will continue to evaluate any additional risks involved which may impact the business model and future viability.

Responsible business

De La Rue's mission is to provide products and services that underpin the integrity of trade, personal identity and the movement of goods, supporting economic growth, job creation and prosperity of citizens.

As we strive to enable everyone to participate securely in the global economy, a commitment to responsible business practices is crucial. Membership of the United Nations Global Compact helps to ensure that governance and ethics remain at the heart of the products and services we provide and I am proud to reaffirm our commitment to the UN Global Compact and its principles.

We continue to focus on running our business sustainably, ensuring that alongside a clear Environmental Policy, wellbeing, human rights and labour rights are protected in our customer solutions as well as within our business and its supply chain.

Further information about the ways in which De La Rue as a business supports a fairer, more prosperous and secure future is available on our website www.delarue.com

Martin Sutherland
Chief Executive Officer

> I am proud to reaffirm our commitment to the UN Global Compact.

Further information about the ways in which De La Rue as a business supports a fairer, more prosperous and secure future is available on our website www.delarue.com

Environment

Read more on protecting the environment pages 43-45.

Human Rights

Read more on human rights pages 45-47.

Labour Rights

Read more on labour rights pages 48-49.

Anti-Corruption

Read more on anti-corruption page 49.

We are committed to minimising, as far as is appropriate, the impact of our operations on the environment. We set clear environmental goals and report against them each year. We share our commitment and standards with our suppliers and partners.

We fully support the principles set out in the UN Declaration of Human Rights and the guidelines of the International Labour Organisation, including equal opportunity and freedom from discrimination.

Our Modern Slavery Transparency policy details how we comply with the Modern Slavery Act 2015. We are committed to preventing slavery and human trafficking in our operations and in our supply chain. We work closely with main suppliers and contractors to ensure that their health and safety processes are robust.

We are committed to preventing our employees, third party partners, other representatives, contractors, consultants or other third parties from engaging in bribery or other corrupt practices and implement a robust framework of anti-bribery policies and processes.

Protecting the environment

We aim to minimise risk and our impact on the environment while ensuring the sustainability of the products we offer and the future of our manufacturing sites.

We continue to participate in the Carbon Disclosure Project, a global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts, and work with our customers to reduce environmental impacts together. In addition to the case studies on pages 44 and 45, examples of our environmental stewardship include: aiming towards zero to landfill in the UK, a move towards science based goals where possible; commitment to a Group HSE Sustainability policy and maintaining ISO 14001 certification. Our research and development function reviews and assesses environmental impacts of new products being developed according to our technical manual and we provide our customers with the opportunity to recycle our Safeguard polymer notes with Yes Recycling Ltd as an alternative to landfill or incineration.

Delivering against objectives

Progress against 2018/19 environmental objectives are detailed below:

Objective	Progress
To measure key environmental KPIs in the changed business during the year to enable the business to set science based targets that are realistic for the next two to three years.	Achieved. See 2019/20 objectives below.
To review all products and main processes, identifying all significant carbon impacts in order to drive an investment and change programme.	Partially achieved. Banknote products have been reviewed and work is continuing on remaining processes.
To review our supply chain in order to improve our sustainable procurement and reduce carbon impact.	Some progress has been made but there is work still to be done.
To include Sri Lanka and Kenya in our ISO14001:2015 Group Certification by the end of 2019.	Due to the different legal entities it is not possible to include Sri Lanka and Kenya in the Group certification. However, the sites are operating within the Group Environmental Management System and standards alongside local arrangements.

Our goals/objectives for 2019/20 are:

- an absolute energy reduction target of -2.1% per year until 2021 (set on a science based trajectory)
- to track our sustainability KPI at operational sites of energy used (kWh) per tonne of good output against a target of -5% per annum
- to improve our waste segregation and recycling/reuse options for our polymer waste streams
- to roll out further education on environmental awareness to >80% of operational employees across the Group

Responsible business continued

Greenhouse gas emissions year on year comparison for FY 2018/19

Type of emissions	Activity	2018-19 tCO₂e	2018-19 % of total	2017-18* tCO₂e	2017-18* % of total	% Difference in emissions
Direct (Scope 1)	Natural gas	**2,558**	**7.1**	2,702	7.0	(5)
	Other fuels	**390**	**1.1**	547	1.4	(29)
	Process emissions	**1,496**	**4.2**	1,197	3.1	25
	Fugitive emissions	**0.1**	**0.0**	373	1.0	(100)
	Owned vehicles	**103**	**0.3**	99	0.3	4
	Subtotal	**4,547**	**12.7**	4,919	12.7	(8)
Indirect (Scope 2)	Electricity	**20,054**	**56.0**	19,390	50.1	3
	Subtotal	**20,054**	**56.0**	19,390	50.1	3
Indirect other (Scope 3)	Rail travel	**5**	**0**	5	0.0	(7)
	Air travel	**5,052**	**14.1**	6,961	18.0	(27)
	Non-owned vehicles	**93**	**0.3**	0	0.0	–
	Water	**94**	**0.3**	125	0.3	(25)
	WTT all scopes	**5,985**	**16.7**	7,264	18.8	(18)
	Subtotal	**11,229**	**31.4**	14,355	37.1	(22)
Total gross emissions (tCO_2e)		**35,830**		38,665		(7)
Renewable electricity (tCO_2e)		**0**		0		–
Electricity exported to grid (tCO_2e)		**0**		0		–
Total net emissions (tCO_2e)		**35,830**		38,665		(7)

Intensity metric

	2018-19	2017-18*	% Difference
Total gross emissions (tCO_2e)	**35,830**	38,665	(7)
Total net emissions (tCO_2e)	**35,830**	38,665	(7)
Revenue (£m)	**516.6**	461.4	12
Tonnes of gross CO_2e per million GB £ turnover	**69**	84	(17)
Tonnes of net CO_2e per million GB £ turnover	**69**	84	(17)

* 2017/18 figures have been restated to exclude Overton mill and Bathford mill following the sale of Portals De La Rue.

The numbers have been re-based following good practice.

Methodology: The table and the calculations have been created using the IEA 2017 emission factors for power and DEFRA 2018 for all other emission factors, and comply with DEFRA mandatory greenhouse gas reporting guidelines.

Carbon offsetting events

We regularly take part in events around the world, which involves significant travel. In order to reduce the impact of these activities on the environment, we have agreed to offset all travel and accommodation cost for our delegates and exhibitors at these events.

Working with Carbon Footprint Ltd, De La Rue has estimated savings of 268 tonnes of CO_2 – which is the equivalent of around 29 homes' energy use in a year or the CO_2 emissions of 30,156 gallons of gasoline.

We support three international carbon-offsetting projects, each of which will have a positive impact in the community: a tree project in Kenya, a drinking water programme in Uganda and the Wayang Windu Geothermal power initiative in Indonesia – all locations where De La Rue attended events throughout the year, so directly giving back to the local community.

Energy saving awareness

Energy efficiency in the workplace cuts costs, improves competitiveness and helps to safeguard profits and employment. It also reduces our impact on the environment by reducing carbon dioxide emissions, helping to combat climate change.

During the year, De La Rue Malta launched 'DLR Unplugged', an energy awareness campaign to improve understanding amongst employees on our energy consumption and giving practical advice on energy saving measures for the workplace and home.

The initiative included presentations by representatives from the 'Energy and Water Agency' a governmental agency that specialises in the drafting and implementation of national policies on water and energy.

Gateshead clean water initiative

Our Gateshead site has partnered with Hydro Industries Ltd, a water technology start up in Wales to see if they could help find a way to minimise the chemicals needed to clean the effluent and recover as much purified water as possible. Following a successful week long trial, Hydro Industries designed a custom made solution for the Gateshead plant and signed a £500,000 contract with De La Rue to support them in reducing wastewater. This will be done by installing a reverse osmosis unit, which recycles the waste and splits it from the clean water. Half of the clean water will be put back into the effluent water treatment plant which dilutes the chemicals needed for the process, making it less damaging to the environment and reducing costs. The other half will go back to Northumbrian Water for wider consumption.

The new technology will be installed by summer 2019 and, once fully operational, staff at the plant will be trained to operate and maintain it. If the new project is successful there is potential for it to be rolled out at other De La Rue sites.

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. We have effective management systems in place to protect human rights. Our Code of Business Principles (see our Corporate Governance report on page 71) covers human rights issues including employment principles, health and safety, anti-bribery and corruption and the protection of personal information. The Code also highlights that we seek to provide an environment where employees can raise any concerns via a variety of mechanisms, including a whistleblowing hotline known as 'CodeLine' which is managed by an external third party, and a network of Ethics Champions across the Group where issues can be raised in confidence. A global awareness programme is planned for 2019/20 to promote CodeLine.

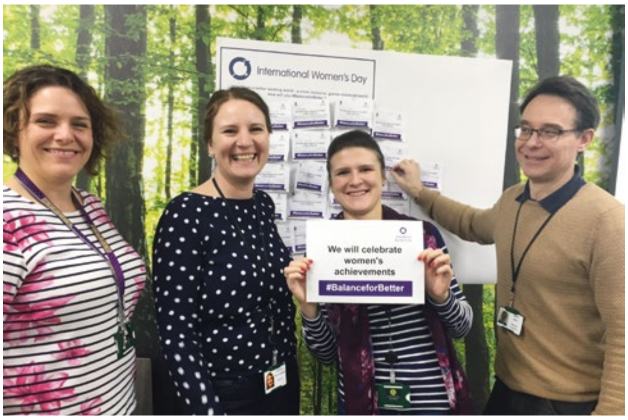
The business has remedial processes in place should there be any human rights infringements. These include claims procedures and trade union engagement procedures.

Equality and diversity

We treat our employees fairly and equally 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. Our commitment to achieving an inclusive and diverse workforce can be demonstrated by the following initiatives and activities:

- By working with our recruitment partner Optamor we have introduced changes to our recruitment process, which seeks to remove bias. For example, CVs are now provided to our managers absent of details not relevant for the role, such as gender and name. By working with Optamor we are also starting to see a richness of management information allowing us to assess our talent acquisition process and start using data to inform decisions

Responsible business continued



International Women's Day

In March 2019 events were held at some of our sites to celebrate International Women's Day. The theme this year was 'Balance for Better' and provided an opportunity to raise the profile of gender issues across the Group.

- Following the successful launch of unconscious bias training last year, open sessions across the organisation have continued. We have also provided an infographic on unconscious bias that is accessible to all employees. We view this training as a key step in developing an inclusive culture but acknowledge that the true value comes from exploring our organisational biases and putting in place action plans to remove any barriers
- We continue to celebrate diversity and our Women's Networks have gained momentum. Networks have been established at our head office site as well as in Sri Lanka and Westhoughton and a number of events have taken place this year, providing both men and women with the opportunity to hear external speakers, create informal networks with colleagues and to discuss and debate topical issues relating to inclusion. De La Rue uses Insights profiling which helps our employees to understand themselves and the teams that they work within. This enables employees to recognise the value of diversity of thought and communication style and improve their ability to communicate with others
- We continue to embed our flexible working policies and implement them whenever possible

Our long term commitment to eliminate any pay gap remains. As at 5 April 2018 our gender pay gap was 15.37% (mean) or 17.47% (median). This was higher than in 2017, but the bonus gap of -2.25% (mean) or 22.88% (median) has decreased. Analysis, however, has shown us that these differences are primarily due to two main organisational reasons not linked to our Inclusion and Diversity strategy. Firstly, at the end of FY17/18 De La Rue sold 90% of its shareholding in the Group's paper business to Epiris and retained the remaining 10% shareholding. This change of ownership meant that c500 employees transferred out of De La Rue to Portals in March 2018. Significantly a larger percentage of males, particularly in the lower two pay quartiles, transferred out compared to females; this decrease in UK employee numbers changed the overall male/female pay ratio and also our gender pay gap. Secondly, individuals in roles covered by our collective bargaining agreement received a lump sum as part of the 2017 pay settlement. These payments are included in the bonus data and consequently show that a high proportion of our employees received a bonus during the year. It should be noted that this payment was unique to 2017 and if we remove this payment from the data, the mean and median bonus gap are more in line with the 2017 figures.

We continue to strive towards improving the proportion of women in senior roles, which we believe to be the underlying reason behind our gap. To reflect our ratio between males and females overall in the UK, we aim to increase the proportion of women within our senior leadership to 30% by 2020. As at the end of this financial year, the percentage was 25%.

Every manager and employee has responsibility for the implementation of our inclusivity policy and training is provided to newly appointed line managers in inclusivity and associated policies and procedures such as stress management, grievance and anti-harassment.

Engagement

On a regular basis we conduct global employee surveys. Our most recent survey was launched in April 2019. The results will be analysed and action plans created through employee workshops. These plans will be closely monitored by the Executive Leadership Team.

We work closely with the relevant trade unions, employee forums and other employee representatives and report to all employees the outcomes of these meetings.

We communicate all relevant news, business and financial updates. To do this we hold regular town hall meetings, conduct conference calls, update our intranet and screens in communal areas, send email announcements and publish monthly site news updates. These are adapted to the audience, whether all staff, a country, a site or department. During the year we have continued to develop a standardised approach to employee communications and engagement across our sites, coordinating campaigns where possible. Examples include National Apprenticeship week in the UK and International Women's Day. Each site organises its own social events including family days and local celebration events and most have an employee forum. Our global employee recognition scheme, High Five, launched in August 2015 and in February 2019 the 100,000th High Five was celebrated. In 2019 we will hold our fourth annual 'Above and Beyond' employee awards event, recognising the most outstanding contributions to the business from across the organisation.

In line with the 2018 Corporate Governance Code, the Board has appointed a Non-executive Director responsible for engagement with the workforce.

Gender diversity as at 30 March 2019

Employees

Male	1,929
Female	853

Senior Management

Male	29
Female	9

Executive Management

Male	5
Female	2

Training and development

A new learning system called 'Venture' launched at the end of the year and is being made available to all employees globally. In its first phase we have encouraged people to explore the content and make suggestions about what they want to see on the system. We have set up small groups to design content that is relevant to different functions, demonstrating how knowledge sharing across the business can be facilitated. The content on the system will continue to grow and our ambition is to enable learners to own their own development by mapping content to career paths. Face to face training globally has been ongoing throughout the year and will continue as part of a blended learning approach. Examples of face to face training include unconscious bias awareness sessions across the business to help our people understand more about themselves and how they can reinforce inclusivity through their actions, storytelling, presenting with charisma, influencing and stakeholder management skills.

With the apprenticeship levy in the UK opening up an increasing number of opportunities for our employees to develop their skills and experience, we now have around 40 colleagues participating in apprenticeship schemes across all of our UK sites. Apprenticeships currently being undertaken include accounting, engineering, machine printing, lean improvement, as well as team leader, management and senior leader apprenticeships to support management development at every level of our organisation. Nearly half of these apprenticeships are at level 5 (foundation degree level) or above, demonstrating that apprenticeships can support everyone at any stage in their development, not just new starters or those just embarking on their career.

Community

We take pride in supporting many varied local charities. This includes the De La Rue Advanced Partnership programme, focused on building a lasting footprint in a country through a programme of sustainability, education, training and enterprise development. Through our relationship with Rwanda Aid we have helped to fund business development for new start ups; giving them a small amount of investment that enables them to take themselves to the next level of sustainability and business success. In order to qualify, the start ups had to have been trading for a set period of time and achieved certain basic goals and also produce a thorough business plan for evaluation.

Our employees around the world continue to engage with their local communities via fundraising activities or giving their time to contribute to projects in their local area. For example, our Malta site has supported several charities including 'Beyond the Moon', a charity which offers holidays to seriously ill children and their families. The site also supported World Down Syndrome Day and a team of volunteers helped with the refurbishment of a children's home.

Responsible business continued

Labour Rights

We directly employ over 2,800 people and provide livelihoods to thousands more indirectly across our global supply chain. Our modern slavery statement details the steps we take to eradicate the practice and suppliers are obliged to abide by the United Nations Convention on the Rights of the Child and International Labor Conventions 138 and 182. Improving health and safety and protecting people in our business is a priority. We insist on the highest health and safety standards and provide training across the organisation to ensure all employees understand and are aware of their responsibilities. During the year we have delivered over 2,000 person days training. Our safety policies ensure accountability and engagement throughout our business and with our suppliers.

Wellbeing

During the year our SAFE health and safety initiative was updated to include mental heath issues, highlighting that health at De La Rue includes both mental and physical wellbeing. We have also piloted mental health awareness training for our managers at head office. The case study opposite gives more details about our network of mental health first aiders.

Health and safety

Progress against our 2018/19 objectives is detailed opposite:

Read more on www.delarue.com

Mental health first aiders

During 2018 we introduced a team of Mental Health First Aiders (MHFAs) to the business as part of a broader focus on employee wellbeing and support.

With over 40 qualified MHFAs located across our six UK sites, we are continuing to roll out a programme of awareness to the wider population and provide additional training resources to support our global sites.

The De La Rue MHFA role is to provide additional support to employees and to understand and assist with any potential mental health issues. They can listen and signpost employees to the appropriate professional help should it be required. The team has been trained by MHFA England, whose vision is to normalise society's attitudes and behaviours around mental health, by developing the skills needed to look after our own and others' wellbeing. Mental health education empowers people to care for themselves and others. By reducing stigma through understanding, MHFA England hopes to break down barriers to the support that people may need to stay well, recover, or manage their symptoms – to thrive in learning, work and life.

All line managers in Malta, one of our manufacturing sites, have completed the MHFA module under the MHFA Malta framework and we are exploring appropriate opportunities for the rest of our business.

Objective	Progress
To bring all the manufacturing sites under the central OHSAS18001 certification.	Due to the different legal entities it is not possible to include Sri Lanka and Kenya in the Group certification. However, the sites are operating in accordance with our Group manual and standards.
To maintain a world class LTIFR per 200,000 worked hours of less than 0.6.	Achieved. Our LTIFR was <0.25.
To maintain our strong HSE training delivery performance of over 2,000 person days per year.	Achieved.
To achieve >92% of conformance to our Zone 'SAFE' EHS inspections programmes.	95% conformance was achieved.
To cascade more certified (eg NEBOSH, IOSH) health and safety training and deliver four 'SAFE' training modules.	Achieved. NEBOSH training has been completed by 92% of those in the Delivery function identified for training. Ninety people across our sites have completed IOSH training. 'SAFE' modules have been updated and issued to sites.

During the year, we experienced zero prosecutions 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. More details on our Company policies and procedures around health and safety and wider labour rights can be found on our website.

We have set the following new objectives for health and safety for 2019/20:

- To maintain our world class LTIFR per 200,000 worked hours of ≥0.25
- To maintain our strong HSE training delivery performance of over 1,900 person days per year
- To achieve ≥94% of conformance to our Zone 'SAFE' HSE inspection programmes
- To ensure all operational line managers and process leaders are trained to IOSH Managing Safely, an equivalent, or higher qualification
- To ensure our OHS management system meets all the requirements of the new international standard ISO45001:2018 (replacing OHSAH18001)

Corporate culture and strategy

The Board receives annual updates on corporate culture. For the first time our employee survey in 2019 included questions related to culture in order to inform and shape the culture of the organisation.

Anti-Corruption

De La Rue are experts in delivering complex features and solutions that help protect against crime and corruption. We are committed to preventing our employees, third party partners, other representatives, contractors, consultants or other third parties from engaging in bribery or other corrupt practices and implement a robust framework of anti-bribery policies and processes.

During the year the leadership group and core personnel in customer facing roles and central functions completed an online affirmation that they understand their obligations and continue to comply with our Code of Business Principles.

BnEI

As the largest commercial security printer in the world, we take our responsibility seriously. We recognise that our influence can help ensure that international standards and best practice become the norm. Being a member of the Banknote Ethics Initiative (BnEI) as well as the Secure Identity Alliance and International Tax Stamp Association provides us with platforms to drive positive changes in our industries towards the highest product and ethical standards. We will continue to use our influence to push for further transparency and accountability in our sector.

Transforming our sales partner remuneration

We are now four years into a five year programme to change the way our sales partners are remunerated. Our aim is to reduce risk to the business while recognising all the work carried out by our partners. A rolling Agent Transition Plan is being implemented to change partner remuneration as agreements become due for renewal. The majority of partners are now engaged under the new scheme, which is based on the BnEI commitments. Work has started to define the next phase of our partner management programme as we drive to further improve our anti-corruption credentials.

Corporate governance

CHAIRMAN'S INTRODUCTION

The Board considers leadership, culture and good governance as essential factors in the Group's ongoing transformation.

Dear Shareholder,

De La Rue operates globally in markets where security, integrity and accountability are paramount. We aim to forge a dynamic, responsive and high performing culture and the Board supports this fully. Our commitment to high ethical standards which underpin our behaviours is incorporated in our Code of Business Principles (CBP) which all employees, business partners and other third party suppliers must follow.

As a Board, we are committed to ensuring that these values and high standards are embedded throughout the Group. Our proposed reorganisation will aim to ensure we have management and cultural attributes to succeed with the executive management team playing an integral role in our governance framework by promoting positive behaviours so that our people understand how we expect to achieve our purpose.

The Board and its Committees have kept abreast of developments in the legal and governance landscape, including The Companies (Miscellaneous Reporting) Regulations 2018 and the 2018 edition of the Financial Reporting Council's (FRC) UK Corporate Governance Code (2018 Code), both of which will apply to the Company from 1 April 2019.

All references to the Code refers to the 2016 edition. The Code contains broad principles together with more specific provisions which set out standards of good practice in relation to Board leadership and effectiveness, accountability, remuneration and relations with shareholders. We will report formally in accordance with the 2018 Code in the 2020 annual report but we believe we are already well-placed to prepare to meet the requirements of the 2018 Code including in respect of Company purpose, values and culture as described briefly in the Strategic report and the Directors' remuneration report. The Board has appointed a Non-executive Director responsible for workforce engagement to represent the Board in this area and to provide the mechanism for gathering the views of the workforce at all levels throughout the organisation to inform its decision making. We undertake an annual review of our governance framework including the terms of reference of the Board and of each of its Committees and as part of the 2019 review the Board approved appropriate amendments to ensure that such terms of reference are fully compliant with the new 2018 Code.

Board changes and 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.

Following the resignation of Jitesh Sodha in March 2018, the Nomination Committee sought a successor to the role of Chief Financial Officer, culminating in the appointment of Helen Willis (who had joined De La Rue as Interim Chief Financial Officer in April 2018) as Chief Financial Officer on 19 July 2018 and an Executive Director on the Board on 26 July 2018.

Post-year end, on 30 May 2019, the Company announced that Martin Sutherland has agreed that he will step down as Chief Executive Officer and as a Director of the Company. He will continue to serve as Chief Executive Officer until his successor is in place.

Board effectiveness

As detailed on page 59, an externally facilitated evaluation of the Board and its Committees was once again undertaken during the year and I am pleased to report that as a result of the evaluation, the Board concluded that both it and its Committees continue to operate effectively.

The Board continues to work closely with the executive management team and offers support and robust challenge as appropriate. All Directors play an active role in overseeing management of the business.

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.

Philip Rogerson
Chairman
30 May 2019

Compliance statement

The Board encourages a culture of strong governance across the business and continues to adopt the principles of good governance and adhere to the requirements of the UK Corporate Governance Code. The Board considers that it and the Company have, throughout the period to 30 March 2019, complied in all respects with the provisions of the Code. The Company's auditors, Ernst and Young LLP, are required to review whether this statement reflects the Company's compliance with those provisions of the Code specified for their review by the Financial Conduct Authority's Listing Rules.

Structure of the corporate governance statement

The Company is subject to the Financial Reporting Council's (FRC) UK Corporate Governance Code (the 'Code').

The report that follows provides an overview of the work undertaken by the Board and its Committees in fulfilling our governance responsibilities and describes how the principles of the 2016 Code have been applied during the period to 30 March 2019, but where actions have been taken in readiness for the 2018 Code, this is noted. The Code is issued by the FRC and is available for review on the FRC website: www.frc.org.uk

Leadership

Read more on leadership pages 52 to 57.

Read more on relations with shareholders on page 61.

The Board is responsible for leading De La Rue, and setting the tone which it believes is most likely to lead to its long term success, and promoting effective engagement with our key stakeholders including employees and shareholders.

Composition, succession and evaluation

Read more on page 58.

We aim to ensure that we have a balanced Board with the skills, experience and knowledge to govern the business, together with an effective evaluation and succession plan.

Division of responsibilities

Read more on page 58.

We ensure we have the right balance of Executive and Non-executive Directors for constructive and challenging debate and decision making.

Audit, risk and internal control

Read more on pages 64 to 73.

The Board defines the strategy, which aims to maximise our performance with minimum unnecessary or unacceptable risks.

Remuneration

Read more on remuneration pages 74 to 91.

The Remuneration Committee ensures that there is a formal and transparent process that aligns executive pay with performance that is simple to understand, linked to strategy and is in the long term interest of the Company and shareholders.

Corporate governance continued

LEADERSHIP

Board of Directors

Philip Rogerson
Chairman

Appointment to the Board
Appointed to the Board in March 2012 and became Chairman in July 2012.

Committees: E N Re

Current directorships and business interests:
- Bunzl plc, chairman
- Blancco Technology Group plc, non-executive director (senior independent director)
- Seal Laundry Management Company Limited, director

Career, skills and experience:
Philip was an executive director of BG plc (formerly British Gas plc) from 1992 to 1998, latterly as deputy chairman. Since then he has been both a non-executive director and chairman of a number of companies.

Martin Sutherland
Chief Executive Officer

Appointment to the Board
Appointed to the Board in October 2014.

Committees: N Ri

Current directorships and business interests:
- International Currency Association, board member
- Forterra plc, non-executive director

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.

Helen Willis
Chief Financial Officer

Appointment to the Board
Appointed to the Board on 27 July 2018.

Committees: Ri

Current directorships and business interests:
- NACRO, trustee director

Career, skills and experience:
Having joined De La Rue as Interim Chief Financial Officer on 16 April 2018, Helen was appointed as Chief Financial Officer on 19 July 2018 and became a member of the Board on 26 July 2018. Helen is a qualified accountant and has a wealth of finance experience, most recently with Premier Farnell PLC, where she held the positions of chief financial officer and director of financial operations between 2014 and 2017, until its acquisition by US parts distributor Avnet in 2017. Her previous experience spans a number of senior finance roles in international manufacturing environments including, among others, AZ Electronic Materials plc.

Andrew Stevens
Senior Independent Non-executive Director

Appointment to the Board
Appointed to the Board in January 2013.

Committees: A E N Re

Current directorships and business interests:
- CAE Inc., non-executive director
- Hèroux-Devtek Inc., non-executive director
- Praesidiad Group Limited, non-executive director/chairman
- Erpe Topco Limited, non-executive director

Career, skills and experience:
Andrew has extensive international experience in the technology and engineering sectors, having spent over 30 years operating across the globe, including in North America, Europe, the Middle East and Asia. He was a director of Cobham plc between 2003 and 2012, where he held a range of positions, becoming chief executive in 2010 until stepping down from that role in June 2012. Before that he held senior positions in Rolls Royce, Messier Dowty International and Spirent plc.

Key for Committees

A Audit Committee E Ethics Committee N Nomination Committee Re Remuneration Committee Ri Risk Committee Committee Chair

Nick Bray
Independent Non-executive Director

Appointment to the Board
Appointed to the Board in July 2016.

Committees: A E N Re

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

Career, skills and experience:
Nick has extensive international experience in the technology and information security industries and, since 2010, 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, having previously held CFO roles at Fibernet Group plc and Gentia Software plc. Prior to that, he held various senior financial positions at Comshare Inc. and Lotus Software.

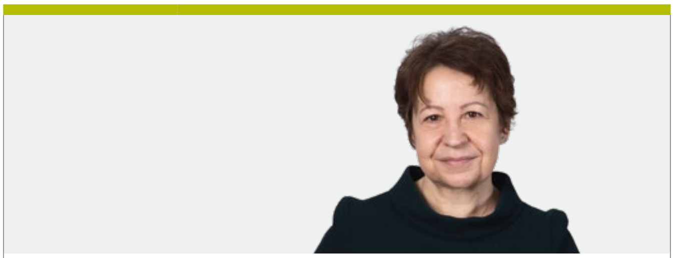
Sabri Challah
Independent Non-executive Director

Appointment to the Board
Appointed to the Board in July 2015.

Committees: Re A E N

Current directorships and business interests:
- CogitalGroup Limited, deputy chairman
- Actis, senior adviser
- Robert Kime, senior adviser

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.



Maria da Cunha
Independent Non-executive Director

Appointment to the Board
Appointed to the Board in July 2015.

Committees: A E N Re

Current directorships and business interests:
- Royal Mail plc, non-executive director
- Community Integrated Care, trustee
- Competition and Markets Authority, panel member

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, from 2000 to July 2018, with British Airways where she was director of people and legal, and was a member of the executive board and corporate security 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.

Edward Peppiatt
General Counsel and Company Secretary

Appointment to the Board
Appointed as General Counsel in March 2009
and as Company Secretary from April 2009.

Committees: Ri

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

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 support the Executive Directors.

Board Diversity

The Board recognises the importance of having an inclusive culture and the value that diversity brings to De La Rue and aims to reflect this within the composition of the Board. The Chairman seeks to ensure that the composition of the Board includes individuals whose varied backgrounds, experience, knowledge and expertise bring a wide range of perspectives to the business.

Following the appointment of Helen Willis on 26 July 2018, as at 30 March 2019, the percentage of women on the Board is 28.5%.

The Group's inclusion strategy is discussed further on page 46.

The role of the Board

The Board is ultimately responsible to shareholders for the direction, management, performance and long term success of the Company. It sets the Group's strategy and objectives and overseas and monitors internal controls (in conjunction with the Audit Committee), risk management, principal risks, governance and viability of the Company. In doing so the Directors comply with their duties under section 172 Companies Act 2006.

To ensure Directors maintain overall control over strategic, financial, operational and compliance issues, the Board meets regularly throughout the year and has formally adopted a schedule of matters which are required to be brought to it for decision.

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

The Board has established certain principal Board Committees to assist it in fulfilling its oversight responsibilities, providing dedicated focus on particular areas, as set out on pages 62 to 91. The Board Committees play an important governance role through the work they carry out to fulfil the responsibilities delegated to them. 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 28 March 2019 and were updated so as to be compliant with the 2018 UK Corporate Governance Code.

Board Diversity

Executive and Non-executive Director balance

Executive Directors	2
Non-executive Directors	4
Chairman	1

Board tenure

More than 5 years	2
3 to 5 years	3
1 to 3 years	1
Less than 1 year	1

Gender of Board

Male	5
Female	2

Read about the Directors' careers, skills and experience on pages 52 and 53.

Board composition

As at 30 March 2019, the Board was made up of seven members comprising a Chairman, Chief Executive Officer, Chief Financial Officer and four independent Non-executive Directors. Helen Willis, Chief Financial Officer, was appointed to the Board on 26 July 2018. Brief biographies and skills and experience of the Directors who held office during the year are set out on pages 52 and 53 and the role of the Board is on page 54. None of the Company's Non-executive Directors had any previous connection with the Company or its Executive Directors on appointment to the Board and all of them are considered by both the Board and the criteria set out in the Code to be independent. Philip Rogerson was considered independent at the date of his appointment and continues to be independent in character and judgement and there are no relationships or circumstances which are likely to affect, or appear to affect his judgement. His external appointments are set out on page 52. The Chairman and each of the Non-executive Directors have a breadth of strategic, management and financial experience gained in each of their own fields in a range of multinational businesses.

In accordance with the Code, Helen Willis will be subject to election at the forthcoming AGM with each of the other Directors subject to re-election.

Board and Board Committee meetings

The Board and Board Committee attendance during the year is shown in the table opposite. Two of the scheduled Board meetings were held at the Group's UK locations in Gateshead and Westhoughton, thus enabling all Directors to visit those sites' operations and meet with employees. In addition to the schedule of Board meetings, the Board meets for dinners which give the Directors additional time together to discuss issues more broadly.

Unscheduled meetings

The unscheduled meetings of the Board held during the year related to various capital expenditure and major business initiatives that required consideration by the Board in accordance with the Group's internal approvals process.

Non-attendance

Some Board members were unable to participate in Board and Board Committee meetings as noted in the table below. If any Directors are unable to attend a meeting they communicate their opinions and comments on the matters to be considered via the Chairman of the Board or the relevant Board Committee Chairman.

Directors' attendance 2018/19[1]	Board[2]	Nomination Committee	Ethics Committee	Audit Committee	Remuneration Committee
Nick Bray	11 (12)	4 (4)	2 (2)	5 (5)	5 (5)
Sabri Challah	12 (12)	4 (4)	2 (2)	5 (5)	5 (5)
Maria da Cunha	12 (12)	4 (4)	2 (2)	5 (5)	5 (5)
Philip Rogerson	12 (12)	4 (4)	2 (2)	–	5 (5)
Andrew Stevens	12 (12)	3 (4)	2 (2)	5 (5)	4 (5)
Martin Sutherland	12 (12)	4 (4)	–	–	–
Helen Willis[3]	8 (8)	–	–	–	–

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 Board meetings were convened on an ad hoc basis to consider matters in between scheduled Board meetings.

3 By invitation, Helen Willis also attended all the Board meetings held during the financial year prior to her appointment as an Executive Director on the Board on 26 July 2018.

Executive Leadership Team (ELT)

Matters that are not reserved to shareholders, the Board or one of its Committees are the responsibility of the Chief Executive Officer who has established and maintains a schedule of delegations of authority to members of the ELT and other management as approved by the Board.

The Chief Executive Officer reports on the Group's 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 is provided with access to all necessary resources and expertise to enable them to fulfil their responsibilities and undertake their duties in an effective manner.

The ELT 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.

Corporate governance continued

LEADERSHIP

The Board's areas of focus

Board activity during the year

The Board has a programme of meetings during the year and also meets on an ad hoc basis as required. In the period under review, the Board's focus has been on progress made on the execution and delivery of the strategic objectives. The Board held a meeting with the ELT dedicated specifically to this review. Feedback and content of discussions were shared with the ELT. 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 product portfolios, progress with agreed strategy and potential business opportunities • Held the annual strategy review meeting in November 2018, following which an updated strategy base case was considered and agreed • Approved updated budget and medium term plans in the context of the agreed strategy • Reviewed progress on implementation of the strategy through regular reports from the Chief Executive Officer • Reviewed potential M&A activity	For more information on our strategy see page 22.
Shareholder engagement	• Reviewed reports from brokers on shareholder feedback following meetings with the Chief Executive Officer and Chief Financial Officer during the period • 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 61.
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 page 35.
People	• Visited the Gateshead and Westhoughton sites during Board meetings in September 2018 and March 2019 respectively • Received an update from the Group Director of Human Resources on people capability, employee engagement and progress on the culture change journey • Succession planning and Board appointment	
Governance and risk	• Received reports from the Group Director of Security, HSE and Risk • Approved principal risks and the risk appetite for those risks • Conducted an assessment of the UK Corporate Governance Code 2018 • Discussed the results of the Board performance evaluation • Received reports from the Chairs of the Audit, Remuneration, Ethics and Nomination Committees • Approved changes to the composition of the Board • Carried out the annual corporate governance review and reviewed and agreed proposed changes to the Terms of Reference for the Board and its principal Committees to bring these in line with the UK Corporate Governance Code 2018 • Considered the scope and remit for a Non-executive Director to be responsible for workforce engagement in line with the UK Corporate Governance Code 2018	For more information on principal risks see pages 36 to 41. For more information on Board Committee reports see pages 62 to 91.
Other	• Approved the 2018 Annual Report and Accounts and the 2018 notice of AGM • Approved the 2018/19 annual budget • Reviewed the Group's insurance programme renewal • Reviewed HSE performance • Approved capital expenditure projects and other matters reserved for the Board • Considered the Group's Modern Slavery Transparency Statement • Approved Non-executive Directors' fees	

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 policy for the Chairman and Executive Directors and monitors the policies and practices applied to senior management remuneration.

See pages 74 to 91.

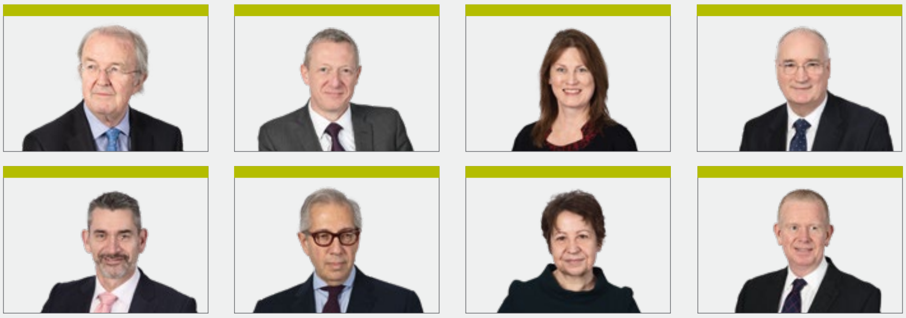
Risk Committee
Oversees the risk management framework for the Group. Identifies, evaluates and monitors principal risks facing the Group.

See page 69.

Audit Committee
Reviews and monitors the integrity of the Company's financial reports, risk processes and internal controls and the effectiveness of the internal audit function and external auditors.

See pages 64 to 68.

Board of Directors and Company Secretary



Nomination Committee
Reviews the structure, size and composition of the Board and its Committees with regard to diversity and to ensuring a balance of skills, knowledge and experience.

See pages 62 and 63.

Ethics Committee
Makes recommendations to the Board on ethical matters and reinforces the Group's commitment to ensuring business ethics are a fundamental and enduring part of the Group's culture.

See pages 70 to 73.

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.

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

Group Health, Safety and Environment Committee
- Makes recommendations on HSE strategy
- Monitors compliance with HSE obligations
- Reports on key HSE KPIs
- Recommends appropriate training and actions to maintain HSE improvements and performance

Corporate governance continued

COMPOSITION, SUCCESSION AND EVALUATION

Board composition and roles

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer, which is set out in writing and has been agreed by the Board. The following table summarises the role and responsibilities of the different members of the Board:

Chairman

- Providing leadership to the Board, setting its agenda, style and tone to promote constructive debate and challenge between Executive Directors and Non-executive Directors
- Take overall responsibility for the composition and capability of the Board and its Committees
- 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
- Chairing the Ethics Committee
- Ensuring high standards of corporate governance and probity throughout the Group are established and maintained

Senior Independent Director

A key role of the Senior Independent Director is to be available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer has failed to resolve, or for which such contact is inappropriate. The Senior Independent Director is also available to the other Directors should they have any concerns which are not appropriate to raise with the Chairman or which have not been satisfactorily resolved by the Chairman. The Senior Independent Director will also lead the recruitment of a new Chairman other than when being considered for the position himself.

Chief Executive Officer

- Maintaining a senior management team with the appropriate knowledge, experience, skills, attitude and motivation to manage the Group's day-to-day activities
- Exercising personal leadership and developing 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 for growth in shareholder value
- Implementing and reviewing HSE policy and, supported by the ELT, overseeing improvements and performance
- Identifying acquisitions and monitoring competitive forces
- Communicating with the Company's shareholders and analysts on a day-to-day basis as necessary (subject to the Chairman being made aware of any such instances)

Independent Non-executive Directors

The Non-executive Directors play a key role in corporate governance and accountability through their attendance at Board meetings and their membership of Board Committees. The Non-executive Directors bring a broad range of business and financial expertise to the Board which complements and supplements the experience of the Executive Directors.

Other Executive Directors

The Chief Financial Officer supports the Chief Executive Officer and is responsible for managing the Group's finance strategy, financial reporting, risk management and internal controls, investor relations programme and the leadership of the finance function.

General Counsel and Company Secretary

The General Counsel and Company Secretary advises the Board on matters of corporate governance and supports the Chairman and Non-executive Directors. He is also the point of contact for investors on matters of corporate governance and ensures good governance practices at Board level and throughout the Group.

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 we seek to build a high performance culture across the business to deliver 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 ELT 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. See page 27 for more information on our culture journey.

Performance evaluation

The Chairman is responsible, with support from the Nomination Committee, for ensuring that the Company has an effective Board with a suitable range of skills, knowledge, experience and diversity. The Company has a formal performance evaluation process for the Board, its Committees and individual Directors. The performance evaluation involved the use of an external independent facilitator, Lintstock Limited. The evaluation is undertaken annually.

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.

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.

All of these processes were carried out satisfactorily during the period. The reviews undertaken in the year have concluded that the performance of the Board, its Committees and individual Directors was effective.

Induction and professional development

All new Directors receive a tailored induction on joining the Board, including meetings with senior management and visits to some of the Group's locations. They also receive a detailed information pack which includes details of Directors' duties and responsibilities, procedures for dealing in De La Rue plc shares and a number of other governance related issues. Directors are continually updated on the Group's businesses, their markets and changes to the competitive and regulatory environments in which they operate. All Directors are encouraged to undertake additional training where it is considered appropriate for them to do so and to visit the Group's facilities on an ongoing basis.

Corporate governance continued

COMPOSITION, SUCCESSION AND EVALUATION

Risk management and internal control

The Board retains overall responsibility for identifying, evaluating, managing and mitigating the principal risks faced by the Group and for monitoring the Group's risk management and internal control systems. However, such systems are designed to manage rather than eliminate the risk of failure to business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. In accordance with principle C.2 of the Code and the related guidance, the Company has established the procedures necessary to ensure that there is an ongoing process for identifying, evaluating, managing and mitigating the principal risks it is willing to take to achieve its strategic objectives (its risk appetite). The Directors confirm that such procedures have been in place for the period ended 30 March 2019 and up to the date of approval of these financial statements and that the Group's risk management and internal control systems have been monitored during the period. 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 37 to 40 and pages 64 to 68 respectively.

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

Whistleblowing

A whistleblowing telephone hotline, CodeLine, 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 its use throughout De La Rue.

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 41 how they have assessed the prospects of the Company, over what period the prospects have been assessed, and the Company's formal viability statement.

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

The Board values the importance of building strong relationships with shareholders and investors.

Shareholders by location
%

UK	65%
North America	26%
Rest of Europe	8%
Rest of world	1%

Shareholder concentration
%

Top 1 to 5	36%
Top 6 to 10	19%
Top 11 to 20	19%
Top 21 to 60	19%
The remainder	7%

Relations with shareholders

The Company reports formally to its shareholders twice a year, with the half year results announced normally at the end of November and the full year results normally at the end of May. In addition, the Board continues to value the importance of building strong investor relations, delivered through an active investor relations communication programme.

In the reporting period, our scheduled engagement programme focused on improving investors' understanding of the Company's strategy, product developments and technology. An extensive investor programme was undertaken involving the Chairman, the Chief Executive Officer, Chief Financial Officer and Head of Investor Relations. This included formal events, roadshows and site visits, along with regular calls and one-to-one investor meetings with representatives of institutional shareholders and prospective investors.

Additional investor engagement activities were initiated by the Chief Executive Officer and the Chairman following the loss of the UK passport contract and the departure of Jitesh Sodha.

The Chairman, Senior Independent Director and other members of the Board make themselves available to meet with institutional investors when requested, taking their recommendations on board where appropriate.

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 25 July 2019 at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire RG22 4BS. 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.

By order of the Board

Edward Peppiatt
Company Secretary
30 May 2019

Corporate governance continued

COMPOSITION, SUCCESSION AND EVALUATION

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.

Principal responsibilities

The key areas of responsibility of the Committee are:

Board structure

- To review the structure, size and composition of the Board and its Committees, to ensure they remain appropriate, with regard to maintaining a balance of skills, experience, knowledge and diversity and to make recommendations to the Board

Succession

- To consider succession plans taking into account challenges and opportunities facing the Company and the skills required

Effectiveness

- 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 Board recognises the importance of having an inclusive and diverse culture, and we aim to reflect this within its composition.

Dear Shareholder

I am pleased to present the 2019 Nomination Committee report.

Members and attendance

Member	Directors' attendance 2018/19
Philip Rogerson (Chairman)	4 (4)
Martin Sutherland	4 (4)
Nick Bray	4 (4)
Sabri Challah	4 (4)
Maria da Cunha	4 (4)
Andrew Stevens[1]	3 (4)

Note:
Figures in brackets denote the maximum number of meetings that could have been attended.
1 Andrew Stevens was absent from a meeting where the only item on the agenda was his own re-appointment.

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

Operation of the Committee

The Committee leads the process for nominations to the Board, making recommendations to the Board as appropriate. It gives full consideration to the composition of the Board and succession planning for Directors and senior executives. The Chairman and the independent Non-executive Directors, together with the Chief Executive Officer, are members of the Committee.

Committee meetings

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

Activities during the period

This year the Committee's main activity was Board and senior leadership succession planning, in particular the search for, and appointment of, a new Chief Financial Officer. This was achieved through a mixture of formal meetings and frequent informal exchanges. Further detail on the process involved is given under Board changes below.

Other areas of focus included:

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

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.

Philip Rogerson
Chairman of the Nomination Committee

Board changes

Following the resignation of Jitesh Sodha in March 2018, the Nomination Committee sought a successor to the role of Chief Financial Officer. The Board retained Russell Reynolds Associates, an independent executive search firm which does not have any other connections with the Company, to conduct an extensive and thorough search. Two candidates were short listed, of whom Helen Willis (who had joined De La Rue as Interim Chief Financial Officer in April 2018) was the preferred candidate. Helen was appointed as Chief Financial Officer on 19 July 2018 and became a member of the Board on 26 July 2018, following the conclusion of the AGM.

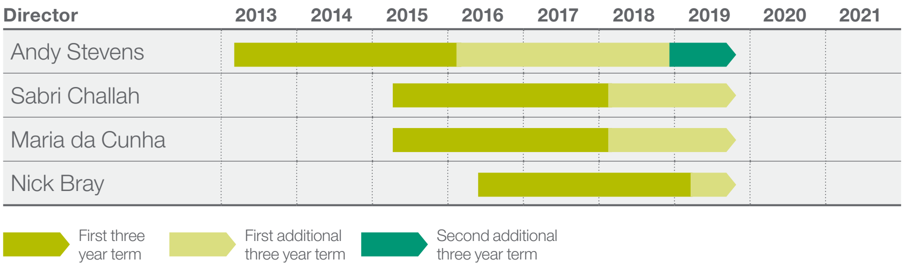
Board Diversity policy

Diversity and inclusion continues to be an area of focus for the Nomination Committee and the Board is committed to promoting an inclusive and diverse culture in terms of ideas, skills, knowledge, experience, education, ethnicity, gender, or any other relevant measure.

The primary objective and responsibility of the Board when making new appointments is to ensure the strength of the Board's composition. The Board will continue to follow a policy of ensuring that the best people are appointed for the relevant roles while ensuring that the Board members are able to provide the range of perspectives, insights and challenge required to support effective decision making. Appointments will be made based on merit by assessing candidates against objective criteria, but recognising and embracing the benefits of greater diversity. The Committee will instruct search consultants to identify candidates who meet the skills and experience brief and as with previous appointments, the Board will consider candidates from the widest pool.

As at 30 March 2019, the Company has two female Directors (one Executive, one Non-executive) (nearly 30%) which is higher than last year. Maria da Cunha is a Non-executive Director and Helen Willis, Executive Director, is our Chief Financial Officer.

Non-executive Directors' periods of appointment



Non-executive Directors are appointed for an initial period of three years with the expectation of one further three year term, subject to satisfactory performance and annual re-election by shareholders. Terms beyond this period are considered on a case by case basis and only following rigorous review, taking account of performance and ability to contribute to the Board in light of the knowledge, skills, experience and diversity required.

The Group has formally approved an Inclusivity policy describing De La Rue's commitment to a working environment where all people feel valued and respected as individuals. Further details on the Group's approach to inclusion and diversity and the gender pay gap are set out on pages 45 and 46.

Succession planning and talent

The Committee recognises that having the right Directors and senior management is crucial for the Group's success and a key task of the Committee is to ensure that there is a robust and rigorous succession process to ensure that there is the right mix of skills and experience as the Group evolves. During the period, the Chief Executive Officer and Group HR Director led a comprehensive talent review and succession planning presentation to the Committee and to the Board.

The review focused on the executive pipeline from which future leaders of the Company were likely to emerge, both at ELT level and other key management areas. Strong successors and a diverse pipeline of 'ready later' emerging talent have been identified.

The Board meets ELT members and other key managers formally and informally to exchange views and ideas.

Election and re-election

Helen Willis, having been appointed by the Board since the last AGM, will stand for election at the 2019 AGM. As in previous years, and in accordance with the UK Corporate Governance Code, all other Directors will stand for 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
30 May 2019

Corporate governance continued

AUDIT, RISK AND INTERNAL CONTROL

Audit Committee

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

Principal responsibilities

Financial reporting

- Reviewing the integrity of the interim and full year financial statements
- Reviewing significant financial reporting issues and judgements
- 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

Risk management and internal audit

- Monitoring and reviewing the effectiveness of internal financial controls and internal control and risk management systems
- Reviewing the effectiveness of the internal audit function
- Reviewing the effectiveness of the Group's whistleblowing procedures and arrangements

External audit

- 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
- Reviewing and monitoring the external auditor's effectiveness, independence and objectivity including the nature and appropriateness of any non-audit fees

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

Dear Shareholder

I am pleased to present the 2019 Audit Committee report. This report describes the Committee's ongoing responsibilities and key tasks as well as its major activities in the period ended 30 March 2019.

Members and attendance

Member	Directors' attendance 2018/19
Nick Bray (Chairman)	5 (5)
Sabri Challah	5 (5)
Maria da Cunha	5 (5)
Andrew Stevens	5 (5)

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

Operation of the Committee

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, by virtue of my position as Chief Financial Officer of Sophos Group plc. Biographies and experience of members of the Committee can be found on pages 52 and 53.

I have continued with the practice of inviting the Chairman, Chief Executive Officer, Chief Financial Officer, General Counsel and Company Secretary, and the external and internal auditors to join meetings of the Committee. The Group Director of Security, HSE and Risk also attends Committee meetings at specific times during the year. The internal auditor and external auditors each meet the Committee without Executive Directors or other employees being present.

Committee meetings

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

Nick Bray
Chairman of the Audit Committee

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
- Group disclosure and whistleblowing policy
- Going concern and viability assessment
- External auditor effectiveness, independence, and fees (including non-audit fee)
- Review of improvements made to the Group's Business Continuity Plan
- 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
  - Business continuity
  - Internal control self assessment review
  - HSE legal assurance and compliance audits
- Audit Committee effectiveness

Providing rigorous oversight and challenge of the Group's internal controls and risk management processes and procedures continues to be an important part of the Committee's role and an essential aspect of the Group's corporate governance framework.

Significant accounting matters

The Audit Committee is responsible for reviewing whether suitable accounting policies have been adopted and applied consistently and determining if management has made appropriate estimates and judgements in the preparation of the financial statements. During the period, the Audit Committee has also overseen the adoption of the new IFRS 15 and IFRS 9 Financial Reporting standards. In addition, the Audit Committee has reviewed and considered and challenged a number of key accounting areas and judgements as set out below.

Adoption of new Financial Reporting Standards in the period

Implementation of IFRS 15 (Revenue from contracts with customers):
During the year, the Committee oversaw the adoption of IFRS 15. A detailed assessment was undertaken, and a number of areas identified where revenue recognition is different for certain customer contracts. The Audit Committee reviewed the analysis and impact and determined that where certain contracts are to be recognised over time under IFRS 15, the establishment of the enforceable right to payment is potentially a complex judgement and has therefore concluded that this represents a critical accounting estimate. Further consideration of this is detailed below.

Implementation of IFRS 9 (Financial instruments):
The Audit Committee has reviewed the Group's assessment of the impact of IFRS 9 and concluded that it does not have a material impact to the Group. The key change resulting from IFRS 9 is the adoption of the Expected Credit Loss (ECL) model for the calculation of an allowance for future credit losses. The Audit Committee has reviewed the methodology applied by the Group for calculating the ECL and has considered both the segmentations applied to identify customers with a similar credit risk and the loss rates applied to each and considered that these are appropriate.

Revenue recognition over time: enforceable right to payment for performance completed to date

During the period, judgement has been made on certain contracts that an enforceable right to payment for performance completed to date exists, which is required to allow revenue recognition over time rather than at a point in time under IFRS 15. This represented a complex judgement considering the legal terms within the contract and required expert legal opinion from external lawyers. The Audit Committee has reviewed the assessment prepared by management and is comfortable based on the understanding of the legal terms, that the 'over time' revenue recognition criteria have been met as it can be demonstrated that an enforceable right to payment exists.

Revenue recognition

The Committee considered the Group's revenue recognition 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 the adoption of IFRS 15 and 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 based on analysis prepared by independent actuaries 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 and CPI inflation rates and mortality.

Corporate governance continued

AUDIT, RISK AND INTERNAL CONTROL

During the year, a £1.7m charge was included within exceptional items relating to the booking of an additional provision for the Guaranteed Minimum Pension (GMP). The Committee reviewed the key assumptions used by the independent actuaries in calculating the additional provision arising due to GMP and concluded that it represented a reasonable estimate of the additional liability required.

The Committee discussed the reasons for the decrease in the net pension deficit and was satisfied that the assumptions used were appropriate and were supported by independent actuarial specialists. Details of the key assumptions used are set out in note 24.

Valuation of inventory

The Committee reviewed the Group's policies and procedures over the valuation and recoverability of inventory in Currency (£24.1m). 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 accruals and 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 all material accruals and 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 accruals and provisions carried.

The Group currently has certain ongoing taxation assessments which are provided for where the Company considers it probable that an outflow of economic benefits will occur and the amount can be reliably measured. Where the Company considers that the chance of an outflow is remote no provision is recorded and no disclosure is given. The Committee has considered the latest available information provided by management including the latest view of external advisers and is confident with the judgements made in preparing the financial statements in the current period.

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 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.

During the current year, the accounting policy for exceptional items has also been updated with regards to items related to the Group's defined benefit arrangement to include not just curtailments but also changes to the liability which are considered to be of a permanent nature and therefore recorded in the income statement. Specific examples of this include the change in GMP and the indexation change.

The Committee considered this change and concluded that such items are non-recurring and not representative of underlying business performance and consequently including them in exceptional items helps to provide users of the accounts with a more meaningful understanding of the underlying business performance.

The Committee also considered other material items in order to determine the appropriate classification in exceptional items or adjusted operating profit.

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

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

Update on accounting following the disposal of Portals De La Rue Limited in 2018

The Committee reviewed the updated disposal accounting for Portals De La Rue Limited. The Committee reviewed the:

- Critical accounting estimates used in the estimate of potential recompense of consideration
- Accounting treatment for the disposal group under IFRS 5
- Appropriate accounting treatment for the remaining interest De La Rue has in the Portals De La Rue

Following presentations by management and discussions with the external auditors, the Committee was satisfied with the disclosures relating to the disposal of Portals De La Rue Limited.

Independence and objectivity of external auditors

The Committee ensures that the external auditors (Ernst & Young LLP) 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 Ernst & Young LLP 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)

However, it may be cost effective for Ernst & Young LLP to perform certain non-audit services, in particular where the skills and experience required make Ernst & Young LLP 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 Ernst & Young LLP to avoid conflicts of interest or loss of independence.

In addition, the Group's policy is for any individual assignment to be undertaken by Ernst & Young LLP where the fee is likely to be in excess of £50,000 to be approved by me prior to commencement of work. During 2018/19, the amount of non-audit fees paid to Ernst & Young LLP was £0.1m.

Ernst & Young LLP put safeguards in place to 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 Ernst & Young LLP 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, Ernst & Young LLP, in reporting to shareholders.

The Ernst & Young LLP audit partner is present at Audit Committee meetings to ensure communication of matters relating to the audit. The Audit Committee has regular 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.

During the year the Group's audit for the year ended 31 March 2018 has been subject to inspection by the FRC's Audit Quality Review team. No significant findings were identified by the regulators during the course of this inspection in respect of the audit procedures performed.

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.

Ernst & Young LLP have been the Company's auditors since June 2017, when they were appointed by the Board following the most recent tender of the external audit. They have since been re-appointed at the annual general meetings held in July 2017 and July 2018.

During the year ended 30 March 2019, the Audit Committee met privately with Ernst & Young LLP on four occasions, without executives of the Company being present.

Corporate governance continued

AUDIT, RISK AND INTERNAL CONTROL

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 36 to 40. 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 delivery of the internal audit function has been outsourced since 2009. PricewaterhouseCoopers LLP have performed this role since the start of 2013/14.

Internal audit continued to ensure that their efforts were 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. This self assessment process has been refreshed in the year to reflect improvements in the overall Group controls framework. 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 2019/20 Internal Audit plan was approved by the Committee in April 2019 and during the year ended 30 March 2019, the Audit Committee met privately with PricewaterhouseCoopers LLP on two occasions, without executives of the Company being present.

Fair, balanced and understandable view

At its May 2019 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
30 May 2019

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.

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

Dear Shareholder

On behalf of the Risk Committee, I am pleased to present the 2019 Risk Committee report. This report sets out the composition, role and activities of the Committee in the period ended 30 March 2019.

Members and attendance

Member	Members' attendance 2018/19
Edward Peppiatt (Chairman)	3 (3)
Steve Brown (ceased to be member during the year)	1 (1)
Andrew Davidson (new appointee)	2 (2)
Jo Easton	3 (3)
Bryan Gray	3 (3)
Richard Hird	3 (3)
Selva Selvaratnam	3 (3)
Martin Sutherland	3 (3)
Martin Sutton (ceased to be member during the year)	1 (1)
Helen Willis	3 (3)

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

Operation of the Committee

The Committee comprises all Executive Directors of the Board, the rest of the ELT members and the Group Director of Security, HSE and Risk. The Committee meets and reports to the Board at least annually.

Any Director may attend meetings and the Board may appoint any other individual as they determine.

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 three times.

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 36 to 40)
- Risks associated with Brexit, including preparedness and risk ratings under both 'Deal' and 'No Deal' scenarios
- Risk appetite
- Controls and mitigations implemented to manage banking arrangements effectively
- Improvements made to the Group's Business Continuity Plan
- Specific operational risks of concern and the mitigations in place
- Data protection requirements

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 are set out in the risk and risk management report on pages 36 to 40.

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 HSE and security.

Edward Peppiatt
Chairman of the Risk Committee
30 May 2019

Corporate governance continued

AUDIT, RISK AND INTERNAL CONTROL

Ethics Committee

The Committee is responsible, on the Board's behalf, for reviewing compliance with the Group's CBP. 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.

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

Dear Shareholder

I am pleased to present the 2019 Ethics Committee report.

Members and attendance

Member	Directors' attendance 2018/19
Philip Rogerson (Chairman)	2 (2)
Nick Bray	2 (2)
Sabri Challah	2 (2)
Maria da Cunha	2 (2)
Andrew Stevens	2 (2)

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

Operation of the Committee

The Committee comprises all Non-executive Directors of the Board. The Chief Executive Officer and other Board members may attend meetings at the invitation of the Committee. Members of the ELT and other employees, including Functional Heads, may be asked to attend from time to time to address specific matters.

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 twice.

Activities during the period

During the period to 30 March 2019, the Committee focused on the following activities:

- Status of the restructuring of the management of TPPs programme
- CBP activity update
- Update on BnEI activities and progress
- Review of the gift register for Executive Directors
- Review of reports on issues raised through the whistleblowing hotline – CodeLine – and other channels and review of results of any investigations into ethical or compliance breaches or allegations of misconduct
- Review of business ethical risk and consideration of actions

Business ethics are a fundamental and enduring part of the Group's culture and governance framework.

Philip Rogerson
Chairman of the Ethics Committee

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 conducts its business with integrity, honesty and transparency to maintain the trust and confidence of its customers, and everyone it deals with both inside and outside the Group.

The Group has clear core values and principles which govern how all employees and business partners must behave and we believe that by committing to these values the business will be well-placed to deliver its strategic objectives with the expected behaviours.

We recognise that our business is exposed to risks of unethical conduct because of the nature and value of many of our contracts and because the standards of integrity may not be consistent across all the countries in which we operate. We have a robust compliance programme in place which allows us to manage these risks effectively as explained below.

The Group's ethical framework is supported by the standards, policies, internal controls and communication as highlighted on page 73. We expect all our employees, consultants and those acting on our behalf to adopt these standards. We are participants of the UN Global Compact initiative which we are using as a guide to align our Company strategies and operations with business 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

We have a clear approval process for gifts, entertainment and hospitality offered by or given to our employees. All employees are required to comply with the gifts and hospitality policy which requires all gifts, entertainment and hospitality above a nominal value to be recorded on a central Gift Register which is reviewed on a monthly basis. 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 BnEI which 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.

De La Rue's re-accreditation was confirmed at Level 1 in April 2017. 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. 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. We have risk management measures and controls in place including in relation to remuneration of TPPs and we monitor all payments to ensure that the remuneration structure does not incentivise unethical behaviour.

Corporate governance continued

AUDIT, RISK AND INTERNAL CONTROL

The Board has core values and principles which govern how we behave and operate.

The Committee receives regular reports on payments made to sales consultants, together with an update on the progress in moving TPPs away from the traditional commission-only model. This is part of a five year plan and reflects the Group's aim to reduce risk and manage partner performance and reflects the recommendation of the BnEI.

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. An Ethics Champions' conference was held in October 2018 and sessions included refresher training and an external speaker who presented on 'Encouraging a Speak Up Culture'.

Whistleblowing

We encourage all employees and people acting on our behalf to speak up if they have any concerns. 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 and all findings and remedial actions are reported in detail in periodic reports prepared for and reviewed by the Ethics Committee.

Training

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

- Face-to-face introduction to TPP training sessions to new TPP stakeholders
- Competition law training where relevant for all new starters
- Online training modules for TPPs and relevant employees
- Senior managers, members of the Customer & Commercial team and core functional employees completed online CBP refresher training and affirmations
- Security awareness training including guiding principles on ethical behaviour for employees travelling overseas, backed up by an online e-learning course for all travellers going to high or extreme security risk destinations

Philip Rogerson
Chairman of the Ethics Committee
30 May 2019

Code of Business Principles – 9 Topics

Bribery and corruption	Competition and anti-trust	Gifts and hospitality	HSE	Employment principles	Records and reports	Personal information	Insider trading	Conflicts of interest

Backed up by policies

• Anti-bribery and corruption • Gifts and entertainment • Charitable giving	• Competition and anti-trust	• Gifts and entertainment • Expenses • Anti-bribery and corruption • Conflict of interests	• Health and safety • Environment • Fire safety	• Equal opportunities • Fairness and respect • 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 and Anti-Corruption Committee	UN Global Compact		

Directors' remuneration report

ANNUAL STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

The Committee's responsibilities are outlined in its terms of reference which can be found at www.delarue.com. The responsibilities are reviewed annually and referred to the Board for approval.

Principal responsibilities

A summary of the responsibilities are as follows:

Remuneration

- Setting and reviewing the remuneration of the Chairman, Executive Directors and senior executives who report to the Chief Executive Officer
- Ensuring that all remuneration paid to Directors is in accordance with the Company's previously approved remuneration policy
- Ensuring that all contractual terms on termination, and any payments made, are fair to the individual and the Company
- Monitoring the reward policies and practices throughout the business

Incentive plans

- 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

Governance and compliance

- Ensuring that provisions relating to disclosure of remuneration as set out in the relevant legislation, the UK Listing Rules and the UK Corporate Governance Code are fulfilled

Dear Shareholder

As Chairman of the Remuneration Committee, I am pleased to present the Directors' remuneration report for the period ended 30 March 2019 which has been prepared by the Remuneration Committee and approved by the Board.

Background and business context

Against a backdrop of challenging market conditions, progress has been made over the year in product innovation, driving organic growth, improving efficiency of operations and shaping the culture of the business. Strong performance in order intake growth, with multiple wins in brand protection and government revenue solutions, has helped to offset declining margins in the Currency Print business and longer term will help compensate for the loss of the UK passport contract.

During the year, a comprehensive strategic review took place that reaffirmed the strategy to transform De La Rue into a less capital intensive, more technology led business with a more balanced portfolio that delivers growth, improves the quality of earnings and reduces volatility in the business.

This year, strategic progress has continued with wins in brand protection and Government Revenue Solutions delivering a significant change to product mix, underpinning our confidence in our ability to deliver the strategic goals in these markets.

Our remuneration policy remains a critical catalyst to delivering both the in-year performance and longer term transformation of De La Rue. Incentives are geared towards rewarding achievement against both operational and strategic goals and reinforcing the behaviours and culture that support sustainable growth.

Sabri Challah
Chairman of the Remuneration Committee

Members and attendance

Member	Directors' attendance 2018/19
Sabri Challah (Chairman)	5 (5)
Philip Rogerson	5 (5)
Nick Bray	5 (5)
Maria da Cunha	5 (5)
Andrew Stevens	4 (5)

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

Committee meetings

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 at the time of his appointment as Chairman. The Committee met five times during the period and details of attendance can be found above. The Chief Executive Officer and the Group Director of Human Resources also attended meetings by invitation. The General Counsel and Company Secretary, who is also secretary to the Committee, advised on governance issues.

No Executive Director or employee is present for or takes part in discussions in respect of matters relating directly to their own remuneration.

Compliance statement

This report has been prepared on behalf of, and has been approved by, the Board. It complies with the Large and Medium-sized Companies and Groups (Accounts and Reports) (amendment) Regulations 2013 (the 'Regulations'), the UK Corporate Governance Code and the FCA's Listing Rules and takes into account the policies of shareholder representative bodies. The Companies Act 2006 and the Listing Rules require the Company's auditor to report on the audited information in their report on pages 96 to 103 and to state that this section has been properly prepared in accordance with these regulations.

In accordance with the Regulations, at the 2019 AGM the Company will be asking shareholders to vote on an advisory basis on the annual report on Directors' remuneration as set out on pages 81 to 91 which provides details of the remuneration earned by Directors for performance in the period ended 30 March 2019 and describes the planned implementation of the remuneration policy in 2020.

We believe our remuneration policy is critical to delivering both planned performance each year and the longer term transformation of De La Rue.

Activities during the period

- Approval of the ELT group and strategic 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 ELT
- Determination of remuneration for the new Chief Financial Officer and Executive Director
- Determination of retention arrangements for key senior executives
- Review and approval of the Directors' remuneration report
- Review of the proposed changes to the remuneration policy statement and consultation with major shareholders and institutional bodies
- Review of market trends and latest developments in governance including the new UK Corporate Governance Code 2018
- Awards under the UK Sharesave employee share scheme
- Review of the report on gender pay gap and action plan

Structure of Directors' remuneration report

This report is presented in two main sections: an annual statement from the Chairman of the Committee and summary of the remuneration policy, and the annual report on remuneration for 2018/19. The Directors' remuneration policy was approved by shareholders at the AGM held on 20 July 2017 and had a binding effect at that date. The policy is not subject to a vote at the 2019 AGM. A copy of the remuneration policy approved in 2017 can be found in the annual report 2017 on the Company's website www.delarue.com

Remuneration policy

Our Directors' remuneration policy was approved by shareholders at the 2017 annual general meeting, and a summary of the policy is detailed on page 78.

As reported last year, we reviewed the way in which our remuneration policy is implemented, with particular focus on our variable pay plans, to assess the degree to which the performance measures and targets remain aligned to our Group strategy and forecast performance. As part of this review, we consulted with our largest shareholders and have taken on board their sometimes divergent comments and views.

A summary of the changes implemented in 2018/19 is set out below:

Changes introduced to the operation of the Performance Share Plan 2018

- Re-weighting of the performance measures under the PSP from 75% EPS: 25% ROCE to 50% EPS: 50% ROCE. Significant increase to the stretch of the ROCE performance targets at threshold and maximum to reflect recent and forecast performance, and our strategic plan (from 30%–36%, to 34%–40%)
- Widened the EPS growth target range to better reflect recent and forecast performance, and our strategic plan (from 5%–10% to 4%–12%)

Further details can be found in the annual report on remuneration on page 81.

Context of remuneration

The Group has achieved a reasonable underlying performance and continued its strategic progress in a year of transition. Group turnover and intake orders have been strong and we are making progress in diversifying our revenue, moving from printing banknotes into more digital and service-oriented businesses.

Developments in 2019

As announced in April 2018, Helen Willis (who had joined De La Rue as Interim Chief Financial Officer in April 2018) was appointed as Chief Financial Officer on 19 July 2018 and became an Executive Director and a member of the Board on 26 July 2018, following the conclusion of the AGM.

Directors' remuneration report continued

ANNUAL STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Outcomes 2018/19 Annual Bonus Plan (ABP)

The maximum opportunity for Executive Directors under the ABP is 135% of salary for the Chief Executive Officer and 115% for the Chief Financial Officer. For 2018/19, the bonus opportunity was based 80% on financial performance and 20% on achievement of strategic personal objectives. The weighting of the financial performance objectives was as follows:

- Group revenue 20%
- Group underlying operating profit 40%
- Group cash conversion 20%

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

In light of the above structure and ABP measures, I report that the ABP payout against the financial measures outlined above will be 23.8% of a maximum of 80% of entitlement. A payment of 10% against a maximum of 20% was achieved on the personal element.

Full details are on pages 82 and 83. This year, to improve transparency, we have provided further disclosure of the personal strategic objectives and the Committee's assessment of the extent to which they have been achieved (whilst noting that the more granular detail of these targets could be of interest to our competitors).

Performance Share Plan (PSP) Vesting 2019

Awards under the PSP in 2016/17 had three year performance criteria based on EPS and ROCE. Seventy-five per cent of the award was based on EPS average compound growth of between 5% and 10% and 25% of the award was based on average ROCE of between 30% and 36%. The EPS performance criteria were not met, however average ROCE over the three years of 39% was above the target range. This achievement delivers a full payout against this measure. The 2016/17 PSP therefore vests at 25%. The details in respect of Martin Sutherland are included on page 85.

PSP awards in 2018

The Remuneration Committee made awards under the PSP in 2018 and details of award levels and the performance conditions are on pages 85 and 86.

2019 salary review

The Committee has reviewed the salary levels of the Executive Directors and against the backdrop of a challenging year, concluded that no increases will be made for 2019. Salaries will be reviewed again in the normal way in 2020.

Gender pay

In line with the UK regulations we published gender pay gap data and narrative in January 2019. Further information is provided on page 47 within our Responsible business section.

2019 review of implementation of remuneration policy and shareholder consultation

This year the Committee, with support from our independent remuneration consultants, has reviewed the weighting and measures for the short term incentive plan (ABP) and believe that there is a strong rationale for implementing the following changes for the financial year 2019/20:

- Replacing cash conversion with average net debt
- Amending the weighting of the Strategic Personal Objectives to 30% from 20% of the total and placing additional emphasis on longer term strategic goals

The proposed changes follow a comprehensive review of our strategy and reaffirmed the key areas of focus. The current maximum entitlements of Executive Directors under the ABP remains as 135% of salary for the Chief Executive Officer and 115% for the Chief Financial Officer. The bonus is only payable if a threshold level of profit is achieved for 2019/20.

Rationale for change in operation of ABP

The Committee believes that average net debt is a measure which a larger proportion of employees have an ability to impact and is considered a more appropriate measure that will heighten the emphasis on cash management and enable continuous operational focus on this during the year. Reduction of net debt will lead to a stronger balance sheet and increase flexibility for management to allocate capital in line with our business strategy to deliver long term growth and shareholder value.

Current structure and weighting
%

Revenue	20%
Profit	40%
Cash conversion	20%
Personal objectives	20%

Proposed structure and weighting
%

Revenue	20%
Profit	30%
Average net debt	20%
Strategic personal objectives	30%

The proposed changes to the ABP provide an opportunity to place additional emphasis on the achievement of strategic outcomes, accelerate the transformation of the business while retaining a strong emphasis on operational performance.

The strategic personal objectives, tailored for each Executive Director and for other members of the ELT, will comprise a small number of quantifiable goals to deliver significant progress on strategy, including material improvements in operational efficiency. The Committee is committed to assessing the achievement of these objectives on a quantifiable and objective basis and to clear retrospective disclosure in the Directors' remuneration report, compatible with protecting our competitive position.

The Committee believes that this revised combination of financial measures and strategic objectives with adjusted weightings will drive value creation for shareholders and provide a fair reward for Executive Directors and Senior Leaders. To be clear, the largest proportion of the payout (70%) will be related to the financial performance of the business.

The Committee is confident that the proposed changes to the implementation of our remuneration policy demonstrate our continued commitment to alignment between the interests of shareholders and the Executive Directors and the senior management of the business. In line with our established practice, the Committee will continue to rigorously review incentive outturns and will consider the overall performance of the business not just the outcome of each measure. Specifically the Committee will exercise its discretion in determining rewards if circumstances in-year merit a review.

2019/20 Performance Share Plan (PSP)

The PSP will remain at the same target levels, performance will be measured against two Group targets: earnings per share (EPS) (50% weighting) and ROCE (50% weighting). The ROCE performance targets have been adjusted as explained on page 86.

There will be a change to the required holding period. The award will vest fully on the third anniversary of award subject to meeting performance criteria, but all vested shares will be held for a further two years and become exercisable on the fifth anniversary of award.

Changes to the UK Corporate Governance Code

The Committee has been considering the forthcoming changes to the UK Corporate Governance Code and other reporting regulations and has taken steps to prepare for their introduction.

Effective from 2019/20, the following structural changes to the implementation of executive remuneration will be made:

- In respect of the operation of share awards under the PSP, the Committee has determined that the total vesting and holding period will be extended to five years in total. Awards will vest in full on the third anniversary of grant, subject to the appropriate performance conditions being met and held for a further two years becoming exercisable on the fifth anniversary
- The Committee has also determined that it is appropriate to change the policy as it relates to pension arrangements for newly appointed Executive Directors. From 2019/20, the Company pension contribution rates or payments in lieu will align with the wider UK workforce at 12%

As part of the triennial remuneration policy review to be presented to shareholders for approval at the 2020 AGM, the Committee will give further consideration to the pension arrangements for existing Executive Directors and post-employment shareholding requirements in relation to Executive Directors' incentive plans.

In addition, the Committee is committed to complying with the new Code's provisions in relation to the extended remit and reporting responsibilities.

The Board has appointed a Non-executive Director responsible for workforce engagement supported by the Group Director of HR. Terms of reference have been drawn up for this role which include participation in existing Employee Forums, engaging with employees at different Company sites, reviewing the results of employee engagement and culture surveys and other workforce related reports.

The Committee believes it is already well-placed to meet many of the Code's other new requirements. This will be a key priority for the Committee during the year.

Priorities for 2019

The work of the Committee in 2019 will focus on the linkage between our culture and reward to ensure that incentives drive behaviours consistent with that culture.

As we review our policy during 2019, we will be giving further consideration to the provisions of the new Code and compliance with the new reporting regulations.

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

Sabri Challah
Chairman of the Remuneration Committee
30 May 2019

Directors' remuneration report continued

DIRECTORS' REMUNERATION POLICY

Introduction

In this section we summarise the key principles that underpin our remuneration policy and how we will apply our policy in 2019/20.

Summary of remuneration policy

Remuneration policy statement

The Committee has amended and approved the policy statement to align with the forthcoming changes to the UK Corporate Governance Code 2018 coming into effect at the start of 2019/20.

The Group's remuneration policy aims to align the interests of Executive Directors and other senior executives to join De La Rue's purpose and values and with those of shareholders. The overriding objective is to ensure that the executive remuneration policy incentivises and rewards the delivery of sustainable long term shareholder value.

The Remuneration Committee believes that variable performance related pay and incentives should account for a significant proportion of the overall remuneration package of our executive team, so that their reward is aligned with shareholder interests and the performance of the Group, without encouraging excessive risk taking. Performance related elements of the remuneration therefore form a significant proportion of the total remuneration packages.

In setting the Group's remuneration policy, the Remuneration Committee believes that the Group should provide:

- Competitive rewards which will attract and retain high calibre employees with the skills and commitment to drive performance and which reflect individual responsibilities and experience
- Incentive arrangements which are fair, competitive, simple to understand, transparent, proportionate and aligned to culture. They should also be subject to challenging performance targets reflecting the Group's objectives to motivate executives to focus on both annual and longer term performance

When assessing remuneration in the marketplace, the Remuneration Committee makes prudent use of survey data focusing on companies of similar size and complexity. Performance targets set for the incentive schemes are designed to provide maximum awards for exceptional performance. The Committee tracks the five year history of executive rewards to ensure the awards are in line with and proportionate to De La Rue business performance.

The Committee reviews remuneration and related policies for the broader workforce to assess alignment between incentives and rewards with De La Rue's culture.

Broader workforce pay is taken into account when setting executive pay. In future years, this will be considered alongside feedback from engagement with the workforce on this subject.

The Committee adopts a policy that requires Executive Directors to build up and retain a long term personal shareholding in the Company equivalent to one times salary and intended to be met by retaining 100% of vested post-tax deferred bonus shares, restricted shares and performance shares until the requirement is met in full.

The Group's current remuneration policy, as approved by shareholders at the Company's Annual General Meeting in July 2017, is set out on pages 76 to 83 of the annual report 2017 available at www.delarue.com

Summary of our remuneration policy

Fixed Pay

- Base Salary
- Benefits
- Pension

Variable Pay

Annual Incentive Plan

70% Group Financial Performance + 30% Strategic Personal Objectives

30% Operating profit | 20% Revenue | 20% Average net debt

60% cash
40% deferred shares

Performance Share Plan

50% EPS | 50% ROCE

100% vesting year 3
2 year post-vesting holding period

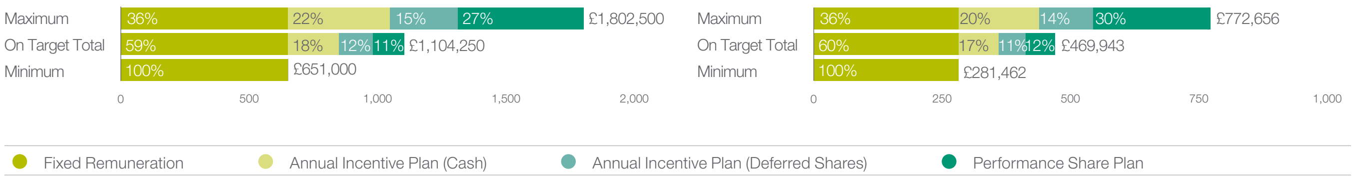
Malus and clawback and shareholding requirements

Illustration of the application of remuneration policy

The following charts illustrate the potential value of the Executive Directors' remuneration packages in various scenarios in a typical year. Salary levels are as at 1 July 2018 (or date of appointment).

Chief Executive Officer – Martin Sutherland
£'000

Chief Financial Officer – Helen Willis
£'000



The themes that underpin our policy are:

- Competitive rewards that drive performance
- Simple and transparent
- Aligned to culture

These themes continue to align our strategy and our reward programme through salary, benefits, annual bonus and long term incentives, underpinned by stretching performance measures and proportionate award levels as illustrated above. The full policy can be found in the annual report 2017 which is available at www.delarue.com

Directors' remuneration report continued

DIRECTORS' REMUNERATION POLICY

Performance scenarios for the ABP and PSP assume the following:

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

Assumptions for the scenario charts

Minimum performance	Target performance	Maximum performance
Fixed pay (base salary, benefits and pension)	Fixed pay (base salary, benefits and pension)	Fixed pay (base salary, benefits and pension)
No bonus payout No vesting under ABP or PSP	50% of maximum bonus opportunity (67.5% of salary for CEO, 57.5% of salary for CFO)	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	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)	100% of PSP shares vesting (100% of salary for CEO and CFO)

Executive Director remuneration mix 2019/20

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	60	36
	Variable	–	40	64

The remuneration mix above is based on the remuneration policy as it is intended to be operated for 2019/20.

ANNUAL REPORT ON REMUNERATION

This section of the Directors' remuneration report shows how the Remuneration Committee implemented the policy on Directors' remuneration during 2018/19 including all elements of remuneration received by Executive Directors and the incentive outturns for 2018/19.

Single figure of remuneration for each Director (audited)

The table below shows how we have applied the current remuneration policy during 2018/19. 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]		Total	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Executive Directors												
Martin Sutherland	**490**	477	**29**	29	**197**	–	**106**	148	**132**	129	**954**	783
Helen Willis (appointed to the Board 26 July 2018)	**225**	–	**14**	–	**77**	–	**–**	–	**39**	–	**355**	–
Jitesh Sodha (resigned from the Board 19 March 2018)	**–**	314	**–**	21	**–**	–	**–**	113	**–**	56	**–**	504
Rupert Middleton (stood down from the Board 20 July 2017)	**–**	99	**–**	5	**–**		**–**	–	**–**	17	**–**	121
	715	890	**43**	55	**274**	–	**106**	261	**171**	202	**1,309**	1,408
Chairman												
Philip Rogerson	**194**	193	**–**	–	**–**	–	**–**	–	**–**	–	**194**	193
Non-executive Directors												
Nick Bray	**58**	58	**–**	–	**–**	–	**–**	–	**–**	–	**58**	58
Sabri Challah	**58**	58	**–**	–	**–**	–	**–**	–	**–**	–	**58**	58
Maria da Cunha	**50**	50	**–**	–	**–**	–	**–**	–	**–**	–	**50**	50
Andrew Stevens	**58**	58	**–**	–	**–**	–	**–**	–	**–**	–	**58**	58
Aggregate emoluments	**1,133**	1,307	**43**	55	**274**	–	**106**	261	**171**	202	**1,727**	1,825

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 £502,000 per annum effective 1 July 2018 and the salary shown above is for the period to 30 March 2019. 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 £9,481 which is reflected in the table above.

ii Helen Willis has a salary of £330,000 per annum effective 18 July 2018 and the salary shown above is for the period when Helen started as an Executive Director to 30 March 2019.

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: A description of the performance measures that applied for the year 2018/19 is provided on pages 82 and 83.

d PSP: the estimated value of the shares due to vest in June 2019 (including dividend shares accrued to date) that were subject to performance over the three year performance period ending 30 March 2019 based on the number of shares that will vest multiplied by the average share price of 421.49p over the quarter ending 30 March 2019 (as the vesting price is not known at the date of the Directors' remuneration report). The performance conditions that applied to the PSP awards vesting are described on page 85. The PSP amounts for 2018 (being the final year of the performance period) related to the share award to Martin Sutherland that vested in June 2018 used a share price of 610.04p per share as the actual vesting price and the additional dividend shares exercised were not known at the time. The table showing vested and unvested share awards on page 89 gives details of the share price on the vesting date and exercise date respectively.

e Pension allowance and contributions to defined contribution section. See page 87 for further details of pension arrangements.

Directors' remuneration report continued

ANNUAL REPORT ON REMUNERATION

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 25 April 2019. Following that review the Committee concluded that no increase in salary for Martin Sutherland and Helen Willis will be made for 2019. The salary levels (effective 1 July) are as follows:

	Base salary 2019 £'000	Base salary 2018 £'000	Increase %
Martin Sutherland	**502**	502	–
Helen Willis	**330**	225[1]	–

Note:
1 Helen Willis was appointed to the Board on 26 July 2018 and received a notional salary of £330,000. The amount shown is pro-rata for the period in office.

The Directors' remuneration policy, approved by shareholders at the 2017 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.

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 marketplace. 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 each received a further fee of £8,000 to reflect their additional duties in 2018/19. Basic fees payable to Non-executive Directors remain unchanged for 2018/19 and no fee increase is proposed for 2019.

The fees for 2019 are as follows:

Non-executive Director fees	**2019 £'000**	2018 £'000
Basic fee	**50**	50
Additional fee for chairmanship of Audit and Remuneration Committees and Senior Independent Director	**8**	8

The Chairman's fee will remain at £194,000 for 2019 and will be reviewed again in the normal way in April 2020.

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 is a non-executive director of Forterra plc and received a fee in respect of this appointment for the period to 30 March 2019 of £51,520.

Performance against targets (audited)

Annual bonus

The annual bonus is delivered under the ABP.

ABP performance measures 2018/19

The Remuneration Committee decided not to introduce any changes to the structure and weightings to the annual bonus for 2018/19 (Group revenue, Group adjusted operating profit, Group cash conversion) and weightings. The bonus opportunity was based on an element of strategic 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 strategic 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.

Disclosure of 2018/19 bonus targets

The following table sets out the financial performance targets and achievements for 2018/19.

Measure	Threshold	Target	Max	Actual	% of maximum achieved
Group revenue	£490m	£510m	£530m	£516.6m	13.3
Group adjusted operating profit	£58m	£62m	£66m	£60.1m	10.5
Group cash conversion	135%	145%	155%	53%	0

Strategic personal objectives

Strategic personal objectives are based on Group objectives. The objectives reward achievement of core strategic priorities and transformation goals. Targets relate to growth, product innovation, efficiency, and culture.

Category	Commentary	Outcome
Growth	Group revenue grew by 12%. Market share grew in polymer with an increased volume of 23%. Multiple wins in brand protection and Government Revenue Solutions.	Met
Product Innovation	Expansion of the product portfolio has been delivered through R&D and partnerships with a key focus on exploiting existing technology platforms. Three new security features were launched during the year. PureImage™, the new holographic thread, PhotocolourUV™ and MyImage™, the polycarbonate feature jointly developed with strategic partner Opalux.	Partially Met
Efficiency	Steps to improve organisational efficiency and modernise infrastructure and systems progressed well. Corporate overheads reduced by 4% from headcount and general savings and factory fixed costs by 11% from savings related to the footprint rationalisation programme. Systems improvements in Finance have led to enhanced management and financial information and forecasting.	Partially Met
Culture	Strong, visible leadership of SAFE initiative to drive an outcome of zero harm contributed to a reduction in the long term injury frequency rate (LTIFR) to 0.25. Active engagement took place with leaders and employees globally including multiple site visits, town hall meetings, global briefings and biannual strategic leadership group meetings. Improvements were made to gender diversity in senior management with a change to the male:female ratio from 80:20 to 75:25, closer to the 2020 target of 70:30.	Met

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

- Martin Sutherland should receive a payment of 10% of maximum opportunity of 20%
- Helen Willis should receive a payment of 10% of maximum opportunity of 20%

The 2018/19 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 81 in respect of 2019 £'000**
Martin Sutherland	**118**	**79**	**197**
Helen Willis	**46**	**31**	**77***

* Full eligibility 115% but pro-rata 80% for 2018/19 due to start date.

Directors' remuneration report continued

ANNUAL REPORT ON REMUNERATION

ABP 2019/20

The Remuneration Committee decided not to introduce any changes to the structure and weightings to the annual bonus for 2018/19, but as indicated in last year's annual report the Committee would review introducing the strategic personal objectives with a 30% weighting when the Committee consider it to be appropriate to do so. As indicated in the Chairman of the Remuneration Committee report on page 76, changes to the operation of the ABP will be introduced for the financial year 2019/20.

The bonus structure will be adjusted for the 2019/20 financial year to reflect a 70% weighting on financial targets and 30% on strategic personal objectives. We have also made the decision to transition our Cash Conversion measure to one of Averaged Net Debt. The current maximum entitlements of Executive Directors under the ABP remains as 135% of salary for the Chief Executive Officer and 115% for the Chief Financial Officer. The structure and weightings will be as follows:

Proposed structure & weighting	
Revenue	20%
Adjusted operating profit	30%
Average net debt[1]	20%
Group strategic personal objectives	30%

Note:
1 Average of the 12 month end net debt positions over the course of the year.

No payment will be made on any element of bonus (including the personal element) if a minimum operating profit is not achieved.

The proposed changes to the ABP provide an opportunity to place additional emphasis on the achievement of strategic outcomes, accelerate the transformation of the business while retaining a strong emphasis on operational performance.

The Group strategic personal objectives, tailored for each Executive Director and other members of the ELT, will comprise a small number of goals to deliver significant progress on strategy, including material improvements in operational efficiency. The Committee is committed to assessing the achievement of these objectives on a quantifiable and objective basis and to clear retrospective disclosure in the Directors' remuneration report.

The Committee has decided to change the current cash conversion measure with average net debt as this is a measure which a larger proportion of employees have an ability to impact and is considered a more appropriate measure that will focus continuous attention on reducing debt and proactively managing cash in-flow.

A key deliverable of the strategy is to generate a better balance of profit throughout the year and maximise cash flow. Placing a greater emphasis on the management and reduction of net debt alongside delivering revenue and profit targets represents a strong set of measures to drive improved financial performance.

The Committee believes that this revised combination of financial measures and strategic objectives with adjusted weightings will drive value creation for shareholders and provide a fair reward for Executive Directors and senior leaders. The largest proportion of the payout (70%) will be related to the financial performance of the business.

In line with our established practice, the Committee will continue to rigorously review incentive outturns and will consider the overall performance of the business, not just the outcome of each measure.

The specific performance points are not disclosed while still commercially sensitive, but will be 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 the 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 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 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
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
2018	EPS[1]	25	100	4	12
	ROCE	25	100	34	40
2019	EPS[1]	25	100	4	12
	ROCE	25	100	32	38

Notes:

1 Underlying earnings per share. Based on average annual cumulative growth during the performance period.

2 The vesting levels under ROCE was adjusted to take account of the impact of a discontinued operation held for sale as described in note 2 to the financial statements (as reported in 2018).
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.

PSP award vesting in 2019

Awards under the PSP had three year performance criteria based on EPS and 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 30%.

The performance period for the 2016 PSP awards ended on 30 March 2019. Over the period:

- The Group's underlying EPS growth was below the threshold growth of 5% per annum, under this performance measure this element of the PSP will not vest
- De La Rue's average ROCE for the period was 39%. Since this was above the threshold of 30% and above the maximum of 36%, under this performance measure this element of the PSP will vest in full. Sixty per cent of this portion of the share award vests in June 2019 and the balance will vest after a further one year subject to continued employment

Directors' remuneration report continued

ANNUAL REPORT ON REMUNERATION

PSP awards made in June 2018 (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	88,929	26 June 2018	100	485	25	March 2021
Helen Willis	62,265	28 August 2018	100	304	25	March 2021

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 551.00p for the award on 26 June 2018 and 498.00p for the award on 28 August 2018. Face value is the maximum number of shares that would vest multiplied by the share price (545.00p on 26 June 2018 and 488.50p on 28 August 2018) at the date of grant. The Remuneration Committee may add dividend shares accrued only on vested shares during the performance period and extended vesting period.

The Remuneration Committee gave detailed consideration to the potential reintroduction of a relative TSR performance measure but concluded that the measures of EPS growth and ROCE remain the most appropriate measures for De La Rue.

Having undertaken a thorough analysis to review the target ranges, the Remuneration Committee decided to significantly increase the stretch of the target range for ROCE to incentivise Executive Director behaviour in delivering the strategy and encouraging investment in products and services that generate returns efficiently, and deliver bottom line growth and to reflect recent and forecast performance. The ROCE range for the 2018 PSP is 34% to 40% over three years.

The Committee decided that the existing target range for EPS is relatively narrow and would most likely result in 'all or nothing' payouts and therefore the range was broadened to reflect recent and forecast performance. The EPS range for the 2018 PSP was set at 4% to 12%.

In addition, given the importance of managing capital efficiently to deliver bottom line growth, the Remuneration Committee decided that a rebalancing of the weightings between EPS and ROCE was necessary to ensure an appropriate balance of focus between in-year profitability and investment and growth. For the PSP awards made in 2018 the weighting will be 50% EPS and 50% ROCE.

Performance measures applying to PSP awards made in 2019

The Remuneration Committee has concluded that the measures of EPS growth and ROCE remain the most appropriate measures for De La Rue.

The PSP will remain at the same target levels, performance will be measured against two Group targets: EPS (50% weighting) and ROCE (50% weighting). In determining the appropriate target ranges, the Committee concluded that the range for EPS of 4% to 12% remains appropriate and that the target range for ROCE performance at threshold and maximum should change from 34%–40% to 32%–38%, to reflect sensitivities in our strategic plan and to ensure that management actions to drive performance continue to be aligned with the interests of shareholders.

There will be a change to the required holding period. The award will vest fully on the third anniversary of award subject to meeting performance criteria, but shares will be held for a further two years and become exercisable on the fifth anniversary of award.

Executive Directors' service contracts

The table below summarises the notice periods contained in the service contracts for Executive Directors in office as at 30 March 2019.

	Date of contract	Date of appointment	Notice from Company	Notice from Director
Martin Sutherland	28 August 2014	13 October 2014	12 months	6 months
Helen Willis	18 July 2018	26 July 2018	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 2021
Maria da Cunha	23 July 2015	22 July 2021
Philip Rogerson	1 March 2012	28 February 2021
Andrew Stevens	2 January 2019	2 January 2022

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 in the period were a member of the legacy defined benefit schemes. All 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 Helen Willis 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 81.

Payments for loss of office (audited)

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

Payments to past Directors (audited)

Rupert Middleton

Rupert Middleton stepped down from the Board at the conclusion of the AGM in July 2017. Rupert Middleton had a consultancy agreement with the Company from 1 September 2017 until 20 July 2018 for the provision of advisory services relating to operational matters for a period of not more than 20 days during the period for a fee of a daily rate of £1,500 plus expenses incurred and payable in accordance with the consultancy agreement.

Jitesh Sodha

The former Chief Financial Officer, Jitesh Sodha, was paid his notional salary for six months after he stepped down from the Board on 19 March 2018 whilst working his notice period.

Share retention policy

The Remuneration Committee believes it is important that the interests of Executive Directors should be closely aligned with those of shareholders. The Committee has adopted a policy that Executive Directors are required to build up a shareholding equivalent to one times salary. It is intended that this be met by the Executive Directors retaining 100% of post-tax deferred bonus shares, restricted shares and performance shares until the requirement is met in full. As at March 2019, Martin Sutherland had built up a shareholding of 70% of salary.

Directors' remuneration report continued

ANNUAL REPORT ON REMUNERATION

Directors' interests in shares (audited)

The Directors and their connected persons had the following interests in the ordinary shares of the Company at 30 March 2019:

			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	Performance Share Plan	Annual Bonus Plan	SAYE	Vested SAYE shares unexercised during the period	Vested shares exercised during the period
Executive Directors								
Martin Sutherland	90,148	70	250,319	8,567	7,438	3,363	1,567	36,389[1]
Helen Willis	–	–	66,265	–	–	1,796	–	–
Non-executive Chairman								
Philip Rogerson	13,000	n/a	–	–	–	–	–	–
Non-executive Directors								
Nick Bray	18,348	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 30 March 2019 to 30 May 2019. 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 385.50p on 29 March 2019 (30 March 2019 being a Saturday).

Note:

1 Includes a total of 2,094 and 1,756 dividend shares on vested award under the ABP and PSP respectively during the period. All shares on exercise retained by Martin Sutherland after disposal to meet tax liabilities pursuant to the share retention policy.

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

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

	Date of award	Total award as at 31 March 2018	Awarded during year	Exercised during year	Lapsed during year	**Awards held at 30 March 2019**	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											
Annual Bonus Plan[1]	Jun 16	13,224	–	13,224[2]	–	**–**	–	546.60[3]	511.15	Jul 18[4]	Jun 26
	Jun 17	7,438	–	7,438[2]	–	**–**	–	680.10[3]	511.15	Jul 18[4]	Jun 27
	Jun 17	7,438	–	–	–	**7,438**	–	680.10[3]	–	Jul 19	Jul 27
Performance Share Plan	Jun 15	51,405	–	12,851[5]	38,554	**–**	–	541.00[3]	549.02	Jun 18[6]	Jun 25
	Jun 15	34,270	–	–	25,703	**8,567**	–	541.00[3]	–	Jun 19	Jun 25
	Jun 16	54,488	–	–	–	**54,488**	–	520.85[3]	–	Jun 19	Jun 26
	Jun 16	36,325	–	–	–	**36,325**	–	520.85[3]	–	Jun 20	Jun 26
	Jun 17	42,346	–	–	–	**42,346**	–	680.10[3]	–	Jun 20	Jun 27
	Jun 17	28,231	–	–	–	**28,231**	–	680.10[3]	–	Jun 21	Jun 27
	Jun 18	–	53,357	–	–	**53,357**	–	551.00[3]	–	Jun 21	Jun 28
	Jun 18	–	35,572	–	–	**35,572**	–	551.00[3]	–	Jun 22	Jun 28
		275,165	88,929	33,513	64,257	**266,324**					
Sharesave options[1]	Jan 15	2,876	–	2,876	–	**–**	–	438.00[7]	555.00	Mar 18[8]	Aug 18
	Jan 16	1,567	–	–	–	**1,567**	1,567	344.40[7]	–	Mar 19	Aug 19
	Jan 19	–	1,796	–	–	**1,796**	–	372.67[7]	–	Mar 22	Aug 22
Helen Willis (appointed 26 July 2018)											
Performance Share Plan	Aug 18	–	39,759	–	–	**39,759**	–	498.00[3]	–	Aug 21	Aug 28
	Aug 18	–	26,506	–	–	**26,506**	–	498.00[3]	–	Aug 22	Aug 28
			66,265			**66,265**					
Sharesave options[1]	Jan 19	–	1,796	–	–	**1,796**	–	372.67[7]	–	Mar 22	Aug 22

Notes:

1 These awards do not have any performance conditions attached.
2 Includes an additional 2,094 dividend shares on vesting (2016: 1,574; 2017: 520). Martin Sutherland made an aggregate taxable gain (after dealing costs excluding PAYE/NI) of £196,187. The balance of shares (12,022) following disposal to meet all liabilities was retained by Martin Sutherland.
3 Mid-market share value of a De La Rue plc ordinary share averaged over the five dealing days immediately preceding award date.
4 The closing mid-market price of the Company’s ordinary share on 10 July 2018 was 519p (the vesting date).
5 Includes an additional 1,756 dividend shares on vesting. Martin Sutherland made an aggregate taxable gain (after dealing costs excluding PAYE/NI) of £80,195. The balance of shares (7,717) following disposal to meet all liabilities was retained by Martin Sutherland.
6 The closing mid-market price of the Company’s ordinary share on 29 June 2018 was 548p (the vesting date).
7 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.
8 On exercise of the options on 13 June 2018 the 2,876 shares were retained by Martin Sutherland.

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 and PSP equivalent in value to the amount of dividends that would have been received pursuant to the relevant Plan Rules. As at 30 March 2019 and based on the prevailing market share price on the respective dividend record date, the dividend shares accrued and assuming vesting as appropriate were as follows:

Martin Sutherland: 22,548 ordinary shares

Helen Willis: 1,248 ordinary shares

Directors’ remuneration report continued

ANNUAL REPORT ON REMUNERATION

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 nine years to 30 March 2019
- A history of De La Rue’s Chief Executive Officer’s remuneration for the current and previous eight 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

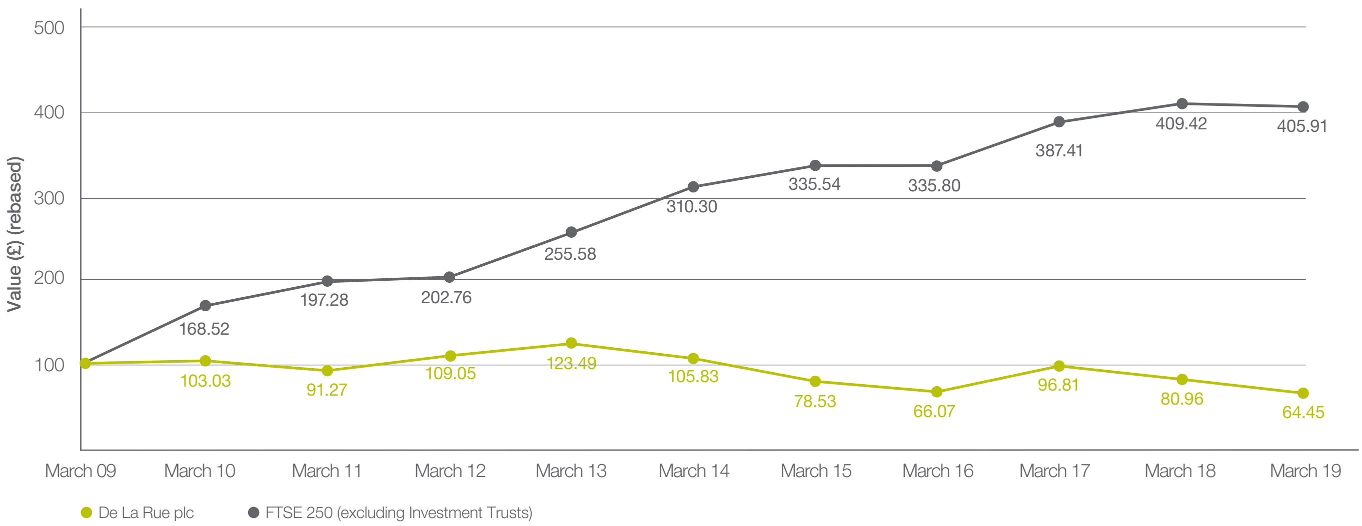
Period ended March	2010	2011	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
Chief Executive Officer	James Hussey[1]	James Hussey[1]	Tim Cobbold[2,3]	Tim Cobbold	Tim Cobbold	Tim Cobbold[2]	Martin Sutherland[4]	Martin Sutherland	Martin Sutherland	Martin Sutherland	**Martin Sutherland**
Single figure of total remuneration £’000	843	433	604	1,053	634	1,071	1,107	998	899	783	**954**
Annual bonus payout as a % of maximum opportunity	46	44	Nil	80	Nil	Nil	14	57	40	Nil	**29**
LTIP vesting against maximum opportunity (%)	100	100	Nil	Nil	Nil	60	Nil	Nil	Nil	25	**25**

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

This graph shows the value, by 30 March 2019, of £100 invested in De La Rue plc on 28 March 2009, compared with the value of £100 invested in the FTSE 250 Index (excl. Investment Trusts) on the same date. The other points plotted are the values at intervening financial year ends. De La Rue has been a constituent of the FTSE 250 Index for the majority of the period under review. TSR is not used as a performance measure for any benefits provided to Executive Directors.

Total shareholder return
Source: FactSet



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 2017/18 and 2018/19. UK employees were chosen as a comparator group to avoid the impact of exchange rate movements over the year. UK employees make up approximately 57.17% of the total employee population.

	Salary %	Benefits %	Annual bonus %
Chief Executive Officer	2.36	0	29
UK employee average	1.3	0	63

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.

	2019 £m	2018 £m	Change %
Dividends (note 9 to the financial statements)	**25.7**	25.4	1
Overall expenditure on pay (note 25 to the financial statements)	**126.4**	151.8	(20.1)

Statement of shareholder voting

The remuneration policy was last approved by shareholders at our AGM on 20 July 2017. The remuneration report was last approved by shareholders at our AGM on 26 July 2018. Details are shown below.

	Total votes cast	For[1]	(%)	Against	(%)	Votes withheld[2]
Approval of remuneration policy (2017 AGM)	81,796,628	80,461,069	98.37	1,335,559	1.63	1,544,071
Approval of remuneration report (2018 AGM)	78,836,431	77,391,287	98.17	1,445,144	1.83	1,361,038

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 2018/19, the Committee also received advice from Willis Towers Watson. Willis Towers Watson has been formally appointed by the Remuneration Committee and advised on the structure, measures and target setting for incentive plans, executive remuneration levels and trends, corporate governance developments and Directors' remuneration report preparation. 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 £77,991.

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 30 May 2019 and signed on its behalf.

Sabri Challah
Chairman of the Remuneration Committee
30 May 2019

Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report, for the period ended 30 March 2019. The following also form part of this report:

- Pages 52 and 53, which show the names of all persons who served as Directors of the Company during the year, together with their biographical details, at 30 March 2019
- The reports on corporate governance set out on pages 50 to 91
- Information relating to financial instruments and financial risk management, as provided in note 14 to the financial statements
- Related party transactions as set out in note 28 to the financial statements
- Greenhouse gas emissions, set out on page 44
- Details of Committee membership for each Director are set out on page 55
- Details of Directors' interests are set out on page 88 of the Directors' remuneration report

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 aware of their responsibilities in respect of the Annual Report and Accounts. The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Further information regarding related processes can be found in the Audit Committee report and Risk management sections of this annual report on pages 64 and 36 respectively. The Statement of Directors' Responsibilities appears on page 95.

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 contain 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.

Strategic report

The Board has prepared a Strategic report which provides an overview of the development and performance of the Group's business for the period ended 30 March 2019 and which covers likely future developments in the Group. The Chairman's overview, Chief Executive Officer's statement, business overviews, the strategic priorities, key performance indicators, review of operations, responsible business, financial review and managing our risks sections together provide information which the Directors consider to be of strategic importance to the Group.

Dividends

An interim dividend of 8.3p was paid on 3 January 2019 in respect of the half year ended 29 September 2018. The Board is recommending a final dividend of 16.7p per share, making a total for the year of 25.0p per share (2017/18: 25.0p per share).

Dividend details are given in note 9 of the financial statements. Subject to approval of shareholders at the AGM on 25 July 2019, the final dividend will be paid on 2 August 2019 to those shareholders on the register on 5 July 2019.

Share capital

As at 30 March 2019, there were 103,796,134 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.

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 FCA'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 FCA 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

The Directors are generally and unconditionally authorised under authorities granted at the 2018 AGM to allot shares in the Company up to approximately one third of the Company's issued share capital or two thirds in respect of a rights issue. The Directors were also given the power to allot ordinary shares for cash up to a limit representing 10% of the Company's issued share capital as at 30 May 2018, without regard to the pre-emption provisions of the Companies Act 2006 (however, more than 5% can only be used in connection with an acquisition or specified capital investment).

No such shares were issued or allotted under these authorities and at present the Directors have no intention of exercising this authority, other than to satisfy share options under the Company's share option schemes and, if necessary, to satisfy the consideration payable for businesses to be acquired.

These authorities are valid until the conclusion of the forthcoming AGM and the Directors again propose to seek equivalent authorities at such AGM.

Details of shares issued during the year and outstanding options are given in notes 20 and 21 on pages 138 and 139 which form part of this report. Details of the share incentives in place are provided on pages 82 to 86 of the Directors' remuneration report.

Authority to purchase own shares

At the 2018 AGM, shareholders gave the Company authority to purchase up to 10,257,648 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 2019 AGM to renew the authority for a further period of one year.

Directors

Details of Directors' remuneration are provided in the Directors' remuneration report on pages 74 to 91. The interests of the Directors and their families in the share capital of the Company are shown on page 88 of the Directors' remuneration report which also includes information on the Company contracts of service with its Directors on page 86.

Appointment and removal of Directors

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

Directors' report continued

Substantial shareholdings

As at 30 May 2019, the Company had received formal notification of the following holdings in its shares under the Disclosure and Transparency Rules of the FCA. 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
Royal London Asset Management Limited	22/08/2018	Direct	5.23
Aberforth Partners LLP	09/04/2018	Indirect	5.11
Crystal Amber Fund Limited	10/09/2018	Direct	5.00
Neptune Investment Management Limited	01/05/2018	Direct	4.70
Norges Bank	12/10/2017	Direct	3.03

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 54 to 58.

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.

Financial risk management

See note 14 on page 127.

Banking facilities

The 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.

At the 2017 AGM, shareholders approved a proposal to increase the borrowing limit from £250m (as stated in the Company's articles of association) to £325m.

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 2018 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 38.

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 147 and 148.

Acquisitions and disposals

No acquisitions or disposals were made during the year.

Post-balance sheet events

Post-balance sheet events are disclosed in note 29 to the financial statements.

Going concern

As described on page 109, 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.

Employment of disabled persons

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person. Where existing employees become disabled, it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

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 not already reported by reference within the annual report.

Auditor and disclosure of information to auditor

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

Ernst & Young LLP have expressed their willingness to be re-appointed as auditor of the Company. A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be proposed at the forthcoming AGM.

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 2 to 50 and the Directors' report on pages 92 to 95 include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The Annual Report 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 30 May 2019.

By order of the Board

Edward Peppiatt
Company Secretary
30 May 2019

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

Opinion

In our opinion:

- De La Rue plc's group financial statements and parent company financial statements (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 30 March 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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.

We have audited the financial statements of De La Rue plc which comprise:

Group	Parent Company
Group income statement for the period ended 30 March 2019	Company balance sheet as at 30 March 2019
Group statement of comprehensive income for the period then ended	Company statement of changes in equity for the period then ended
Group balance sheet as at 30 March 2019	Related notes 1 to 9a to the financial statements including a summary of significant accounting policies
Group statement of changes in equity for the period then ended	
Group cash flow statement for the period then ended	
Related notes 1 to 31 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 37 to 40 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 69 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 94 in the corporate governance section about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 41 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	– Specific judgemental accruals – Revenue recognition (cut-off) – The adoption of IFRS 15 (Revenue from contracts with customers) – Recoverability of receivables in Venezuela (including the impact of the adoption of IFRS 9 and the expected credit loss model) – Post-retirement benefits – Liabilities
Audit scope	– We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further two components. – The components where we performed full or specific audit procedures accounted for 117.8% of Profit before tax adjusted for exceptional items, 98.9% of Revenue and 96.9% of Total assets.
Materiality	– Overall group materiality of £2.6m which represents 4.9% of profit before tax ('PBT') adjusted for exceptional items (a full reconciliation of IFRS PBT to the adjusted PBT figure used for determining materiality is set out in the "Our application of materiality" section below).

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to risk	Key observations communicated to the Audit Committee
Specific judgemental accruals – £54.9m (FY18 – £58.2m) *Refer to the Audit Committee Report (page 66); Accounting policies (page 137); and Note 17 of the Consolidated Financial Statements (page 137).* De La Rue has certain agency commissions agreements which need to be accrued for based on the legal or contractual obligation arising. In relation to unsettled historic amounts these involve a level of estimation and judgement which is both material to the financial statements and susceptible to management override and manipulation. As identified by management on page 32 of the Strategic Report management released the remainder of a material accrual in relation to a historic dispute relating to agency commissions based on a judgement that this would no longer be required. We have also identified a number of smaller, individually insignificant accruals that have a higher opportunity to be used to manipulate the financial statements due to several layers of ownership and lower levels of management oversight. We have therefore identified an additional risk that these accruals could be utilised to smooth profit across periods. Misstatements that occur in relation to the risk over specific judgemental accruals affect the accrued expenses account on the balance sheet as well as the cost of sales and administrative expenses accounts in the income statement.	We have ensured that we understand all contractual terms and conditions relevant to agent commission accruals and evaluated the best estimates of these liabilities based on the terms of the contract, past practise and where relevant external legal advice (evaluating the provider of such advice for competence as an expert used by management). We also evaluated management's judgement applied in the assumptions used and the accuracy of previous estimated positions. We have also considered the income statement classification of material accrual releases – in particular considering the classification and disclosure of such releases, taking into account the historic accounting for the build-up of these accruals. We have performed an analysis of accruals for indicators of judgement. Based on this analysis, we identified varying levels of judgement that management may influence in order to manipulate the financial statements (ranging from significant to minimal) and have executed our audit procedures directly in response to this risk assessment. For accruals deemed more susceptible to manipulation we have determined a sample size to test using a reduced testing threshold relative to the remaining accruals balance; and obtained corroborative third party support or other supporting information.	Based on the results of our work, we agree with management's judgements and estimates in relation to significant judgemental accruals. We identified certain audit misstatements in respect of accruals however these were below our materiality threshold presented above. We note that the assumptions and judgements applied in some calculations mean that the range of possible outcomes is broad.

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

Risk	Our response to risk	Key observations communicated to the Audit Committee
Revenue recognition (cut-off) – £564.8m (FY18 – 493.9m) *Refer to the Audit Committee Report (page 65); Accounting policies (page 110); and Note 1 of the Consolidated Financial Statements (page 117)* We have identified that there is a risk that revenue is manipulated at or near to the period end to meet income statement targets through management override of controls. This cut-off risk manifests itself in different ways based on the terms of the contract and the associated accounting policy under IFRS 15. For contracts where revenue is recognised 'over time' the risk relates to the accuracy of the cost incurred position at year-end as well as the forecast margin for the contract. For contracts where revenue is recognised at a 'point in time' the risk relates to evidencing that control has passed to the customer. In particular certain contracts include specific terms, for example, complex acceptance criteria or "bill and hold" criteria which adds to the risk that revenue may be recorded in the incorrect reporting period. Misstatements that occur in relation to this risk would impact the revenue recognised in the income statement as well as any revenue related balance sheet account such as trade debtors, deferred income etc.	We have performed testing to a reduced materiality threshold on revenue recognised around the period end date ensuring that, where revenue has been recognised there is appropriate evidence to support that control has passed to the customer. This includes third party evidence of delivery as applicable. For 'bill and hold' contracts we ensured that the related goods had been manufactured at the year-end date and that control had passed to the customer. We have performed reviews of significant revenue generating contracts at the period end, to ensure the accounting treatment is in line with the contract terms, including that acceptance and "bill and hold" conditions have been satisfied. At each full scope audit location with significant revenue streams (4 components) plus (where relevant) consolidation adjustments, we performed audit procedures which covered 98.9% of the Group's Revenue.	Based on the procedures performed, including those in respect of revenue recognition cut off, we did not identify any evidence of material misstatement in the revenue recognised in the period or revenue accrued or deferred at 30 March 2019.
Revenue recognition (adoption of IFRS 15) – £564.8m (FY18 – 493.9m) *Refer to the Audit Committee Report (page 65); Accounting policies (page 110); and Note 1 of the Consolidated Financial Statements (pages 117)* De La Rue adopted IFRS 15 "Revenue from contracts with customers" with effect from 1 April 2018. The standard was adopted using the modified retrospective approach whereby the comparative figures were not adjusted and a transition adjustment was recorded on 1 April 2018. IFRS 15 applies to all contracts with customers excluding those covered by other IFRSs such as lease contracts, insurance contracts, and financial instruments. The standard introduces a 5-step model which outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. There is a risk that revenue is manipulated through incorrectly applying the principles set out in the 5-step model of IFRS 15 to accelerate revenue which could include identifying a contract as subject to "revenue over time" accounting instead of "revenue at a point in time". Misstatements that occur in relation to this risk would impact the revenue recognised in the income statement as well as any revenue related balance sheet accounts such as contract assets and contract liabilities.	Management's process for quantifying the impact of IFRS 15 has entailed a number of steps including initial impact assessment, extension of impact assessment to the wider population of contracts with customers and quantification of adjustments. We have performed audit procedures in respect of each of the above steps including; – Performing an independent impact assessment of IFRS 15 for a sample of the most material contracts in the period (in addition to a random sample of customer contracts). – Agreed the basis of material transition adjustments (based on a reduced testing threshold commensurate with the identified risk) in light of the above impact assessment. – Tested the calculation of these transition adjustments (typically moving to 'revenue over time') by agreeing the costs incurred to date to source documentation and by reviewing and understanding the forecast costs to complete. – We have also considered the completeness of transition adjustments in the context of our knowledge of significant contracts. For contracts moving to a revenue recognised over time policy (the impact of which on current year revenue and profits is disclosed by management in accounting policies on page 110) we reviewed the contractual terms and conditions or where relevant legal advice obtained by management in respect of these against IFRS 15 to ensure this treatment was appropriate. – In addition to testing the transition adjustments (as summarised above) we undertook testing on revenue transactions for the current financial year taking consideration of the new policies adopted with the implementation of IFRS 15.	Based on the procedures performed, including those in respect of revenue recognition (adoption of IFRS 15), we did not identify any evidence of material misstatement in the revenue recognised in the period or revenue accrued or deferred at 30 March 2019.

Risk	Our response to risk	Key observations communicated to the Audit Committee
Recoverability of Trade and other receivables – £159.5m (FY18 – £99.1m) *Refer to the Audit Committee Report (page 66); Accounting policies (page 126); and Note 13 of the Consolidated Financial Statements (page 126)* At the balance sheet date De La Rue holds £18m of receivables due from Banco Central de Venezuela. As a result of the US sanctions upon Venezuela, Banco Central de Venezuela have been unable to settle their open receivables to De La Rue creating uncertainty over the recoverability of this balance. There is a risk that, were the balance not provided, the profits for the year could be materially misstated. In addition to the above specific matter, De La Rue are also adopting IFRS 9 "Financial Instruments" with effect from 1 April 2018. Consistent with the approach for IFRS 15, the standard was adopted using the modified retrospective approach whereby the comparative figures were not adjusted and a transition adjustment was recorded on 1 April 2018. IFRS 9 introduces new accounting requirements in respect of provisions for receivables – most notably the introduction of an 'expected credit loss' model for impairment of financial assets (including trade & other receivables). There is a risk that the income statement and balance sheet could be misstated due to errors in the calculation of the expected credit loss.	We have ensured that we understand all of the pertinent facts pertaining to the Venezuela receivable and the associated credit loss provision including the nature & timing of US sanctions, our knowledge of positions adopted by other companies and the ability to receive settlement through alternative means. We have also considered management's calculation of the associated provision and disclosure within the financial statements, including the treatment of the credit loss expense as an exceptional item and the disclosure of the original revenue and margin recognised in underlying profit. We have understood management's approach to quantifying the expected credit loss including the source of data used to determine inputs (historical credit losses and any future expectations to derive an expected lifetime credit loss), the stratification across homogeneous populations of receivable balances and the final calculation of the resulting provision (both as at the transition date and as at the year-end).	Based on the procedures performed, we believe that provision of the full balance in respect of the Venezuela receivable is appropriate and accordingly we did not identify any material misstatements in this area. Based on procedures performed in respect of the IFRS 9/ expected credit loss accounting we also did not identify any audit misstatements either upon transition or for the year ended 30 March 2019.
Post-retirement benefit Liabilities – £1,081.6m (FY18 – £1,061.6m) *Refer to the Audit Committee Report (page 65); Accounting policies (page 142); and Note 24 of the Consolidated Financial Statements (page 142)* Small changes in the assumptions and estimates used to calculate the defined benefit pension obligation have a significant impact on the financial statements. In October 2018 a landmark ruling was reached in respect of the equalisation of Guaranteed Minimum Pensions ('GMPs') on the Lloyds Banking Group's pension scheme. This ruling is expected to set precedents for similar GMP equalisation for defined benefit pension schemes across the UK. As a result, we have identified an additional risk in respect of the accounting for this GMP equalisation change in the period. Misstatements that occur in relation to this risk would affect the retirement benefit obligations account in the balance sheet as well as related accounts in the income statement account and other comprehensive income.	Together with our EY pension specialists, we have coordinated with the actuaries of the pension scheme to thoroughly understand the valuation process and challenged the basis for setting key assumptions, such as the discount rate. We have assessed the competency of the third parties used in determining the valuation. In addition to the review of the main pension assumptions we have received the actuary's assessment for GMP equalisation. Our internal pension specialists have re-calculated the expected impact of the GMP calculation based on available data and the estimates applied defined by management and their actuaries.	Based on the results of our work, we have concluded that the actuarial assumptions applied within the valuation of post-retirement benefits at period-end are appropriate. As a result, and in tandem with the results of all other procedures performed on post-retirement benefits, we did not identify any evidence of material misstatement in the retirement obligation as at 30 March 2019.

In the prior year, our auditor's report included a key audit matter in relation to the valuation of inventory. In the current year, it was concluded that valuation of inventory no longer represented a significant audit risk due to the lack of errors identified in the prior period and our updated understanding of the inventory process in the period.

In the prior year, our auditor's report included a key audit matter in relation to the disposal of the paper business. In the current year, it was concluded that this no longer required reporting as a key audit matter as the majority of the disposal accounting was performed in the year of disposal (certain adjustments have been made to the final consideration amount in the current year but not such that this constituted a key audit matter).

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

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 53 reporting components of the Group, we selected 6 components covering entities within the United Kingdom, Malta, Sri Lanka and Kenya, which represent the principal business units within the Group.

Of the 6 components selected, we performed an audit of the complete financial information of four components ("full scope components") which were selected based on their size or risk characteristics. For the remaining two components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

- The reporting components where we performed audit procedures accounted for 117.8% (2018: 105.7%) of the Group's profit before tax adjusted for exceptional items, 98.9% (2018: 95.3%) of the Group's Revenue and 96.9% (2018: 81.8%) of the Group's Total assets. For the current year, the full scope components contributed 146.3% (2018: 105.7%) of the Group's profit before tax adjusted for exceptional items, 98.8% (2018: 95.3%) of the Group's Revenue and 81.4% (2018: 80.7%) of the Group's Total assets. The specific scope component contributed -28.5% (2018: 0%) of the Group's profit before tax adjusted for exceptional items, 0.1% (2018: 0%) of the Group's Revenue and 15.5% (2018: 1.1%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group. We also instructed 8 components to perform specified procedures over certain aspects of cash and cash equivalents, other operating expenses, revenue, trade & other payables, trade & other receivables, intangibles and external borrowings in response to our risk assessment for these individual financial statement captions.

Of the remaining 47 components that together represent -17.8% of the Group's Profit before Tax adjusted for exceptional items, none are individually greater than 11.8% of the Group's Profit before Tax adjusted for exceptional items. For these components, we performed other procedures, including analytical review, tests of details on balances considered significant due to size or risk and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statement.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

	Profit before Tax adjusted for exceptional items (%)	Revenue (%)	Total Assets (%)
Full Scope Components	146.3	98.8	81.4
Specific Scope Components	(28.5)	0.1	15.5
Other Procedures	(17.8)	1.1	3.1
Total	100.0	100.0	100.0

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the four full scope components, audit procedures were performed on one of these directly by the primary audit team. For other in-scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the year the Group audit team determined not to undertake any planned visits to overseas locations. This decision was taken based on the relative contribution of the UK to the overall Group results (113.5% of Group profit before tax adjusted for exceptional items and 95.8% of group revenue), the prior period visit to the Maltese location and the other interactions with all component teams conducted throughout the audit.

The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £2.6 million (2018: £2.7 million), which is 4.9% (2018: 5%) of profit before tax adjusted for exceptional items. We believe that the materiality basis provides us with reference to an appropriate 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).

We determined materiality for the Parent Company to be £3.8 million (2018: £4.6 million), which is 2% (2018: 2%) of equity.

Our materiality is based on the Group's profit before tax adjusted for exceptional items in order to exclude items which are non-recurring in nature. We have determined the final materiality amount applied in our audit procedures below:

Starting basis	• Group profit before tax – £25.5m
Adjustments	• Add-back net exceptional items of £27.9m as disclosed on the Group income statement
Materiality	• Totals £53.4m • Materiality of £2.6m (4.9% of materiality basis)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2018: 50%) of our planning materiality, namely £1.30m (2018: £1.35m). We have set performance materiality at this percentage due to an expectation of possible audit misstatements in the current year driven by the volume and quantum of audit misstatements identified in the prior year.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £329,000 to £1,304,000 (2018: £337,000 to £1,350,000).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £130,000 (2018: £135,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 95, including the Strategic Report and Corporate Governance Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 68** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 64** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 51** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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; or
- a Corporate Governance Statement has not been prepared by the company

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 95, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS, Companies Act 2006, the UK Corporate Governance Code, and the Listing Rules of the UK Listing Authority) and the relevant tax compliance regulations in the jurisdictions in which De la Rue plc operates.
- We understood how De La Rue plc is complying with those frameworks by understanding how De La Rue's own oversight mitigates risk through driving a culture of honesty and ethical behaviour (by placing a strong emphasis on fraud prevention). We also made enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the risk of fraud through management override and, in response, we incorporated data analytics across manual journal entries into our audit approach. Where instances of risk behaviour patterns were identified through our data analytics, we performed additional audit procedures to address each identified risk. These procedures included testing of transactions back to source information and were designed to provide assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business; enquiries of legal counsel, group management, internal audit and all full and specific scope management.
- If any instance of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures supplemented by audit procedures performed at the group level.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 20 July 2017 to audit the financial statements for the period ending 31 March 2018 and subsequent financial periods. We were appointed as auditors by the Board of Directors and signed an engagement letter on 21 September 2017.
- The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 31 March 2018 to 30 March 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Harkin (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
30 May 2019

Notes:

1 The maintenance and integrity of the De La Rue plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group income statement
for the period ended 30 March 2019

	Notes	2019 £m	2018 £m
Revenue from customer contracts	1	**564.8**	493.9
Operating expenses – ordinary	3	**(505.4)**	(431.8)
Operating (expenses)/income – exceptional	4,5	**(27.9)**	60.9
Total operating expenses		**(533.3)**	(370.9)
Operating profit		**31.5**	123.0
Comprising:			
Adjusted operating profit		**60.1**	62.8
Amortisation of acquired intangible assets		**(0.7)**	(0.7)
Net exceptional items	4,5	**(27.9)**	60.9
Profit before interest and taxation		**31.5**	123.0
Interest income	6	**0.6**	–
Interest expense	6	**(4.5)**	(3.8)
Retirement benefit obligation net finance expense	6,24	**(2.1)**	(5.6)
Net finance expense		**(6.0)**	(9.4)
Profit before taxation		**25.5**	113.6
Taxation	7	**(4.8)**	(16.8)
Profit from continuing operations		**20.7**	96.8
Loss from discontinued operations	2	**(2.4)**	(1.8)
Profit for the year		**18.3**	95.0
Attributable to:			
– Owners of the parent		**17.0**	93.6
– Non-controlling interests		**1.3**	1.4
Profit for the year		**18.3**	95.0
Earnings per ordinary share			
Basic	8		
Basic EPS continuing operations		**18.8p**	93.7p
Basic EPS discontinued operations		**(2.3p)**	(1.8p)
Total Basic EPS		**16.5p**	91.9p
Diluted	8		
Diluted EPS continuing operations		**18.8p**	92.8p
Diluted EPS discontinued operations		**(2.3p)**	(1.8p)
Total Diluted EPS		**16.5p**	91.0p

Group statement of comprehensive income
for the period ended 30 March 2019

	Notes	2019 £m	2018 £m
Profit for the year		**18.3**	95.0
Other comprehensive income			
Items that are not reclassified subsequently to profit or loss:			
Remeasurement (loss)/gain on retirement benefit obligations	24	**(4.8)**	61.5
Tax related to remeasurement of net defined benefit liability	7	**1.5**	(10.4)
Other movements		**0.7**	–
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**(0.9)**	(0.1)
Change in fair value of cash flow hedges		**(2.6)**	(1.9)
Other movements		**–**	0.4
Change in fair value of cash flow hedges transferred to profit or loss		**0.4**	(1.2)
Change in fair value of cash flow hedges transferred to non-current assets		**–**	0.2
Income tax relating to components of other comprehensive income	7	**0.7**	0.4
Other comprehensive (loss)/income for the year, net of tax		**(5.0)**	48.9
Total comprehensive income for the year		**13.3**	143.9
Comprehensive income for the year attributable to:			
Equity shareholders of the Company		**12.0**	142.5
Non-controlling interests		**1.3**	1.4
		13.3	143.9

Group balance sheet
at 30 March 2019

	Notes	2019 £m	2018 £m
ASSETS			
Non-current assets			
Property, plant and equipment	10	**115.0**	112.8
Intangible assets	11	**33.3**	29.5
Other financial assets	5	**7.3**	6.6
Investments in associates and joint ventures		**–**	0.1
Deferred tax assets	16	**18.4**	19.8
Derivative financial assets	14	**0.2**	0.2
		174.2	169.0
Current assets			
Inventories	12	**42.3**	37.0
Trade and other receivables	13	**114.4**	99.1
Contract assets		**24.9**	–
Current tax assets		**3.3**	4.6
Derivative financial assets	14	**4.0**	3.4
Cash and cash equivalents	15	**12.2**	15.5
		201.1	159.6
Total assets		**375.3**	328.6
LIABILITIES			
Current liabilities			
Borrowings	18	**(118.7)**	(63.9)
Trade and other payables	17	**(175.0)**	(167.1)
Contract liabilities		**(6.0)**	–
Current tax liabilities		**(11.7)**	(13.3)
Derivative financial liabilities	14	**(6.7)**	(4.3)
Provisions for liabilities and charges	19	**(3.5)**	(4.1)
		(321.6)	(252.7)
Non-current liabilities			
Retirement benefit obligations	24	**(78.6)**	(89.6)
Deferred tax liabilities	16	**(3.4)**	(3.0)
Derivative financial liabilities	14	**(0.2)**	(0.1)
Provisions for liabilities and charges	19	**(0.7)**	(3.9)
		(82.9)	(96.6)
Total liabilities		**(404.5)**	(349.3)
Net liabilities		**(29.2)**	(20.7)
EQUITY			
Share capital	20	**47.7**	47.1
Share premium account		**42.1**	38.4
Capital redemption reserve		**5.9**	5.9
Hedge reserve		**(2.5)**	(0.5)
Cumulative translation adjustment		**5.0**	7.2
Other reserve		**(83.8)**	(83.8)
Retained earnings		**(53.5)**	(43.9)
Total equity attributable to shareholders of the Company		**(39.1)**	(29.6)
Non-controlling interests		**9.9**	8.9
Total equity		**(29.2)**	(20.7)

Approved by the Board on 30 May 2019.

Philip Rogerson
Chairman

Helen Willis
Chief Financial Officer

Registered number: 3834125

Group statement of changes in equity
for the period ended 30 March 2019

	Attributable to equity shareholders							Non-controlling Interests	Total equity
	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Cumulative translation adjustment £m	Other reserve £m	Retained earnings £m	£m	£m
Balance at 26 March 2017	46.8	36.7	5.9	2.0	7.3	(83.8)	(165.6)	7.9	(142.8)
Profit for the year	–	–	–	–		–	93.6	1.4	95.0
Other comprehensive income for the year, net of tax	–	–	–	(2.5)	(0.1)	–	51.5	–	48.9
Total comprehensive income for the year	–	–	–	(2.5)	(0.1)	–	145.1	1.4	143.9
Transactions with owners of the Company recognised directly in equity:									
Share capital issued	0.3	1.7	–	–	–	–	–	–	2.0
Employee share scheme:									
– value of services provided	–	–	–	–	–	–	2.2	–	2.2
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(0.2)	–	(0.2)
Dividends paid	–	–	–	–	–	–	(25.4)	(0.4)	(25.8)
Balance at 31 March 2018 as previously reported	47.1	38.4	5.9	(0.5)	7.2	(83.8)	(43.9)	8.9	(20.7)
Accounting policy restatement: IFRS 15	–	–	–	–	–	–	0.3	–	0.3
IFRS 9	–	–	–	–	–	–	(0.8)	–	(0.8)
Balance at 1 April 2018 (restated)	47.1	38.4	5.9	(0.5)	7.2	(83.8)	(44.4)	8.9	(21.2)
Profit for the year	–	–	–	–	–	–	17.0	1.3	18.3
Other comprehensive income for the year, net of tax	–	–	–	(2.0)	(0.4)	–	(2.6)	–	(5.0)
Other movements	–	–	–	–	(1.8)	–	1.6	0.2	–
Total comprehensive income for the year	–	–	–	(2.0)	(2.2)	–	16.0	1.5	13.3
Transactions with owners of the Company recognised directly in equity:									
Share capital issued	0.6	3.7	–	–	–	–	–	–	4.3
Employee share scheme:									
– value of services provided	–	–	–	–	–	–	0.9	–	0.9
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(0.3)	–	(0.3)
Dividends paid	–	–	–	–	–	–	(25.7)	(0.5)	(26.2)
Balance at 30 March 2019	**47.7**	**42.1**	**5.9**	**(2.5)**	**5.0**	**(83.8)**	**(53.5)**	**9.9**	**(29.2)**

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.

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.

Cumulative translation adjustment (CTA)
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. During the period an amount of £1.5m has been reclassified to the cumulative translation adjustment reserve from retained earnings which has been included on the other movements line.

Group cash flow statement
for the period ended 30 March 2019

	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Profit before tax*		**22.8**	110.6
Adjustments for:			
Finance income and expense		**6.0**	9.4
Depreciation		**16.7**	21.9
Amortisation		**3.2**	3.3
(Increase)/decrease in inventory		**(7.3)**	13.3
(Increase)/decrease in trade and other receivables and contract assets		**(67.3)**	21.0
(Decrease) in trade and other payables and contract liabilities		**14.7**	(16.5)
(Decrease) in provisions		**(2.0)**	(6.2)
Non-cash gain on the defined benefit pension indexation change		**–**	(80.5)
Special pension fund contributions		**(20.5)**	(13.5)
Impairment of disposal group		**–**	9.3
Share based payment expense		**0.7**	2.2
Add back of non-cash GMP pension liability adjustment		**1.7**	–
Loss on disposal of subsidiary		**3.0**	–
Add back of non-cash credit loss provision for Venezuela		**18.1**	–
Add back of non-cash credit loss provision		**4.4**	–
Other non-cash movements		**1.2**	(0.8)
Cash generated from operating activities		**(4.6)**	73.5
Tax paid		**(2.0)**	(10.1)
Net cash flows from operating activities		**(6.6)**	63.4
Cash flows from investing activities			
Proceeds from sale of discontinued operations		**–**	3.0
Proceeds from the sale of subsidiary (net of cash disposed)		**0.2**	55.8
Purchases of property, plant and equipment		**(18.9)**	(19.9)
Purchase of software intangibles and development assets capitalised		**(6.5)**	(4.8)
Advanced payment – non trading		**–**	5.0
Acquisition of subsidiary (net of cash acquired)		**–**	(1.1)
Proceeds from sale of property, plant and equipment		**0.7**	–
Net cash flows from investing activities		**(24.5)**	38.0
Net cash flows before financing activities		**(31.1)**	101.4
Cash flows from financing activities			
Proceeds from issue of share capital		**4.3**	2.0
Net draw down of borrowings		**53.5**	(67.0)
Interest paid		**(4.4)**	(5.4)
Payment of revolving credit facility fees		**–**	(1.0)
Dividends paid to shareholders		**(25.7)**	(25.4)
Dividends paid to non-controlling interests		**(0.5)**	(0.4)
Net cash flows from financing activities		**27.2**	(97.2)
Net increase/(decrease) in cash and cash equivalents in the year		**(3.9)**	4.2
Cash and cash equivalents at the beginning of the year		**15.2**	11.2
Exchange rate effects		**–**	(0.2)
Cash and cash equivalents at the end of the year		**11.3**	15.2
Cash and cash equivalents consist of:			
Cash at bank and in hand	15	**12.2**	15.2
Short term deposits	15	**–**	0.3
Bank overdrafts		**(0.9)**	(0.3)
	22	**11.3**	15.2

* Profit before tax includes continuing and discontinued operations. The cash flows relating to discontinued operations are included within note 2.

Accounting policies

Reporting entity

De La Rue plc (the Company) is a public limited company incorporated and domiciled in the United Kingdom. The address of its registered office is disclosed on page 158 of this Annual Report. The consolidated financial statements of the Company for the period ended 30 March 2019 comprise the Company and its subsidiaries (together referred to as the Group). The principal activities of the Group are described in note 1.

Statement of compliance

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

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below. The financial statements have been prepared as at 30 March 2019, being the last Saturday in March. The comparatives for the 2017/18 financial period are for the period ended 31 March 2018.

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

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 2 to 49 of the Strategic report. In addition, pages 36 to 40 include the Group's objectives, policies and processes for financial risk management, details of its financial instruments and hedging activities and its exposure to credit risk, liquidity risk and commodity pricing risk.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on page 32 of the Strategic report.

The Group meets its funding requirements through cash generated from operations and a revolving credit facility which expires in December 2021. The Group's forecasts and projections, which cover a period of more than 12 months, taking into account reasonably possible changes in normal trading performance, show that the Group should be able to operate within its currently available facilities. The Group has sufficient financial resources together with assets that are expected to generate cash flow in the normal course of business.

As a consequence and notwithstanding the net liability position being reported in the consolidated balance sheet, which has primarily arisen due to the value of the deficit in the retirement benefit obligations, the Directors have a reasonable expectation that the Company and the Group are well-placed to manage their business risks and to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

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

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

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

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

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

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

Adoption of IFRS 9 'Financial Instruments' during the period

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

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

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

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

Accounting policies continued

The total accounts receivable balance is segmented as follows:

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

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

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

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

Step 1 – Identify the contract(s)

Step 2 – Identify the separate performance obligations in the contract

Step 3 – Determine the transaction price

Step 4 – Allocate the transaction price to the performance obligations

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting policies continued

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

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

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

International Financial Reporting Standards issued but not yet effective

IFRS 16 'Leases'

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

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

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

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

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

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

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

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 30 March 2019. Subsidiaries are entities controlled by the Group.

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

Business combinations

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

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

Transaction costs are expensed as incurred.

Significant accounting policies

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

Foreign currency

Foreign currency transactions

These financial statements are presented in sterling, which is the functional and presentational currency of the Company. The functional currency of Group entities is principally determined by the primary economic environment in which the respective entity operates.

Transactions in foreign currencies entered into by Group entities are translated into the functional currencies of those entities at the rates of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Foreign currency non-monetary items measured in terms of historical cost are translated at the rate of exchange at the date of the transaction. Exchange differences on non-monetary items measured at fair value are recognised in line with whether the gain or loss on the non-monetary item itself is recognised in the income statement or in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts. Refer to note 14 for details of the Group's accounting policies in respect of such derivative financial instruments.

Translation of foreign operations on consolidation

Assets and liabilities of foreign operations, including goodwill and intangible assets, are translated into GBP (the presentational currency of the Group) at the exchange rate prevailing at the balance sheet date. Income and expenses are translated at average exchange rates (which approximate to actual rates). Exchange differences arising on re-translation are recognised in the Group's currency translation reserve, which is a component of equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Net investment in foreign operations

Foreign currency differences arising on the re-translation of a financial liability designated as a hedge of a net investment in foreign operations are recognised in the currency translation reserve to the extent the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised as finance income or costs in the income statement. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Amortised cost investments

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

Accounting policies continued

Revenue recognition

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

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

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

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

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

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

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

Critical accounting judgements and key sources of estimation uncertainty

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

Critical accounting judgements

Revenue recognition and cut-off

Customer contracts will often include specific terms that impact the timing of revenue recognition. The timing of the transfer of control varies depending on the individual terms of the sales agreement.

For sales of products the transfer usually occurs on loading the goods onto the relevant carrier, however the point at which control passes may be later if the contract includes customer acceptance clauses, control passes on arrival at the customer location. Specific consideration is needed at year end to ensure revenue is recorded within the appropriate financial year.

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

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

Accounting treatment for sales to Portals

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

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

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

Classification of exceptional items

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

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

Critical accounting estimates

Post-retirement benefit obligations

Pension costs within the income statement and the pension obligations as stated in the balance sheet are both dependent upon a number of assumptions chosen by management. These include the rate used to discount future liabilities, the expected longevity for current and future pensioners and estimates of future rates of inflation.

The discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The Group engages the services of professional actuaries to assist with calculating the pension liability. See page 144 for detail of the relative sensitivity of the value of the scheme liabilities to changes in the discount and inflation rates.

Accounting policies continued

Valuation of inventory

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

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

Estimation of warranty provisions

The Group measures warranty provisions at the Directors' best estimate of the amount required to settle the obligation at the balance sheet date, discounted where the time value of money is considered material. These estimates take account of available information, historical experience and the likelihood of different possible outcomes. Both the amount and the maturity of these liabilities could be different from those estimated. Refer to note 19 on page 138 for further details.

Impairment of disposal group held for sale

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

Tax

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

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

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

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, 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** – produces security documents, including authentication labels, brand licensing products, government documents, cheques and postage stamps

Inter-segmental transactions are eliminated upon consolidation.

On 29 March 2018, the Group disposed of the Portals De La Rue paper business. The results of the paper business are included within the currency segment until the date of disposal in the prior period.

2019	Currency £m	Identity Solutions £m	Product Authentication and Traceability £m	Unallocated £m	Total of Continuing operations £m
Total revenue from contracts with customers	447.5	78.4	39.3	–	565.2
Less: inter-segment revenue	(0.4)	–	–	–	(0.4)
Revenue from contracts with customers	447.1	78.4	39.3	–	564.8
Timing of revenue recognition:					
Point in time	435.2	78.1	39.3	–	552.6
Over time	11.9	0.3	–	–	12.2
Operating profit	21.0	12.2	3.4	(5.1)	31.5
Interest expense	(0.7)	–	–	(3.8)	(4.5)
Interest income	0.6	–	–	–	0.6
Retirement benefit obligations net finance expense	–	–	–	(2.1)	(2.1)
Profit before taxation	20.9	12.2	3.4	(11.0)	25.5
Segment assets	195.0	59.1	34.0	87.2	375.3
Segment liabilities	(84.3)	(47.1)	(7.2)	(265.9)	(404.5)
Capital expenditure on property, plant and equipment	11.2	–	4.2	3.5	18.9
Capital expenditure on intangible assets	1.4	2.9	2.0	0.2	6.5
Depreciation of property, plant and equipment	10.4	3.8	0.9	1.6	16.7
Amortisation of intangible assets	2.2	0.5	0.5	–	3.2

Unallocated assets principally comprise deferred tax assets of £17.4m (FY18: £19.8m), cash and cash equivalents of £12.2m (FY18: £15.5m) which are used as part of the Group's financing offset arrangements and derivative financial instrument assets of £4.2m (FY18: £3.6m) as well as current tax assets, associates and centrally managed property, plant and equipment.

Unallocated liabilities principally comprise retirement benefit obligations of £78.6m (FY18: £89.7m), borrowings of £118.7m (FY18: £63.9m), current tax liabilities of £11.7m (FY18: £13.3m) and derivative financial instrument liabilities of £6.9m (FY18: £4.5m) as well as deferred tax liabilities and centrally held accruals and provisions.

Notes to the accounts continued

1 Segmental analysis continued

2018	Currency £m	Identity Solutions £m	Product Authentication and Traceability £m	Unallocated £m	Total of Continuing operations £m
Total revenue	372.0	82.0	40.1	–	494.1
Less: inter-segment revenue	(0.2)	–	–	–	(0.2)
Revenue	371.8	82.0	40.1	–	493.9
Adjusted operating profit	45.1	8.3	9.4	–	62.8
Amortisation of acquired intangible assets	–	(0.6)	(0.1)	–	(0.7)
Exceptional items – operating (notes 4 and 2)	(14.4)	(0.2)	(1.6)	77.1	60.9
Operating profit	30.7	7.5	7.7	77.1	123.0
Net interest expense	–	–	–	(3.8)	(3.8)
Retirement benefit obligations net finance expense	–	–	–	(5.6)	(5.6)
Profit before taxation	30.7	7.5	7.7	67.7	113.6
Segment assets	160.8	58.4	25.4	84.0	328.6
Segment liabilities	(89.4)	(41.1)	(7.6)	(211.3)	(349.3)
Capital expenditure on property, plant and equipment	6.2	1.4	7.2	5.1	19.9
Capital expenditure on intangible assets	1.5	0.4	1.0	1.9	4.8
Depreciation of property, plant and equipment	13.7	5.0	1.5	1.7	21.9
Amortisation of intangible assets	2.3	0.6	0.1	0.3	3.3
Impairment of disposal group	9.3	–	–	–	9.3

Geographic analysis of revenue by destination

	2019 £m	2018 £m
Middle East and Africa	**154.1**	166.8
Asia	**83.7**	121.7
UK	**149.2**	103.3
The Americas	**153.6**	70.7
Rest of Europe	**20.1**	27.8
Rest of world	**4.1**	3.6
	564.8	493.9

Geographic analysis of non-current assets

	2019 £m	2018 £m
UK	**96.4**	94.3
Malta	**21.7**	19.6
USA	**17.0**	16.4
Sri Lanka	**15.2**	15.7
Other countries	**5.3**	2.9
	155.6	148.9

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

Major customers

The Group had one major customer from which it derived total revenues of £101.0m, which equates to 17.9% of the Group total revenues on a reported basis (FY18: £55.4m and 11.2%).

2 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.

The loss on discontinued operations in the period, of £2.4m (comprising net charges of £2.8m and £0.4m associated to tax credits), relates to costs associated with a loss-making CPS contract that was not novated post-disposal and other costs associated with the winding down of remaining activity related to CPS (net of associated tax credits). In addition, receivables due from CPS totalling £1.4m have been provided for in the year as these are now not expected to be received.

In addition, during the year there has been a £0.6m release of a historical provision for post-retirement benefits (net of associated tax credits), following an updated valuation. The release of this provision has been recorded in reserves rather than discontinued operations in the income statement as the release is considered to be consistent with that of an actuarial gain.

3 Expenses by nature

	2019 £m	2018 £m
Cost of inventories recognised as an expense	**403.6**	244.5
Impairment of inventories	**1.7**	(0.8)
Depreciation of property, plant and equipment	**16.7**	21.4
Impairment of disposal group	**–**	9.3
Amortisation of intangibles	**3.2**	3.3
Operating leases:		
– Hire of plant and equipment	**–**	0.3
– Hire of property	**3.0**	2.2
Amounts payable to EY and its associates		
– Audit of these consolidated financial statements	**0.3**	0.4
– Audit of the financial statements of subsidiaries pursuant to legislation	**0.4**	0.3
– Non-Audit Services	**–**	0.3
– Taxation services	**–**	–
Research and non-capitalised development expense	**12.4**	11.8
Employee costs (including Directors' emoluments) (note 25)	**126.4**	151.8
Foreign exchange loss/(gains)	**5.0**	(7.8)

4 Exceptional items

Accounting policies

Exceptional items are disclosed separately in the financial statements to provide readers with an increased insight into the underlying performance of the Group.

	2019 £m	2018 £m
Site relocation and restructuring	**(4.8)**	(4.0)
Costs associated with disposal of subsidiary	**–**	(5.1)
Impairment of disposal group	**–**	(9.3)
Loss on disposal net of transaction costs	**(2.6)**	–
Acquisition related	**(0.2)**	(0.2)
Guaranteed minimum pension adjustment	**(1.7)**	–
Gain on revaluation of measurement of pension scheme deficit	**–**	80.5
Pension underpin costs	**(0.5)**	–
Venezuela expected credit loss provision	**(18.1)**	–
Costs associated with the indexation change on the pension scheme	**–**	(1.0)
Exceptional items in operating profit	**(27.9)**	60.9
Tax (charge)/credit on exceptional items	**4.2**	(9.7)

Notes to the accounts continued

4 Exceptional items continued

Site relocation and restructuring costs

Site relocation and restructuring costs in FY19 included: Net charges of £1.9m relating to the final stages of the manufacturing footprint review announced in December 2015 comprising staff compensation payments, 'dual running' costs for the period in FY19 when the Group was running both the new PA&T manufacturing facility in Malta and the old facility in Gateshead and the impairment of certain assets which are no longer expected to be used for their original useful lives. This restructuring programme is expected to be completed in FY20.

£1.3m (FY18: £2.2m) relating to the final stages of the upgrade of our finance systems and processes which included staff compensation payments, personnel costs for individuals solely employed to work on the project and consultancy fees. This will be completed in FY20.

£1.6m of staff compensation payments was incurred in relation to the review of our cost base which was announced HY19.

Impairment of disposal group and loss on disposal

In December 2017 the Group committed to a plan to sell the Group's Paper business, and accordingly presented the Paper business' assets and liabilities as a disposal group held for sale. In accordance with IFRS 5, prior to sale the disposal group's carrying value was compared to its fair value less costs to sell the resulting Impairment loss of £9.3m.

In the current period an additional loss on disposal of £2.6m net of transaction costs has been recorded due to finalisation of the disposal accounting post-year end on confirmation of the final working capital adjustment and update of the estimated liability under the recompense clause.

Acquisition costs

Additional costs of £0.2m were incurred in the period relating to staff retention payments fell due relating to the acquisition of De La Rue Authentication Solutions Inc.

Pension underpin costs

Legal fees of £0.5m have been incurred in the rectification of certain discrepancies identified in the Scheme's rules. The Directors do not consider this to have an impact on the UK defined benefit pension liability at the current time but they are continuing to assess this.

Costs associated with disposal of subsidiary

In FY18 costs of £5.1m were incurred on the disposal of the Paper business.

Guaranteed minimum payment adjustment

On 26 October 2018, a landmark pension case involving the Lloyds Banking Group's defined benefit pension schemes was handed down by the High Court. The judgement brings some clarity to defined benefit pension schemes in general and requires schemes to equalise pension benefits between men and women relating to Guaranteed Minimum Pensions (or 'GMP'). This has resulted in an increase of £1.7m to our obligation in the period which is accounted for in the income statement as a past service cost but presented within exceptional items. The estimate was performed based on method C2 (under the terminology of the High Court Judgement), which compares each member's accumulated benefits, with interest, to the same benefits if the member were the 'opposite sex' and ensuring the higher of the two accumulated amounts has been paid in each year.

Gain on revaluation of pension scheme deficit

In November 2017 the Trustee of the Defined Benefit Scheme decided to change indexation of future increases to the Defined Benefit Scheme benefits from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI), effective from April 2018. The decision was made following a request from the Company and a detailed legal review upon which the Trustee concluded that CPI is currently a more suitable index for the calculation of annual increases in the Scheme. This change led to a past service credit of £80.5m which was recorded within exceptional items in the prior period. The Directors continue to assess any residual impact from this change.

Venezuela credit loss provision

£18.1m credit loss associated with the outstanding accounts receivable of a customer in Venezuela currently unable to transfer funds due to non-UK related sanctions. In accordance with the Group's policy, the credit loss relating to the customer in Venezuela has been recorded in exceptional items due to its size and non-recurring nature.

Taxation relating to exceptional items

Tax charges relating to exceptional items arising in the period were £4.2m (FY18: tax credit of £9.7m).

5 Disposal of paper business

On 26 March 2018 prior to the external sale, the Group transferred the trade and assets of the paper business into a newly created wholly-owned subsidiary Portals De La Rue Limited. The Group completed the sale of Portals De La Rue Limited to EPIRIS Fund II on 29 March 2018. Under the terms of the agreement De La Rue received £60.3m cash upon completion of the transaction plus £6.6m in loan notes issued by the purchaser. Of the £6.6m of loan notes received, £2.6m was immediately converted to a preference share holding and £0.2m to an ordinary share holding of 10% in Mooreco Limited, a parent company of the purchasers. An additional £3.0m was estimated as being receivable relating to a closing working capital adjustment. The interest earned in FY19 has not been paid and has been accrued and added to the value of the loan note and preference share instruments held and is included in the total value presented on the balance sheet (as an other financial asset) at 30 March 2019 of £7.3m.

The carrying amounts of assets and liabilities as at the date of sale (29 March 2018) post-impairment of disposal group (referred to in note 4 above) totalled £67.9m.

The Group's paper business did not meet the IFRS 5 definition of a discontinued operation and as such its results have been included within continuing operations.

5 Disposal of paper business continued

Disposal consideration included an estimate for total amounts payable under the recompense contract provision of £2.0m. As part of the sale of the paper business the Company agreed to compensate the buyer, within certain limits, in the event of certain commercial outcomes arising which were prejudicial to the buyer. An amount of £2.0m was recognised in the 31 March 2018 balance sheet date to reflect the risk weighted exposure to the Company from within the overall range of possible outcomes. In the current period, an additional loss on disposal of £3.0m has been recorded due to the finalisation of the disposal accounting as the final amount received under the working capital adjustment is now known in addition to the impact of the update to the estimate of the recompense liability. The provision for recompense liability is included within other provisions in note 19.

6 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.

	2019 £m	2018 £m
Recognised in the income statement		
Interest income:		
– Interest on loan notes and preference shares	**0.5**	–
– Cash and cash equivalents	**0.1**	–
	0.6	0
Interest expense:		
– Bank loans	**(3.4)**	(4.2)
– Other, including amortisation of finance arrangement fees	**(1.1)**	0.4
Total interest expense calculated using the effective interest method	**(4.5)**	(3.8)
Retirement benefit obligation net finance expense (note 24)	**(2.1)**	(5.6)

All finance income and expense arises in respect of assets and liabilities not restated to fair value through the income statement.

Interest due on the loan notes and preference shares relates to interests held in Mooreco Limited (obtained as part of the considered for the Portals paper disposal). The loan notes and preference shares are included in the balance sheet as Other Financial Assets. In accordance with the terms of the instruments, the interest has not been paid in the year but accrued and added to the value of the Other Financial Asset.

The gain to the income statement in respect of the ineffective portion of derivative financial instruments was £nil (FY18: £nil).

7 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.

Notes to the accounts continued

7 Taxation continued

	2019 £m	2018 £m
Consolidated income statement		
Current tax		
UK corporation tax:		
– Current tax	**3.8**	6.8
– Adjustment in respect of prior years	**(0.3)**	(1.7)
	3.5	5.1
Overseas tax charges:		
– Current year	**2.2**	2.9
– Adjustment in respect of prior years	**(0.3)**	(1.4)
	1.9	1.5
Total current income tax charge	**5.4**	6.6
Deferred tax:		
– Origination and reversal of temporary differences, UK	**(1.6)**	10.6
– Origination and reversal of temporary differences, overseas	**0.6**	(1.6)
Total deferred tax charge/(credit)	**(1.0)**	9.0
Income tax expense reported in the consolidated income statement in respect of continuing operations	**4.8**	16.8
Income tax expense/(credit) in respect of discontinued operations (note 2)	**(0.4)**	(1.2)
Total income tax charge in the consolidated income statement	**4.4**	15.6
Tax on continuing operations attributable to:		
– Ordinary activities	**8.7**	8.3
– Amortisation of acquired intangible assets	**0.3**	(1.2)
– Exceptional items	**(4.2)**	9.7
Consolidated statement of comprehensive income:		
– On remeasurement of net defined benefit liability	**(1.5)**	10.4
– On cash flow hedges	**(0.2)**	(0.5)
– On foreign exchange on quasi-equity balances	**(0.5)**	0.1
Income tax (credit)/charge reported within other comprehensive income	**(2.2)**	10.0
Consolidated statement of changes in equity:		
– On share options	**0.3**	0.2
Income tax charge reported within equity	**0.3**	0.2

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 19% as follows:

	2019				2018			
	Before exceptional items £m	**Exceptional items £m**	**Movement on acquired intangibles £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Movement on acquired intangibles £m	Total £m
Profit before tax	**54.2**	**(27.9)**	**(0.7)**	**25.6**	53.4	60.9	(0.7)	113.6
Tax calculated at UK tax rate of 19% (FY18: 19%)	**10.3**	**(5.3)**	**(0.1)**	**4.9**	10.1	11.6	(0.1)	21.6
Effects of overseas taxation	**(1.1)**	**–**	**–**	**(1.1)**	0.5	–	–	0.5
(Credits)/charges not allowable for tax purposes	**(0.6)**	**1.6**	**–**	**1.0**	(0.1)	0.7	–	0.6
(Utilisation)/increase in unrecognised tax losses	**–**	**–**	**–**	**–**	(0.5)	(0.8)	–	(1.3)
Adjustments in respect of prior years	**–**	**(1.1)**	**0.4**	**(0.7)**	(1.8)	(0.3)	–	(2.1)
Change in UK and overseas tax rate	**0.1**	**0.6**	**–**	**0.7**	0.1	(1.5)	(1.1)	(2.5)
Tax charge/(credit)	**8.7**	**(4.2)**	**0.3**	**4.8**	8.3	9.7	(1.2)	16.8

The underlying effective tax rate was 16.1% (FY18: 15.5%.

8 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 excluding paper, before exceptional items, is useful to readers of the accounts as it gives an indication of underlying business performance.

	2019 Continuing operations pence per share	**2019 Discontinued operations pence per share**	**2019 Total pence per share**	2018 Continuing operations pence per share	2018 Discontinued operations pence per share	2018 Total pence per share
IFRS earnings per share						
Basic earnings per share	**18.8**	**(2.3)**	**16.5**	93.7	(1.8)	91.9
Diluted earnings per share	**18.8**	**(2.3)**	**16.5**	92.8	(1.8)	91.0
Adjusted earnings per share – excluding paper						
Basic earnings per share	**42.9**	**n/a**	**n/a**	38.2	n/a	n/a

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

Earnings

	2019 Continuing operations £m	2018 Continuing operations £m
Earnings for basic and diluted earnings per share	**19.4**	95.4
Amortisation of acquired intangible assets	**0.7**	0.7
Exceptional items	**27.9**	(60.9)
Less: tax on amortisation of acquired intangibles	**0.3**	(1.2)
Less: tax on exceptional items	**(4.2)**	9.7
Earnings for adjusted earnings per share	**44.1**	43.7

Weighted average number of ordinary shares

	2019 Number m	2018 Number m
For basic earnings per share	**102.9**	101.9
Dilutive effect of share options	**0.3**	0.9
For diluted earnings per share	**103.2**	102.8

9 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.

	2019 £m	2018 £m
Final dividend for the period ended 25 March 2017 of 16.7p paid on 30 June 2017	**–**	17.0
Interim dividend for the period ended 31 September 2017 of 8.3p paid on 3 January 2018	**–**	8.4
Final dividend for the period ended 31 March 2018 of 16.7p paid on 3 August 2018	**17.1**	–
Interim dividend for the period ended 29 September 2018 of 8.3p paid on 3 January 2019	**8.6**	–
	25.7	25.4

A final dividend per equity share of 16.7p has been proposed for the period ended 30 March 2019. If approved by shareholders the dividend will be paid on 3 August 2019 to ordinary shareholders on the register at 6 July 2019.

Notes to the accounts continued

10 Property, plant and equipment

Accounting policies

Property, plant and equipment are stated at cost, 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 lease term.

Plant and machinery are depreciated over their estimated useful lives which typically range from 10 to 20 years. Fixtures and fittings and motor vehicles are depreciated over their estimated useful lives which typically range from two to 15 years. No depreciation is provided for assets in the course of construction until they are ready for use.

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.

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings and Motor Vehicles £m	In course of construction £m	Total £m
Cost					
At 25 March 2017	64.2	381.3	23.9	19.7	489.1
Exchange differences	–	(0.1)	–	–	(0.1)
Additions	0.2	1.0	0.1	12.9	14.2
Transfers from assets in the course of construction	1.7	16.4	1.6	(19.7)	–
Reclassification	4.0	(17.9)	4.9	3.1	(5.9)
Disposals	–	(2.5)	(0.1)	(0.9)	(3.5)
Disposal of subsidiary	(21.0)	(135.8)	(3.1)	(3.7)	(163.6)
At 31 March 2018	49.1	242.4	27.3	11.4	330.2
Exchange differences	(0.2)	(2.1)	(0.1)	–	(2.4)
Additions	1.1	9.7	1.0	8.5	20.3
Transfers from assets in the course of construction	0.1	10.2	0.8	(11.1)	–
Disposals	–	(17.2)	(0.3)	–	(17.5)
At 30 March 2019	**50.1**	**243.0**	**28.7**	**8.8**	**330.6**
Accumulated depreciation					
At 25 March 2017	28.7	277.1	16.1	–	321.9
Exchange differences	–	(0.3)	–	–	(0.3)
Depreciation charge for the year	1.9	12.7	7.3	–	21.9
Reclassification	1.6	(5.5)	(2.0)	–	(5.9)
Disposals	–	(2.0)	(0.1)	–	(2.1)
Disposal of subsidiary	(5.7)	(109.5)	(2.9)	–	(118.1)
At 31 March 2018	26.5	172.5	18.4	–	217.4
Exchange differences	(0.2)	(1.8)	–	–	(2.0)
Depreciation charge for the year	1.8	13.2	1.7	–	16.7
Disposals	–	(17.0)	(0.3)	–	(17.3)
Impairments	–	0.7	–	–	0.7
At 30 March 2019	**28.1**	**167.6**	**19.8**	**–**	**215.5**
Net book value at 30 March 2019	**22.0**	**75.4**	**8.9**	**8.8**	**115.1**
Net book value at 31 March 2018	22.6	69.9	8.9	11.4	112.8
Net book value at 25 March 2017	35.5	104.2	7.8	19.7	167.2

11 Intangible assets

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 if the recognition criteria in IAS 38 'Intangible Assets' have been met. 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 10 years, once the product or enhancement is available for use. Product research costs are written off as incurred.

Distribution rights are capitalised at cost less accumulated amortisation and impairment losses and are amortised over their useful economic lives as determined by the life of the products to which they relate.

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.

Intellectual property recorded on the balance sheet relates to the acquisition of De La Rue Authentication Solutions Inc. and is amortised over its expected life of 15 years. Customer relationships, relating to those acquired in the acquisition of De La Rue Authentication Solutions Inc. are amortised over their expected lives of 10 to 15 years. Trade names relating to the acquisition of De La Rue Authentication Solutions Inc. are amortised over their expected lives of 15 years.

Assets in course of construction relates to internally generated software which is not yet completed.

Goodwill relates to the acquisition in FY17 of De La Rue Authentication Inc. (previously DuPont Authentication Inc). The goodwill has been tested for impairment during the year as IAS 36 requires annual testing for assets with an indefinite life. For the purposes of impairment testing the Cash Generating Unit (CGU) for the Goodwill has been determined as the De La Rue Authentication entity as a whole. This is consistent with the fact that the entity is not fully integrated into the Group and the integrated nature of the Intellectual Property and other assets which collectively generate cash flows. The key sensitivities in the impairment test are discount rate, future growth in revenue and the level of profit margin generated by De La Rue Authentication. Based on the impairment test performed no impairment of the goodwill is considered necessary.

	Goodwill £m	Development costs £m	Software assets £m	Distribution rights £m	Intellectual property £m	Customer relationships £m	Trade names £m	In course of construction £m	Total £m
Cost									
At 25 March 2017	8.8	23.2	10.0	0.1	3.6	4.4	0.2	–	50.3
Exchange differences	(0.8)	–	–	–	(0.5)	(0.7)	–	–	(2.0)
Reclassification	–	(3.9)	(1.7)	–	–	–	–	–	(5.6)
Additions	–	3.6	1.2	–	–	–	–	–	4.8
Disposal of subsidiary	–	(1.3)	–	–	–	–	–	–	(1.3)
At 31 March 2018	8.0	21.6	9.5	0.1	3.1	3.7	0.2	–	46.2
Exchange differences	0.6	–	–	–	0.1	0.1	–	–	0.8
Additions	–	–	0.7	–	–	–	–	6.7	7.4
Reclassification	–	(3.5)	0.3	–	–	–	–	3.2	–
At 30 March 2019	**8.6**	**18.1**	**10.5**	**0.1**	**3.2**	**3.8**	**0.2**	**9.9**	**54.4**
Accumulated amortisation									
At 25 March 2017	–	12.8	6.0	0.1	0.1	–	–	–	19.0
Reclassification	–	(3.7)	(1.0)	–	–	–	–	–	(4.8)
Exchange differences	–	–	–	–	–	–	–	–	–
Amortisation for the year	–	1.8	0.8	–	0.2	0.5	–	–	3.3
Disposal of subsidiary	–	(0.9)	–	–	–	–	–	–	(0.9)
At 31 March 2018	–	10.0	5.8	0.1	0.3	0.5	–	–	16.7
Exchange differences	–	–	–	–	–	–	–	–	–
Amortisation for the year	–	1.6	1.0	–	0.2	0.4	–	–	3.2
Impairment	–	0.4	–	–	–	–	–	0.8	1.2
At 30 March 2019	**–**	**12.0**	**6.8**	**0.1**	**0.5**	**0.9**	**–**	**0.8**	**21.1**
Carrying value at 30 March 2019	**8.6**	**6.1**	**3.7**	**–**	**2.7**	**2.9**	**0.2**	**9.1**	**33.3**
Carrying value at 31 March 2018	8.0	11.6	3.7	–	2.8	3.2	0.2	–	29.5
Carrying value at 25 March 2017	8.8	10.4	4.0	–	3.5	4.4	0.2	–	31.3

Notes to the accounts continued

11 Intangible assets continued

Accounting policies

Impairment of intangible assets

Intangible 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.

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. 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.

In testing intangible assets for impairment, a number of assumptions must be made when calculating future cash flows. These assumptions include growth in customer numbers, market size and sales prices and volumes, all of which will determine the future cash flows.

12 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.

	2019 £m	2018 £m
Raw materials	**18.7**	17.4
Work in progress	**12.9**	9.8
Finished goods	**10.7**	9.8
	42.3	37.0

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 FY19 (FY18: £0.8m).

13 Trade and other receivables

Accounting policies

Trade receivables that do not contain a significant financing component are recognised at the transaction price and other receivables are measured at amortised cost. Trade and other receivables are recognised net of allowance for ECL. In accordance with IFRS 9, the Group calculates an allowance for potentially uncollectable accounts receivable balances using the ECL model and follows the simplified approach. The Group has calculated the ECL by segmenting its accounts receivable balances into different segments representing the risk levels applying to those customer groupings and thus allowing for the calculation of the ECL by applying the expected loss rate to each segment. The loss rates applied to each segment are based on the Group historical experience of credit losses in addition to available knowledge of potential future credit risk based on available data such as country credit ratings. For further details on the adoption of IFRS 9, please see page 109. This has been calculated using the methodology set out in note 1. The Group reviews the account receivable ledger on a monthly basis to identify if there are any collectability issues which might require the recognition of an expected credit loss allowance (ie a specific bad debt provision) in addition to the expected credit loss allowance calculated based on historical experience. The Group's policy for managing credit risk is set out in note 14.

	2019 £m	2018 £m
Trade receivables	**119.2**	68.8
Provision for impairment	**(25.3)**	(5.5)
Net trade receivables	**93.9**	63.3
Other receivables	**17.1**	22.3
Prepayments and accrued income[1]	**3.4**	13.5
	114.4	99.1

Note:

1 In 2019 accrued income is presented on the face of the balance sheet as 'contract assets' as required by IFRS 15.

13 Trade and other receivables continued

The Group has three customers that account for approximately 28% of the trade receivables at 30 March 2019.

The ageing of trade and other receivables (excluding prepayments) at the reporting date was:

	Gross 2019 £m	ECL allowance 2019 £m	Gross 2018 £m	Provision* 2018 £m
Not past due	**77.5**	**(0.3)**	31.0	–
Past due 0-30 days	**16.7**	**(1.0)**	32.3	–
Past due 31-120 days	**20.5**	**(11.0)**	7.3	–
Past due more than 120 days	**21.6**	**(13.0)**	15.2	(5.5)
	136.3	**(25.3)**	85.8	(5.5)

* Determined under IAS 37.

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:

	2019 £m	2018 £m
Balance at beginning of year	**(5.5)**	(3.0)
Impairment losses recognised	**(24.2)**	(2.5)
Impairment losses reversed	**4.4**	–
Balance at end of year	**(25.3)**	(5.5)

Impairment losses recognised in the period include £18.1m related to Venezuela as referred to in the front half of this Annual Report and Accounts.

There is no expected credit loss on contract assets.

14 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.

Notes to the accounts continued

14 Financial risk continued

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% and 100% 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 £50.0m 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% of the Group's forecast average levels of net debt for a period of at least 12 months.

Credit risk

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

The Group's exposure to credit risk is influenced by various factors, largely pertaining to the profile of the customer as acknowledged in our IFRS 9 Receivables segmentation, in particular the customer's status as a Government or Banking institution as compared to that of a private or publicly owned entity. Due to the large make up of Government or central banks at around 80% of the Group's revenues, measuring credit risk is largely driven by factors including the country's sovereign rating, historic knowledge, local market insights, and political factors in country and industry credit risk is not an influencing factor. The Group's long standing historic trade with Government and central bank institutions guides strongly towards the lower credit or doubtful debt risk that these customers represent. Where private or publicly owned Business Trade applies, the Business adopts a conventional and in depth trading entity credit review. Where appropriate, letters of credit are used to reduce the credit risk for the Business and where possible advanced payments are also requested.

All credit assignment risk is mitigated through a threshold based sign-off matrix, where larger value credit exposures require multiple and more senior Business sign-off. The Group has processes in place to ensure appropriate credit limits are set for customers and for ensuring appropriate approval is given for the release of products to customers where any perceived risk has been highlighted.

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 liability 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.

14 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 2019 £m**	**Carrying amount 2019 £m**	Total fair value 2018 £m	Carrying amount 2018 £m
Financial assets					
Trade and other receivables[1]		**114.4**	**114.4**	85.8	85.8
Contract assets		**24.9**	**24.9**	–	—
Other financial assets[2]		**7.1**	**7.1**	6.4	6.4
Cash and cash equivalents		**12.2**	**12.2**	15.5	15.5
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**2.0**	**2.0**	1.8	1.8
– Short duration swap contracts designated as fair value hedges	Level 2	**–**	**–**	0.1	0.1
– Foreign exchange fair value hedges – other economic hedges	Level 2	**1.2**	**1.2**	1.3	1.3
– Embedded derivatives	Level 2	**1.0**	**1.0**	0.4	0.4
– Interest rate swaps	Level 2	**–**	**–**	–	–
Total financial assets		**162.8**	**162.8**	111.3	111.3
Financial liabilities					
Unsecured bank loans and overdrafts[3]		**(119.7)**	**(119.7)**	(65.4)	(65.4)
Trade and other payables[4]		**(170.3)**	**(170.3)**	(151.9)	(151.9)
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**(4.7)**	**(4.7)**	(3.2)	(3.2)
– Short duration swap contracts designated as fair value hedges	Level 2	**(0.5)**	**(0.5)**	(0.2)	(0.2)
– Foreign exchange fair value hedges – other economic hedges	Level 2	**(0.8)**	**(0.8)**	(0.4)	(0.4)
– Embedded derivatives	Level 2	**(0.8)**	**(0.8)**	(0.6)	(0.6)
– Interest rate swaps	Level 2	**(0.1)**	**(0.1)**	–	–
Total financial liabilities		**(296.9)**	**(296.9)**	(221.7)	(221.7)

Notes:
1 Excluding prepayments.
2 Excludes ordinary shares of £0.2m which are accounted for as fair value through profit and loss.
3 The unsecured bank loans and overdrafts above is presented excluding unamortised pre-paid borrowing.
4 Excluding contract liabilities/deferred income and taxes. The prior period comparatives have been restated to include accrued expenses and payments received on account.

	2019 £m	2018 £m
All derivatives		
Hedge of the Group's functional cash flows		
Asset b/f	**0.2**	0.6
Fair/value (losses)/gains recognised in equity	**(0.2)**	0.2
Fair/value (losses)/gains recognised in income statement	**0.2**	(0.6)
Cash settlement on maturity of cash flow hedges		
Asset c/f	**0.2**	0.2

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.

Notes to the accounts continued

14 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 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 30 March 2019 was (£2.5m), (31 March 2018: (£0.5m)). Net movements in the hedge reserve are shown in the Group statement of changes in equity. Comprehensive income after tax was £2.0m comprising a gain of £2.6m of fair value movements on new and continuing cash flow hedges, a loss of £nil on maturing cash flow hedges for capital expenditure and a £0.5m loss 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 £2.3m amounted to £0.3m. Hedge reserve movements in the income statement were as follows:

	Revenue £m	Operating expense £m	Interest expense £m	Total £m
30 March 2019				
– Maturing cash flow hedges	**(0.3)**	**(0.2)**	**–**	**(0.5)**
– Ineffectiveness on de-recognition of cash flow hedges	**0.1**	**–**	**–**	**0.1**
	(0.2)	**(0.2)**	**–**	**(0.4)**
31 March 2018				
– Maturing cash flow hedges	(0.4)	2.2	–	1.8
– Ineffectiveness on de-recognition of cash flow hedges	–	–	–	–
	(0.4)	2.2	–	1.8

The ineffective portion of fair value hedges that was recognised in the income statement amounted to nil (FY18: £nil). The ineffective portion of cash flow hedges that was recognised in the income statement within sales was a £0.1m gain (FY18: loss of £0.9m).

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.

30 March 2019	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	**119.7**	**–**	**–**	**119.7**	**–**	**119.7**
Trade and other payables	**170.3**	**–**	**–**	**170.3**	**–**	**170.3**
Derivative financial liabilities						
Gross amount payable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	**156.7**	**–**	**–**	**156.7**	**(152.0)**	**4.7**
– Short duration swap contracts designated as fair value hedges	**70.3**	**–**	**–**	**70.3**	**(69.8)**	**0.5**
– Fair value hedges – other economic hedges	**62.1**	**0.1**	**15.8**	**78.0**	**(77.2)**	**0.8**
Interest rate swaps	**0.1**	**–**	**–**	**0.1**	**–**	**0.1**
	579.2	**0.1**	**15.8**	**595.1**	**(299)**	**296.1**

14 Financial risk continued
Liquidity risk continued

31 March 2018	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	65.4	–	–	65.4	–	65.4
Trade and other payables	151.9	–	–	151.9	–	151.9
Derivative financial liabilities						
Gross amount payable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	144.9	0.4	–	145.3	(142.1)	3.2
– Short duration swap contracts designated as fair value hedges	40.3	–	–	40.3	(40.1)	0.2
– Fair value hedges – other economic hedges	61.6	–	–	61.6	(61.2)	0.4
Interest rate swaps						
	464.1	0.4	–	464.5	(243.4)	221.1

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

30 March 2019	**Due within 1 year £m**	**Due between 1 and 2 years £m**	**Due between 2 and 5 years £m**	**Due after 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	**12.2**	**–**	**–**	**–**	**12.2**	**–**	**12.2**
Trade and other receivables	**135.9**	**–**	**–**	**–**	**135.9**	**–**	**135.9**
Contract assets	**24.9**	**–**	**–**	**–**	**24.9**	**–**	**24.9**
Other financial assets[1]	**–**	**–**	**–**	**7.1**	**–**	**–**	**7.1**
Derivative financial assets							
Gross amount receivable from currency derivatives:							
– Forward exchange contracts designated as cash flow hedges	**79.5**	**1.6**	**–**	**–**	**81.1**	**(79.1)**	**2.0**
– Short duration swap contracts designated as fair value hedges	**17.0**	**–**	**–**	**–**	**17.0**	**(17.0)**	**–**
– Fair value hedges – other economic hedges	**90.6**	**23.4**	**3.4**	**–**	**117.4**	**(116.2)**	**1.2**
Interest rate swaps							
	360.1	**25.0**	**3.4**	**7.1**	**388.5**	**(212.3)**	**183.3**

Note:
1 Excludes ordinary shares of £0.2m which are accounted for as fair value through profit and loss.

31 March 2018	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	15.5	–	–	15.5	–	15.5
Trade and other receivables	85.2	–	–	85.2	–	85.2
Derivative financial assets						
Gross amount receivable from currency derivatives:						
– Forward exchange contracts designated as cash flow hedges	119.2	7.3	–	126.5	(124.7)	1.8
– Short duration swap contracts designated as fair value hedges	37.2	–	–	37.2	(37.1)	0.1
– Fair value hedges – other economic hedges	69.3	0.7	–	70.0	(68.7)	1.3
Interest rate swaps						
	326.4	8.0	–	334.4	(230.5)	103.9

Notes to the accounts continued

14 Financial risk continued

Liquidity risk continued

The fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged instrument is more than 12 months and as a current asset or liability if the maturity of the hedged instrument is less than 12 months.

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 30 March 2019, the Group has a total of undrawn committed borrowing facilities, all maturing in more than one year, of £156.5m (31 March 2018: £210.0m in more than one year). The amount of loans drawn on the £275.0m facility is £118.5m (31 March 2018: £65.0m). Guarantees of £nil (31 March 2018: £nil) have been drawn using the facility.

The financial covenants 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 12.9 times, net debt/EBITDA of 1.46 times.

Forward foreign exchange contracts

The net principal amounts of the outstanding forward foreign exchange contracts at 30 March 2019 are US dollar 125.6m, euro 35.5m, Swiss franc 32.2m, Japanese yen 53.0m, Canadian dollar 0.5m, Hong Kong dollar 8.5m, Singapore dollar 4.2m, Australian dollar 0.1m and Swedish krona 16.6m.

The net principal amounts outstanding under forward contracts with maturities greater than 12 months are euro 3.9m, US dollar 53.9m and Swiss franc 0.8m. 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 30 March 2019 will be released to the income statement at various dates between one month and 24 months from the balance sheet date.

	Notional amount in currency	Notional amount in £m	Maturity	Average forward rate
As at March 2019				
Forward exchange forward contracts				
USD	**126.4**	**(94.9)**	**2022**	**1.3314**
EUR	**(39)**	**35.2**	**2021**	**1.1059**
CHF	**(29)**	**22.8**	**2020**	**1.2687**
31 March 2018				
Forward exchange forward contracts				
USD	34.3	(23.9)	2019	1.4341
EUR	24.3	(21.6)	2019	1.1231
CHF	(28.5)	22.2	2019	1.2855

Notes:
Hedges vs GBP shown only.
Forward sales shown as positive and purchases shown as negative.

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 30 March 2019 was £nil (FY18: £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 30 March 2019 are US dollar 11.6m, euro 1.8m, Swiss franc 1.2m, Japanese yen 53.6m, Canadian dollar 0.5m, Hong Kong dollar 1.9m, Mexican peso 2.6m, United Arab Emirates dirham 2.5m, Singapore dollar 0.4m and Swedish krona 0.3m.

(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 30 March 2019 was (£0.5m) (FY18: loss £0.1m). Gains and losses on balance sheet swaps are included in the consolidated income statement.

The principal amounts outstanding under balance sheet swaps at 30 March 2019 are US dollar 45.5m, euro 31.4m, Swiss franc 15.2m, South African rand 19.8m.

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 30 March 2019 was £0.2m (FY18: (£0.2m)).

Gains and losses on fair value hedges

The gains and losses recognised in the year on the Group's fair value hedges were (£0.3m) relating to balance sheet hedges (FY18: loss £0.1m), (£1.6m) relating to other fair value hedges (FY18: loss £8.9m), and £nil relating to cash management hedges (FY18: £nil).

14 Financial risk continued

Market risk: Currency risk

Exposure to currency risk

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2019	2018	**2019**	2018
US dollar	**1.32**	1.33	**1.31**	1.41
Euro	**1.13**	1.13	**1.17**	1.14

Interest rate risk

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

	Carrying amount	
	2019 £m	2018 £m
Variable rate instruments		
Financial assets	**12.2**	15.5
Financial liabilities	**(119.7)**	(65.4)
	(107.5)	(49.9)

At the year ending 31 March 2019 the Group had £35m of floating to fixed interest rate swaps with financial institutions and with a maturity of November 2019, and £30m of floating to fixed interest rate swaps with financial institutions and with maturities of October and November 2020.

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)				
30 March 2019	**(0.3)**	**0.7**	**–**	**–**
25 March 2018	(0.8)	0.9	–	–

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:

		Carrying amount	
	Notes	**2019 £m**	2018 £m
Trade and other receivables (excluding prepayments)	13	**111.0**	85.8
Cash and cash equivalents	15	**12.2**	15.5
Forward exchange contracts used for hedging		**3.2**	3.2
Embedded derivatives		**1.0**	0.4
Interest rate swaps		**–**	–
		127.4	104.9

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

	Carrying amount	
	2019 £m	2018 £m
UK	**27.3**	17.2
Rest of Europe	**17.1**	4.7
The Americas	**9.0**	15.5
Rest of world	**57.6**	48.4
	111.0	85.8

Notes to the accounts continued

14 Financial risk continued

Credit risk continued

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

	Carrying amount 2019 £m	Carrying amount 2018 £m
Banks and financial institutions	**66.7**	60.3
Government institutions	**34.7**	22.4
Other	**34.9**	3.1
	136.3	85.8

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	2019 £m	2018 £m
Total equity attributable to shareholders of the Company		**(39.1)**	(43.9)
Add back long term pension deficit liability		**78.6**	89.6
Adjusted equity attributable to shareholders of the Company		**39.5**	45.7
Net debt	22	**107.5**	49.9
Group capital		**147.0**	95.6

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 18 and 22.

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 8 and 9.

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 £40.1m in ongoing research and development expenditure and total capital expenditure. The proposed total dividend for the year is covered 1.7 times. The ratio is calculated as total adjusted earning as per note 8 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.

15 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.

	2019 £m	2018 £m
Cash at bank and in hand	**12.2**	15.2
Short term bank deposits	**–**	0.3
	12.2	15.5

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 14.

16 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:

	2019 £m	2018 £m
Deferred tax assets	**18.4**	19.8
Deferred tax liabilities	**(3.4)**	(3.0)
	15.0	16.8

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

	2019 £m	2018 £m
Beginning of the year	**16.8**	38.4
Exchange differences	**(0.3)**	0.4
Income statement credit/(charge)	**1.0**	(9.0)
Tax credit/(charge) to OCI and equity	**(2.5)**	(13.0)
End of the year	**15.0**	16.8

Notes to the accounts continued

16 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 (restated) £m	Development costs £m	Other £m	Total £m
Liabilities					
At 25 March 2017	(7.8)	(2.9)	(1.7)	(0.4)	(12.8)
Recognised in the income statement	4.2	1.2	0.1	–	5.5
Recognised in OCI and equity	–	–	–	0.4	0.4
Exchange differences	–	0.3	–	–	0.3
At 31 March 2018	(3.6)	(1.4)	(1.6)	–	(6.6)
Recognised in the income statement	1.5	(0.4)	0.5	(0.1)	1.5
Recognised in OCI and equity	–	–	–	–	–
Exchange differences	–	–	–	–	–
At 30 March 2019	(2.1)	(1.8)	(1.1)	(0.1)	(5.1)

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
Assets					
At 25 March 2017	1.6	41.0	0.4	8.2	51.2
Recognised in the income statement	0.2	(12.8)	(0.2)	(1.7)	(14.5)
Recognised in OCI and equity	(0.6)	(12.9)	–	0.1	(13.4)
Exchange differences	–	–	–	0.1	0.1
At 31 March 2018	1.2	15.3	0.2	6.7	23.4
Recognised in the income statement	(0.2)	0.6	(0.1)	(0.8)	(0.5)
Recognised in OCI and equity	(0.3)	(2.4)	–	0.2	(2.5)
Exchange differences	–	(0.1)	–	(0.2)	(0.3)
At 30 March 2019	0.7	13.4	0.1	5.9	20.1

Other deferred assets and liabilities include tax associated with provisions of £0.6m (FY18: £0.9m) and in respect of overseas tax credits £5.3m (FY18: £5.9m).

Deferred tax assets are recognised for tax losses available to carry forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group has not recognised deferred tax assets of £6.8m (FY18: £7.2m) in respect of losses amounting to £25.5m (FY18: £26.7m) that can be carried forward against future taxable income. Similarly, the Group has not recognised deferred tax assets of £6.4m (FY18: £8.9m) in respect of overseas tax credits that are carried forward for utilisation in future periods.

Unremitted foreign earnings totalled £168.8m at 30 March 2019 (FY18: £151.3m). 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 £318.0m are carried forward at 30 March 2019 (FY18: £307m). No deferred tax asset has been recognised in respect of these losses.

US tax rate

A reduction in the US federal tax rate from 35% to 21% (effective from January 2018) was substantively enacted on 22 December 2017. This will reduce the US Group's future current tax charge accordingly. The US deferred tax assets and liabilities at 31 March 2019 have been calculated based on the blended federal and state tax rate of 26% based on the substantively enacted rate at the balance sheet date.

UK tax rate

A reduction in the main rate of UK corporation tax from 19% to 17% (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 30 March 2019 have been calculated based on the rate of 17% (31 March 2017: 17%) substantively enacted at the balance sheet date.

17 Trade and other payables

Accounting policies

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

	2019 £m	2018 £m
Current liabilities		
Payments received on account	**46.7**	29.7
Trade payables	**56.6**	59.6
Social security and other taxation	**4.7**	1.0
Deferred income	**–**	14.1
Accrued expenses	**54.4**	58.2
Other payables	**12.6**	4.5
	175.0	167.1

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 14.

18 Borrowings

Accounting policies

Borrowings are recognised at amortised cost.

For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 14.

	Currency	Nominal interest rate	Year of maturity	Face value 2019 £m	Carrying amount 2019 £m	Face value 2018 £m	Carrying amount 2018 £m
Current liabilities							
Unsecured bank loans and overdrafts	EUR	–	2019	**–**	**–**	–	–
Unsecured bank loans and overdrafts	GBP	2.25%	2019	**119.1**	**119.1**	65.0	65.0
Unsecured bank loans and overdrafts	USD	–	2019	**–**	**–**	–	–
Unsecured bank loans and overdrafts	Other	–	2019	**0.6**	**0.6**	0.4	0.4
Total interest bearing liabilities				**119.7**	**119.7**	65.4	65.4

The total interest bearing liabilities above is presented excluding unamortised pre-paid borrowing fees of £1.0m.

As at 30 March 2019, bank overdrafts of £182.8m (FY18: £223.1m) were offset for interest purposes against bank accounts in a credit balance position. Overdrafts are presented net in the balance sheet where there is a right of offset against a cash balance.

As at 30 March 2019, the Group has committed borrowing facilities, all maturing in more than one year, of £275m. Up to £100m of the £275m 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.

Notes to the accounts continued

19 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.

	Restructuring £m	Warranty £m	Other £m	Total £m
At 31 March 2018	0.5	1.7	5.8	8.0
Exchange differences	–	–	0.1	0.1
Charge for the year	1.5	1.3	1.6	4.4
Utilised in year	(2.0)	(0.9)	(2.0)	(4.9)
Released in year	–	(1.6)	(1.8)	(3.4)
At 30 March 2019	**–**	**0.5**	**3.7**	**4.2**
Expected to be utilised within 1 year	–	0.5	2.7	3.2
Expected to be utilised after 1 year	–	–	1.0	1.0

Restructuring provisions

Restructuring provisions principally related to the manufacturing footprint review announced in December 2015 and the upgrade of our finance systems and processes. A provision was created at the half year for review of our cost base which was reported in HY19. No provisions are held at 30 March 2019 as no balances remain payable under these programmes as they have now completed.

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. An amount of £1.3m has been released upon the updated valuation of the recompense clause relating to the paper disposal which has been accounted for as part of the additional loss on disposal recorded within exceptional items in FY19. In addition, an amount of £0.6m has been released from a historical provision for post-retirement benefits following an updated valuation, the impact of which has been recorded within reserves as it is considered to represent an actuarial gain. Charges in the year primarily relate to the recognition of onerous contract provisions for loss-making customer contracts. With the exception of the post-retirement benefit all other provisions are expected to be utilised within one year.

20 Share capital

	2019 £m	2018 £m
Issued and fully paid		
103,796,134 ordinary shares of $44^{52}/_{175}$pp each (2017/18: 102,389,688 ordinary shares of $44^{52}/_{175}$p each)	**46.6**	46.0
111,673,300 deferred shares of 1p each (2017/18: 111,673,300 deferred shares of 1p each)	**1.1**	1.1
	47.7	47.1

	2019		2018	
	Ordinary shares '000	**Deferred shares '000**	Ordinary shares '000	Deferred shares '000
Allotments during the year				
Shares in issue at 31 March 2018/25 March 2017	**102,390**	**111,673**	101,767	111,673
Issued under Savings Related Share Option Scheme	**1,178**	**–**	439	–
Issued under Annual Bonus Plan	**149**	**–**	160	–
Issued under Performance Share Plan	**79**	**–**	24	–
Shares in issue at 30 March 2019/31 March 2018	**103,796**	**111,673**	102,390	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.

21 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 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 30 March 2019, the Group has a number of share based payment plans, which are described below. 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	
	2019 £m	2018 £m
Annual Bonus Plan	**0.1**	0.7
Performance Share Plan	**0.4**	0.3
Savings Related Share Option Scheme	**0.2**	1.2
	0.7	2.2

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 June 2018	28 August 2018	n/a	7 January 2019
Number of options granted	789,161	66,265	n/a	848,773
Exercise price	n/a	n/a	n/a	n/a
Contractual life (years)	9	9	n/a	3
Settlement	Share	Shares	n/a	Shares
Vesting period (years)	3 or 4	3 or 4	n/a	3
Dividend yield	n/a	n/a	n/a	25p pa
Risk free interest rate	n/a	n/a	n/a	0.77% pa
Share price volatility	n/a	n/a	n/a	30% pa
Fair value per option at grant date	551.0	498.0	n/a	0.86

For the Savings Related Share Option Scheme (SAYE) an expected volatility rate of 30% (FY18: 30%) has been used for grants in the period. This rate is based on historical volatility over the last three years to 7 January 2018. 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 0.77% per annum for a period of three years (FY18: 0.51%).

Notes to the accounts continued

21 Share based payments continued

Reconciliations of option movements over the period to 31 March 2019 for each class of share awards are shown below:

Annual Bonus Plan

For details of the Annual Bonus Plan, refer to the Directors' remuneration report on pages 74 to 93.

	2019 Number of awards '000	2018 Number of awards '000
Share awards outstanding at start of year	**160**	243
Granted	**–**	72
Forfeited	**(6)**	(9)
Vested	**(127)**	(146)
Expired	**–**	–
Outstanding at end of year	**27**	160

During the period the weighted average share price on share awards exercised in the period was 487.04p.

Performance Share Plan

For details of the Performance Share Plan, refer to the Directors' remuneration report on pages 74 to 93.

	2019 Number of awards '000	2018 Number of awards '000
Share awards outstanding at start of year	**1,946**	1,722
Granted	**854**	684
Forfeited	**(790)**	(290)
Vested	**(68)**	(20)
Expired	**–**	(150)
Outstanding at end of year	**1,942**	1,946

During the period the weighted average share price on share awards exercised in the period was 517.93p.

The awards have been allocated based on a share price of 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, 520.85p for the 27 June 2016 grants, 680.10p for the 27 June 2017 grants, 551.00p for the 27 June 2018 grants and 498.00p for the August 2018 grants.

21 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 10% has been assumed on new options granted in the year based on historic experience.

	2019		2018	
	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	**410.18**	**2,856**	395.63	2,944
Granted	**372.67**	**849**	520.26	654
Forfeited	**391.94**	**(761)**	382.74	(86)
Exercised	**357.96**	**(1,153)**	435.60	(464)
Expired	**–**	**–**	513.30	(192)
Outstanding at end of year	**404.76**	**1,791**	410.18	2,856

The range of exercise prices for the share options outstanding at the end of the year is 372.67p–705.7p (2018: 344.40p–775.34p). The weighted average remaining contractual life of the outstanding share options is 1.92 years (2018: 1.62 years).

During the period the weighted average share price on options exercised in the period was 414.00p.

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 30 March 2019 (31 March 2018: nil)

22 Analysis of net debt

	2019 £m	2018 £m
Cash at bank and in hand	**12.2**	15.2
Short term bank deposits	**–**	0.3
Bank overdrafts	**(0.9)**	(0.3)
Total cash and cash equivalents	**11.3**	15.2
Borrowings due within one year	**(118.8)**	(65.1)
Net debt	**(107.5)**	(49.9)

Net debt above is presented excluding unamortised pre-paid borrowing fees of £1.0m (FY18: £1.5m).

Notes to the accounts continued

23 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.

	2019 Property £m	2018 Property £m
Total commitments due:		
– Within one year	**2.4**	3.0
– Between one and five years	**6.8**	7.6
– Over five years	**25.6**	25.5
	34.8	36.1

24 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 30 March 2019 as the Group has an unconditional right to any surplus. No significant judgements were involved in making this determination.

The Group's formal triennial valuation of the UK defined benefit scheme (the '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. A new triennial review of the Scheme's valuation is due as at 5 April 2018. The review is ongoing and the Company is engaging with the Trustees on funding arrangements. The existing funding plan agreed in June 2016 will remain in place until the review is concluded.

The cash contributions to the Scheme of £20.5m (FY18: £13.5m) (in addition to the regular contributions outside of the revised funding plan) have been made in the year. From 2019 to 2022 cash contributions will rise from £20.5m by 4% per annum. They will be frozen at £23.0m per year between 2023 and 2028. The Group will continue to pay annual fees of around £1.6m for managing the Scheme in addition to the cash contributions.

In November 2017 the Trustee of the Scheme decided to change indexation of future increases to the Scheme benefits from the RPI to the CPI, effective from April 2018. The decision was made following a request from the Company and a detailed legal review upon which the Trustee concluded that CPI is currently a more suitable index for the calculation of annual increases in the Scheme. This change led to a past service credit of £80.5m reported in the 31 March 2018 full year results which was recorded within exceptional items. The Directors continue to assess any residual impact from this change.

24 Retirement benefit obligations continued

On 26 October 2018, a landmark pension case involving the Lloyds Banking Group's defined benefit pension schemes was handed down by the High Court. The judgement brings some clarity to defined benefit pension schemes in general and requires schemes to equalise pension benefits between men and women relating to GMPs. We estimate the impact of this in relation to the Scheme is £1.7m and this charge has been recorded within exceptional items. The estimate was performed based on method C2 (under the terminology of the High Court Judgement), which compares each member's accumulated benefits, with interest, to the same benefits if the member were the 'opposite sex' and ensuring the higher of the two accumulated amounts has been paid in each year.

In addition during FY19 legal fees of £0.5m have been incurred in the rectification of certain discrepancies identified in the Scheme's rules. The Directors do not consider this to have an impact on the UK defined benefit pension liability at the current time but they are continuing to assess this.

(a) Defined benefit pension schemes

Amounts recognised in the consolidated balance sheet:

	2019 UK £m	2019 Overseas £m	2019 Total £m	2018 UK £m	2018 Overseas £m	2018 Total £m
Equities	101.8	–	101.8	199.9	–	199.9
Bonds	194.4	–	194.4	273.9	–	273.9
Diversified Growth Fund	185.9	–	185.9	208.6	–	208.6
Liability Driven Investment Fund	440.9	–	440.9	230.1	–	230.1
Multi Asset Credit	74.2	–	74.2	52.2	–	52.2
Other	7.6	–	7.6	15.3	–	15.3
Fair value of scheme assets	1,004.8	–	1,004.8	980.0	–	980.0
Present value of funded obligations	(1,076.4)	–	(1,076.4)	(1,061.1)	–	(1,061.1)
Funded defined benefit pension schemes	(71.6)	–	(71.6)	(81.1)	–	(81.1)
Present value of unfunded obligations	(5.2)	(1.8)	(7.0)	(6.5)	(2.0)	(8.5)
Net liability	(76.8)	(1.8)	(78.6)	(87.6)	(2.0)	(89.6)

Amounts recognised in the consolidated income statement:

	2019 UK £m	2019 Overseas £m	2019 Total £m	2018 UK £m	2018 Overseas £m	2018 Total £m
Included in employee benefits expense:						
– Current service cost	–	–	–	–	(0.5)	(0.5)
– Past service cost[1]	(1.7)	–	(1.7)	80.5	–	80.5
– Administrative expenses and taxes	(2.7)	–	(2.7)	(2.3)	–	(2.3)
Included in interest on retirement benefit obligation net finance expense:						
– Interest income on scheme assets	25.6	–	25.6	26.7	–	26.7
– Interest cost on liabilities	(27.7)	–	(27.7)	(32.3)	–	(32.3)
Retirement benefit obligation net finance expense	(2.1)	–	(2.1)	(5.6)	–	(5.6)
Total recognised in the consolidated income statement	6.5	–	6.5	72.6	–	72.6
Return on scheme assets excluding assumed interest income	26.5	–	26.5	21.1	–	21.1
Remeasurement (losses)/gains on defined benefit pension obligations	(31.5)	0.2	(31.3)	40.4	0.1	40.5
Amounts recognised in other comprehensive income	(5.0)	0.2	(4.8)	61.5	0.1	61.6

Note:
1 Past service cost in FY19 relates to GMP adjustment, FY18 relates to change in CPI indexation methodology.

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

	2019 UK %	2019 Overseas %	2019 Total %	2018 UK %	2018 Overseas %	2018 Total %
Equities	10	–	10	20.0	–	20.0
Bonds	19	–	19	28.0	–	28.0
Diversified Growth Fund	18	–	18	21.0	–	21.0
Liability Driven Investment Fund	44	–	44	24.0	–	24.0
Multi Asset Credit	8	–	8	5.0	–	5.0
Other	1	–	1	2.0	–	2.0

Notes to the accounts continued

24 Retirement benefit obligations continued
(a) Defined benefit pension schemes continued

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%), index linked bond holdings (approximately 37%) and cash (approximately 14%). 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.

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.

Principal actuarial assumptions:

	2019 UK %	**2019 Overseas %**	2018 UK %	2018 Overseas %
Discount rate	**2.40**	**–**	2.65	–
CPI inflation rate	**2.05**	**–**	2.00	–
RPI inflation rate	**3.15**	**–**	3.10	–

The financial assumptions adopted as at 30 March 2019 reflect the duration of the scheme liabilities which has been estimated to be 16 years assuming CPI linked benefits.

At 30 March 2019 mortality assumptions were based on tables issued by Club Vita, with future improvements in line with the CMI model, CMI_2018 (2018: CMI_2017) with a smoothing parameter of 7.5 and a long term future improvement trend of 1.25% per annum (2017/18: long term rate of 1.25% per annum). The resulting life expectancies within retirement are as follows:

		2019	2018
Aged 65 retiring immediately (current pensioner)	Male	**22.0**	22.4
	Female	**23.3**	23.8
Aged 50 retiring in 17 years (future pensioner)	Male	**22.9**	22.8
	Female	**24.6**	24.9

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£43m
0.25% increase in CPI inflation rate	Increase in liability of c£18m
Increasing life expectancy by one year	Increase in liability of c£49m

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 2019 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.

24 Retirement benefit obligations continued

(a) Defined benefit pension schemes continued

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:

	2019 £m	2018 £m
At 31 March 2018/25 March 2017	**980.0**	974.5
Assumed interest income on scheme assets	**25.6**	26.7
Scheme administration expenses	**(2.7)**	(2.3)
Return on scheme assets less interest income	**26.5**	21.1
Employer contributions and other income	**22.5**	15.3
Benefits paid (including transfers)	**(47.1)**	(55.3)
At 30 March 2019/25 March 2018	**1,004.8**	980.0

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

	2019 £m	2018 £m
At 31 March 2018/25 March 2017	**(1,067.6)**	(1,211.5)
Interest cost on liabilities	**(27.7)**	(32.3)
Past service cost	**(1.7)**	80.5
Effect of changes in financial assumptions	**(46.4)**	11.9
Effect of changes in demographic assumptions	**15.2**	24.1
Effect of experience items on liabilities	**(0.6)**	4.4
Benefits paid (including transfers)	**47.1**	55.3
At 30 March 2019/25 March 2018	**(1,081.6)**	(1,067.6)

(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 £7.8m (FY18: £8.9m).

25 Employee information

	2019 number	2018 number
Average number of employees		
United Kingdom and Ireland	**1,628**	2,041
Rest of Europe	**504**	450
The Americas	**63**	59
Rest of world	**645**	638
	2,840	3,188

	2019 £m	2018 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	**107.2**	128.3
Social security costs	**10.4**	12.4
Share incentive schemes	**0.6**	1.0
Sharesave schemes	**0.4**	1.2
Pension costs	**7.8**	8.9
	126.4	151.8

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 74 to 91.

Notes to the accounts continued

26 Capital commitments

	2019 £m	2018 £m
The following commitments existed at the balance sheet date:		
Contracted but not provided for in the accounts	**582.3**	630.4

Included in the table above is an amount in relation to the sale of Portals De La Rue Limited to EPIRIS Fund II on 29 March 2018.

As part of the transaction Portals De La Rue Limited will supply security paper to meet the Group's anticipated internal requirements with pre-agreed volumes and price mechanisms for the next 10 years. Based on the terms of the agreement the Group has a capital commitment of approximately £626.9m over the next 10 years. The contract is assessed to be at market rates.

27 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. De La Rue currently has certain ongoing taxation assessments which are provided for where the Company considers it probable that an outflow of economic benefits will occur and the amount can be reliably measured. Specifically there is one tax assessment where no provision has been made on the basis that management does not consider that the chance of an outflow of economic benefits is probable. In the possible event that there was an adverse outcome this could result in a material outflow.

As part of the sale of the CPS business the Company gave certain warranties which were usual for a transaction of this nature. In February 2018 the buyer made a claim under the warranties, which De La Rue has been defending. The parties are in constructive discussions concerning a settlement, which is anticipated to be finalised in the coming months. No amount has been provided for this claim but outstanding amounts from CPS have been written down as detailed in note 3.

During 2017 an employee at the Paper Mill in Bathford suffered a serious injury. The investigation by the enforcing authorities is ongoing. At the date of the statement of financial position no amounts have been provided in respect of this matter. It is not practicable to provide an estimate of the financial effect and there is uncertainty relating to the amount or timing of any outflow.

The Group also provides guarantees and performance bonds which are issued in the ordinary course of business. In the event that a guarantee or performance bond is called, provision may be required subject to the particular circumstances including an assessment of its recoverability.

28 Related party transactions

During the year the Group traded on an arms length basis with the associated company Fidink S.A. (33.3% owned). The Group's trading activities with this company included £17.6m (FY18: £24.6m) for the purchase of security ink and other consumables. At the balance sheet date there were creditor balances of £4.1m (FY18: £0.7m) 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

	2019 £m	2018 £m
Salaries and other short term employee benefits	**2.7**	3.0
Retirement benefits:		
– Defined contribution	**0.4**	0.1
Share based payments	**–**	0.1
Dividends received	**–**	–
	3.1	3.2

Key management comprises members of the Board (including the fees of Non-executive Directors) and the ELT. 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.

29 Subsequent events

On 30 May 2019, it was announced that the Chief Executive Officer will be stepping down.

30 Subsidiaries and associated companies as at 30 March 2019

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
	Hoogoorddreef 15, 1101 BA, 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
	8333 N.W. 53rd Street, Suite 502, Doral, Florida 33166, USA		
	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
	1400-340 Albert Street, Ottawa, ON KIR 0AS, Canada		
South America			
Brazil	De La Rue Cash Systems Industrias Limitada[c]	Non-trading	100
	De La Rue Cash Systems Limitada[c]	Trading	100
	Rua Boa Vista, 254, 13th Floor, Suite 41, Centro, Sao Paulo, 01014-907, 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	Trading	100
	De La Rue Kenya Limited	Trading	100
	ABC Towers, 6th Floor, ABC Place, Waiyaki Way, Nairobi, Kenya		
Angola	De La Rue Angola 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		

Notes to the accounts continued

30 Subsidiaries and associated companies as at 30 March 2019 continued

Country of incorporation and operation		Activities	De La Rue interest %
Senegal	De La Rue West Africa SARL	Trading	100
	VDN Keur Gorgui Imm Hermes 1, 2e Etage No 16 Dakar-Liberte, BP 10700, Senegal		
South Africa	De La Rue Global Services (SA) (Pty) Limited	Non-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, 19 Martin Place, Sydney, NSW 2000, Australia		
Far East and Asia			
China	De La Rue Security Technology (Beijing) Co. Ltd	Trading	100
	1011, 10F Office Building No.1 Guanghua Road Chaoyang District, Beijing, China		
Hong Kong	Thomas De La Rue (Hong Kong) Limited	Trading	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	Non-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		
Saudi Arabia	De La Rue Communication and Information Technology Limited	Trading	100
	Akaria Plaza, Gate "D", Level 6, Olaya Main St, Riyadh, Kingdom of Saudi Arabia		
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.

31 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:

	2019 £m	2018 £m
Non-current assets	**15.2**	15.7
Current assets	**16.9**	16.2
Non-current liabilities	**(0.4)**	(0.4)
Current liabilities	**(7.0)**	(8.9)
Net assets (100%)	**24.6**	22.6
Revenue	**4.8**	37.5
Profit for the year	**3.4**	3.5
Non-controlling interest percentage	**40%**	40%
Profit allocated to non-controlling interest	**1.4**	1.4
Dividends paid to non-controlling interest	**0.5**	0.3
Cash flows from operating activities	**1.1**	1.7
Cash flows from investment activities	**(0.7)**	(1.9)
Cash flows from financing activities	**(0.5)**	0.3
Net increase in cash and cash equivalents	**(0.1)**	0.1

Company balance sheet
at 30 March 2019

	Notes	2019 £m	2018 £m
Fixed assets			
Investments in subsidiaries	4a	**155.0**	154.5
		155.0	154.5
Current assets			
Debtors receivable within one year	5a	**40.5**	52.1
Cash at bank and in hand		**1.7**	4.7
		42.2	56.8
Creditors:			
Amounts falling due within one year	6a	**(6.4)**	(0.8)
		(6.4)	(0.8)
Net current assets		**35.8**	56.0
Total assets less current liabilities		**190.8**	210.5
Net assets		**190.8**	210.5
Capital and reserves			
Share capital	7a	**47.7**	47.1
Share premium account		**42.1**	38.4
Capital redemption reserve		**5.9**	5.9
Retained earnings		**95.1**	119.1
Total shareholders' funds		**190.8**	210.5

The profit for the year of the Company was £0.8m (FY18: £0.8m).

Approved by the Board on 30 May 2019.

Philip Rogerson
Chairman

Helen Willis
Chief Financial Officer

Company statement of changes in equity
for the period ended 30 March 2019

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 25 March 2017	46.8	36.7	5.9	141.1	230.5
Share capital issued	0.3	1.7	–	–	2.0
Profit for the financial year	–	–	–	0.8	0.8
Dividends paid	–	–	–	(25.4)	(25.4)
Other movements	–	–	–	0.4	0.4
Employee share scheme:					
– value of services provided	–	–	–	2.2	2.2
Balance at 31 March 2018	47.1	38.4	5.9	119.1	210.5
Share capital issued	0.6	3.7	–	–	4.3
Profit for the financial year	–	–	–	0.8	0.8
Dividends paid	–	–	–	(25.7)	(25.7)
Other movements	–	–	–	–	–
Employee share scheme:					
– value of services provided	–	–	–	0.9	0.9
Balance at 30 March 2019	**47.7**	**42.1**	**5.9**	**95.1**	**190.8**

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). The presentation and functional currency of these financial statements is GBP.

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In accordance with FRS 102, the Company meets the definition of a qualifying entity and has therefore taken advantage of the exemptions from the following disclosure requirements listed below:

- Disclosures in respect of transactions with wholly owned subsidiaries
- 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:

- Share based payment – share based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash settled share based payments, explanation of modifications to arrangements
- 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

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 113.

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

The following accounting policies have been applied consistently to all periods presented in these financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis.

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. In the transition to FRS 102 the Company took the first time adoption exemption for separate financial instruments and as such the carrying amount of the Company's cost of investment in subsidiaries is its deemed cost at transition date, 30 March 2014.

Employee benefits

Defined benefit plans

The pension rights of the Company's 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 largely 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 24 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 21 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 91.

	2019 Number	2018 Number
Average employee numbers	**4**	4

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 impairment.

	2019 £m	2018 £m
Investments comprise:		
Investments in subsidiaries	**154.5**	154.5
Cost at 30 March 2019 and 31 March 2018	**154.5**	152.4
Additions	**0.5**	2.1
Cost at 30 March 2019 and 31 March 2018	**155.0**	154.5

Where the Company grants share 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 prior to the period ended 31 March 2018 were recharged to subsidiaries and recorded via the intercompany loan account.

For details of investments in Group companies, refer to the list of subsidiary and associated undertakings on pages 147 and 148.

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.

	2019 £m	2018 £m
Amounts due within one year		
Amounts owed by Group undertakings	**40.5**	52.1

6a Other creditors

	2019 £m	2018 £m
Amounts falling due within one year		
Bank overdrafts	**6.0**	–
Accruals and deferred income	**0.4**	0.8
Other creditors	**6.4**	0.8

7a Share capital

For details of share capital, see note 20 to the consolidated financial statements.

8a 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.

For details of share based payments, see note 21 to the consolidated financial statements and the Directors' remuneration report on pages 74 to 91.

9a Related party transactions

The Company has no transactions with or amounts due to or from subsidiary undertakings that are not 100% 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. These non-statutory measures are prepared on a basis excluding the impact of exceptional items and amortisation of acquired intangibles. Exceptional items are excluded as they are not considered to be representative of underlying business performance. 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 to the equivalent IFRS measures where applicable are shown in the following tables. 2017 has not been restated to exclude the impact of the disposal of the paper business.

The Group's policy on classification of exceptional items is also set out below:

The Directors consider items of income and expenditure which are both material by size and/or by nature and not representative of normal business activities should be disclosed separately in the financial statements so as to help provide an indication of the Group's underlying business performance. The Directors label these items collectively as 'exceptional items'. Determining which transactions are to be considered exceptional in nature is often a subjective matter. However, circumstances that the Directors believe would give rise to exceptional items for separate disclosure would include: gains or losses on the disposal of businesses, curtailments on defined benefit pension arrangements or changes to the pension scheme liability which are considered to be of a permanent nature such as the change in indexation or the GMPs, and non-recurring fees relating to the management of historical scheme issues, restructuring of businesses, asset impairments and costs associated with the acquisition and integration of business combinations. All exceptional items are included in the appropriate income statement category to which they relate. Adjusted measures are also presented on an excluding paper basis. The Directors considered that this provides a more meaningful presentation of the underlying financial performance of the business during the period.

On 29 March 2018 the Group disposed of the Paper business to Epiris (referred to as 'Portals' elsewhere in this report).

Previously the Paper business supplied paper to and purchased security features from other companies within the Group (the results of which were eliminated on consolidation) and also sold paper directly to third parties, generating external revenue and margin in our currency and ID businesses.

Post the disposal, certain of these third party paper contracts were not able to novate to Portals and the Group now maintains the sale to the customer but purchases the paper from Portals at nil margin.

Separately, the Group supplies thread to Portals (generating external revenue and margin), who use this to manufacture bank note paper, some of which is sold to De La Rue, with the Group using this in the manufacture of currency bank notes then sold to third parties.

Reported figures included in this release include the paper business results in FY18 as originally reported and in FY19 they include £48.2m of revenue on non-novated contracts with nil profit margin.

Figures reported on the 'excluding paper' basis have been adjusted to exclude revenue from non-novated contracts in FY19.

FY18 'excluding paper' figures exclude the results of the paper business (being external revenue and margin on paper sales to third parties). In addition, Security Features sales of £35.0m, which would have previously been treated as internal, have been added back to present the comparative numbers in FY18 on a basis consistent with the IFRS accounting treatment applied in FY19. The FY18 security features sales of £35m is a calculated number based on FY18 volumes sold intercompany to the paper division approximated to the value of the pricing in the Portals relationship agreement.

This is a change in presentation of FY18 results in this release compared to those previously reported in the FY18 release in May 2018. This change has been made to provide a more meaningful presentation of the financial performance of the business during the period.

Non-IFRS measures continued

	FY18/19						FY17/18				
	Currency	**ID**	**PA&T**	**Un-allocated**	**Portals Pass Through**	**Group**	Currency	ID	PA&T	Un-allocated	Group
Revenue											
Reported	398.8	78.4	39.3	–	48.2	**564.8**	371.8	82.0	40.1	–	**493.9**
Paper	–	–	–	–	–	**–**	(59.8)	(5.6)	(2.1)	–	**(67.5)**
Portals Pass Through	–	–	–	–	(48.2)	**(48.2)**	–	–	–	–	**–**
Revenue Security Features Sales (previously internal)	–	–	–	–	–	**–**	32.1	2.5	0.4	–	**35.0**
Revenue excluding paper	398.9	78.4	39.3	–	–	**516.6**	344.1	78.9	38.4	–	**461.4**
Operating Profit											
IFRS Operating Profit	21.0	12.2	3.4	(5.1)	–	**31.5**	30.7	7.5	7.7	77.1	**123.0**
Less Exceptional Item	20.7	–	2.1	5.1	–	**27.9**	14.4	0.2	1.6	(77.1)	**(60.9)**
Add Amortisation of acquired Intangibles	–	0.5	0.2	–	–	**0.7**	–	0.6	0.1	–	**0.7**
Adjusted Operating Profit Including Paper	41.7	12.7	5.7	–	–	**60.1**	45.1	8.3	9.4	–	**62.8**
Paper Operating Profit	–	–	–	–	–	**–**	(4.6)	(1.3)	–	–	**(5.9)**
Adjusted Operating Profit Excluding Paper	41.7	12.7	5.7	–	–	**60.1**	40.5	7.0	9.4	–	**56.9**

Adjusted operating profit

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

	2017 £m	2018 £m	2018[1] Excluding paper £m	**2019 £m**
Operating profit from continuing operations on an IFRS basis	70.2	123.0	131.5	**31.5**
– Amortisation of acquired intangible assets	0.1	0.7	0.7	**0.7**
– Exceptional items (Gain)/Loss	0.4	(60.9)	(75.3)	**27.9**
Adjusted operating profit from continuing operations	70.7	62.8	56.9	**60.1**

Note:
1 2018 excluding paper removes £14.4m of exceptional cost in relation to the Portals paper disposal and removes the operating profit made from the paper business in 2018 of £5.9m.

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 basic number of ordinary shares 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 basic number of ordinary shares in issue excluding shares held in the employee share trust.

	2017 £m	2018 £m	2018 excluding paper £m	**2019 £m**
Profit attributable to equity shareholders of the Company from continuing operations on an IFRS basis	47.9	95.4	101.8	**19.4**
– Exceptional items	0.4	(60.9)	(75.3)	**27.9**
– Amortisation of acquired intangibles	0.1	0.7	0.7	**0.7**
– Tax on amortisation of acquired intangibles	–	(1.2)	(1.2)	**0.3**
– Tax on exceptional items	(0.6)	9.7	12.9	**(4.2)**
Adjusted profit attributable to equity shareholders of the Company from continuing operations	47.8	43.7	38.9	**44.1**
Weighted average number of ordinary shares for basic earnings	101.6	101.9	101.9	**102.9**

	2017 pence per share	2018 pence per share	2018 pence per share excluding paper	**2019 pence per share**
Basic earnings per ordinary share continuing operations on an IFRS basis	47.2	93.7	n/a	**18.8**
Basic adjusted earnings per ordinary share for continuing operations	47.1	42.9	38.2	**42.9**

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 adjusted EBITDA margin percentage takes the applicable EBITDA figure and divides this by the continuing revenue in the period of £516.6m which excludes the Portal pass through revenue of £48.2m in 2019 (FY18: £461.4m). The EBITDA margin on an IFRS basis is a percentage against the reported revenue of £564.8m (FY18: £493.9m).

	2017 £m	2018 £m	2018[1] excluding paper £m	**2019 £m**
Profit before interest and taxation from continuing operations on an IFRS basis	70.2	123.0	131.5	**31.5**
– Depreciation	24.3	21.9	18.9	**16.7**
– Amortisation	2.5	3.3	3.3	**3.2**
EBITDA on an IFRS basis	97.0	148.2	153.7	**51.4**
– Exceptional items (Gain)/Loss	0.4	(60.9)	(75.3)	**27.9**
Adjusted EBITDA	97.4	87.3	78.4	**79.3**
EBITDA margin on an IFRS basis	21.0%	30.0%	n/a	**9.1%**
Adjusted EBITDA margin	21.1%	17.7%	17.0%	**15.4%**

Note:

1 Adjusted EBITDA margin is a percentage against the pro-forma revenue of £461.4m.

Return on capital employed (ROCE)

ROCE 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

	2015 £m	2016 £m	(restated) 2017 £m	2018 £m	**2019 £m**
Revenue	422.8	454.5	461.7	493.9	**564.8**
Operating profit					
– Adjusted operating profit	69.1	70.4	70.7	62.8	**60.1**
– Amortisation of acquired intangible assets	–	–	(0.1)	(0.7)	**(0.7)**
– Exceptional items – operating	(16.9)	(3.6)	(0.4)	60.9	**(27.9)**
Total	52.2	66.8	70.2	123.0	**31.5**
Share of profits of associated companies	–	–	–	–	**–**
Exceptional items – non-operating	–	–	–	–	**–**
Profit before interest	52.2	66.8	70.2	123.0	**31.5**
Interest expense	(4.6)	(4.8)	(4.6)	(3.8)	**(4.5)**
Interest income	–	–	–	–	**0.6**
Retirement benefit obligation net finance expense	(7.0)	(7.1)	(7.4)	(5.6)	**(2.1)**
Profit before taxation	40.6	54.9	58.2	113.6	**25.5**
Taxation	(7.7)	(6.3)	(8.7)	(16.8)	**(4.8)**
Profit after taxation from continuing operations	32.9	48.6	49.5	96.8	**20.7**
Profit/(loss) from discontinued operations	2.2	(31.0)	(6.4)	(1.8)	**(2.4)**
Equity non-controlling interests	(0.8)	(1.2)	(1.6)	(1.4)	**(1.3)**
Profit for the year attributable to equity shareholders	34.3	16.4	41.5	93.6	**17.0**
Dividends	(36.8)	(25.3)	(25.4)	(25.4)	**(25.7)**
Retained (loss)/profit for the period	(2.5)	(8.9)	16.1	68.2	**(8.7)**
Basic earnings per ordinary share continuing operations	31.8p	46.8p	47.2	93.7	**18.8**
Basic earnings per ordinary share discontinued operations	2.2.p	(30.6p)	(6.3)	(1.8)	**(2.3)**
Diluted earnings per share continuing operations	31.3p	46.2p	46.6	92.8	**18.8**
Diluted earnings per share discontinued operations	2.1p	(30.2p)	(6.2)	(1.8)	**(2.3)**
Adjusted earnings per ordinary share continuing operations	46.1p	48.1p	47.1	42.9	**42.9**
Adjusted earnings per ordinary share discontinued operations	(0.8p)	(7.1p)	n/a	n/a	**n/a**
Dividends per ordinary share[2]	25.0p	25.0p	25.0p	25.0p	**25.0p**
Adjusted profit before taxation	57.5	58.5	58.7	53.4	**54.1**

Balance sheet

	£m	£m	£m	£m	**£m**
Non-current assets	244.0	226.5	242.9	169.0	**174.2**
Net current liabilities[3]	(30.7)	(35.0)	(16.2)	(43.2)	**(13.0)**
Net debt	(111.0)	(106.1)	(120.9)	(49.9)	**(107.5)**
Non-current liabilities	(249.2)	(231.0)	(248.6)	(96.6)	**(82.9)**
Equity non-controlling interests	(5.7)	(6.6)	(7.9)	(8.9)	**(9.9)**
Total equity attributable to shareholders of the Company	(152.6)	(152.2)	(150.7)	(29.6)	**(23.4)**

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

Warning to shareholders – investment fraud

We are aware that some of our shareholders have received unsolicited telephone calls or correspondence, offering to buy or sell their shares at very favourable terms. The callers can be very persuasive and extremely persistent and often have professional websites and telephone numbers to support their activities. These callers will sometimes imply a connection to De La Rue and provide incorrect or misleading information. This type of call should be treated as an investment scam – the safest thing to do is hang up.

You should always check that any firm calling you about potential investment opportunities is properly authorised by the FCA. If you deal with an unauthorised firm you will not be eligible for compensation under the Financial Services Compensation Scheme. You can find out more about protecting yourself from investment scams by visiting the FCA's website www.fca.org.uk/consumers, or by calling the FCA's helpline on 0800 111 6768.

If you have already paid money to share fraudsters contact Action Fraud immediately on 0300 123 2040 (www.actionfraud.police.uk).

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 10:30 on 25 July 2019 at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire RG22 4BS. Each shareholder is entitled to attend and vote at the AGM, the arrangements for which are described in a separate notice to shareholders. The notice of AGM can also be found in the investors section on the Group's website.

Electronic shareholder communications

Shareholders can register online at www.investorcentre.co.uk/ecomms to receive statutory communications electronically rather than through the post. Shareholders who choose this option will receive an email notification each time the Group publishes new shareholder documents on its website. Shareholders will need to have their shareholder reference number (SRN) available when they first log in. This 11 character number (which starts with the letter C or G) can be found on share certificates and dividend tax confirmations. 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.

Financial calendar

Ex-dividend date for 2018/19 final dividend	4 July 2019
Record date for final dividend	5 July 2019
Payment of 2018/19 final dividend	2 August 2019

Analysis of shareholders at 30 March 2019

	Shareholders		Shares	
By range of holdings	Number	%	Number	%
0 – 1,000	4,003	73.65%	1,299,901	1.25%
1,001 – 5,000	1,062	19.54%	2,165,775	2.09%
5,001 – 10,000	109	2.01%	782,388	0.75%
10,001 – 100,000	156	2.87%	6,494,059	6.26%
100,001 – 500,000	71	1.31%	16,080,785	15.49%
500,001 and above	34	0.63%	76,973,226	74.16%
Total	**5,435**	**100.00%**	**103,796,134**	**100.00%**

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.trade

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

De La Rue is a registered trademark of De La Rue Holdings Limited.

DLR Analytics™, DLR Certify™, and PureImage™ are trademarks of De La Rue International Limited.

Safeguard®, Ignite®, Enigma®, Izon®, Traceology® are registered trademarks of De La Rue International Limited.

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.

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

Visit us online
www.delarue.com