DeLaRue

De La Rue plc
Annual Report 2020

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CEO review

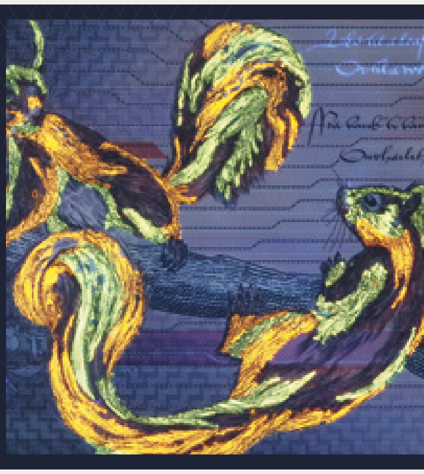
We have opportunities to grow our polymer and security features within Currency and develop the customer base in our Authentication business, at the same time as reducing our costs.

> p10

Our strategy

At the end of calendar 2019 we enacted a Turnaround Plan to stabilise and grow the business. We outline our progress so far in our plans for the next three years.

> p12



Social responsibility

We are a global business and aim to act for all our stakeholders in the Company. De La Rue is an active participant in our communities across the globe. We outline how we aim to reduce our impact on the environment.

> p32

Chairman's statement

A challenging year

"We have been working to stabilise the business and put in place our Turnaround Plan."

The Group has had a challenging year, with a wide range of issues which have impacted De La Rue, both financially and operationally. Weak results for the year reflect changes in the marketplace, management disruption and execution problems. The business has experienced unprecedented management change, with the Chairman, Chief Executive Officer, Chief Financial Officer, senior independent director and most of the executive team leaving, or resigning, in the past year.

I joined the Board in September 2019 and took on the role of Chairman at the beginning of October. Since that time I have been working with the Board to support our new CEO Clive Vacher and the reconstituted executive team, stabilise the business and put in place the recently announced Turnaround Plan.

Company reorganisation

In November 2019, we launched our new divisional structure, with two divisions, Currency and Authentication. This is discussed in more detail by Clive on page 10. The new organisation is already proving to be a more effective and efficient way for De La Rue to operate.

The Turnaround Plan, led by Clive and developed by an extended executive team, has the aim of generating improved financial performance and a more consistent operating profit and cashflow. This will be delivered by improved efficiency in Currency and growth in Authentication. Clive discusses the changes De La Rue needs to undertake in more detail on pages 10 and 11.

We completed the sale of International Identity Solutions business in October 2019, for which De La Rue received £42m in cash plus an additional amount for working capital, following the UK Government announcement of a phased transition to a new supplier for the UK Passport production contract during calendar 2020.

Following the reorganisation, we report the financial performance during FY 2019/20 for the Authentication, Currency and Identity Solutions divisions and the future strategy for Authentication and Currency divisions only.

Financial performance

De La Rue's performance in FY 2019/20 saw weak revenue, profitability and cashflow compared with the prior year and budget, with significant weakness in banknote volumes in the first half. The banknote market has proven to be cyclical when there is a reduction in overspill demand (Overspill is state printwork demand that cannot be satisfied by the country's own internal capacity). A model that did not adjust quickly enough to this market reality was the major factor behind the weak performance.

The Authentication business saw strong growth in the year. Clive discusses our performance for the year in more detail on pages 10 and 11.

The key elements of the financial performance for the year are – adjusted Group revenue (which excludes "pass-through" Paper and International Identity Solutions revenue on non-novated contracts post-sale) decreased by 17.4% to £426.7m (FY 2018/19: £516.6m). (Please see pages 165 and 166 for full definitions of adjusted and other financial terms).

Adjusted operating profit declined to £23.7m (FY 2018/19: £60.1m), while adjusted earnings per share fell to 12.1p (FY 2018/19: 42.9p). Cashflow from operating activities was an inflow of £1.5m (FY 2018/19: outflow of £4.6m) and net debt was £102.8m at financial year end (FY 2018/19: £107.5m). IFRS revenue (which includes "pass-through" revenue on paper and International Identity Solutions non-novated contracts) was £466.8m (FY 2018/19: £564.8m).

IFRS operating profit of £42.8m (FY 2018/19: profit £31.5m) was higher than adjusted operating profit due mainly to a gain on the sale of the International Identity Solutions business of £25.3m, a credit of £8.7m relating to the change in revaluation rates for certain UK defined benefit pension deferred scheme members, offset by £9.3m of restructuring charges. IFRS basic EPS from continuing operations was 33.1p (FY 2018/19: 18.8p).

It is important to note that we saw a major contribution to our profits from the UK Passport contract, which will decline rapidly in FY 2020/21 and not contribute the year after, as the contract moves to a new supplier. Further detail of the Group's financial performance is covered on pages 19 to 21.

Chairman's statement continued

Key facts[1]

£426.7m
Revenue excluding paper
(FY 2018/19: £516.6m)

£466.8m
IFRS revenue
(FY 2018/19: £564.8m)

£23.7m
Adjusted operating profit
(FY 2018/19: £60.1m)

£42.8m
IFRS operating profit
(FY 2018/19: £31.5m)

1 Please see Financial Review for full definitions of terms.

"We aim to return to a strong financial position by investing in the business."

Capital Raising

On 17 June 2020, we announced the terms of a proposed fully underwritten capital raising, which is intended to raise gross proceeds of approximately £100m. The capital raising will be structured by way a firm placing of 45,410,026 new ordinary shares and a placing and open offer of 45,499,065 new ordinary shares, at an issue price of 110 pence per new ordinary share.

The proposed capital raising is required to provide the Company and its management with operational and financial flexibility to implement the Turnaround Plan, in particular given the investment needed to achieve the full benefits of the Turnaround Plan, the upcoming refinancing requirement of its existing debt facilities, the loss of the UK Passport production contract during H1 2020/21, and the current unprecedented uncertainty in the financial and commercial markets due to COVID-19. The capital raising is being fully underwritten by Barclays Bank PLC, Numis Securities Limited and Investec Bank plc.

In order to facilitate the capital raise, the Directors believe it is necessary that existing Shareholders and new investors have sufficient certainty around the continued availability, and terms, of De La Rue's financing to successfully implement the Turnaround Plan and support the future growth of the business. In order to seek to provide that certainty, we have agreed conditional terms with our lenders in order to secure (among other things) an extension to the maturity date of the Group's existing revolving facility agreement from 1 December 2021 until 1 December 2023 which provides the Group with continued access to bonding facilities and up to £175m of cash loans. As part of the amendments to the revolving facility agreement, the Company is restricted from making dividends for a period of 18 months from the date that the amendments become effective. The amendments are conditional on (among other things) the success of the Capital Raising (such that the gross proceeds of at least £100m are received by the Company by 31 July 2020). In the event that gross proceeds of at least £100m from a capital raise are not received by 31 July 2020, the Company must agree an alternative financing plan with the lenders within 45 days of 31 July 2020 or there will be an immediate event of default under the existing revolving facility agreement.

On 31 May 2020, the Trustee and the Company agreed the terms for a schedule of contributions and a recovery plan, setting out a programme for clearing the UK Pension Scheme deficit (the "Recovery Plan"). The latest actuarial valuation of the UK Pension Scheme as at 31 December 2019, which was based on intentionally prudent assumptions, revealed a funding shortfall (technical provisions minus the value of the assets) of £142.6m. The Recovery Plan makes an allowance for post-valuation market conditions up to 30 April 2020 (at which point there is an estimated funding shortfall of £190m), including the impact of COVID-19 on financial markets to that date.

The £190m funding deficit is addressed by payments of £15m per annum (payable quarterly in arrears) under the Recovery plan payable from 1 April 2020 until 31 March 2023 and then payments of £24.5m per annum (payable quarterly in arrears) from 1 April 2023 until 31 March 2029 (whereas under the recovery plan agreed with the trustee in 2016, the payments would have been £22.2 million between 1 April 2020 and 31 March 2021, £23.1 million between 1 April 2021 and 31 March 2022 and £23 million per annum thereafter until 31 March 2028). In exceptional circumstances additional contingent contributions may also become payable by way of an acceleration of the contributions due in later years. This agreement with the Trustee is conditional on the success of the Capital Raising (such that gross proceeds of £100m are received by the Company by 31 July 2020). Provided that these criteria are achieved, the Group's contributions to the UK Pension Scheme will not change until the next triennial valuation as at 31 December 2022 (to be completed by 31 March 2024).

Capital allocation and dividend

As a result of our H1 2019/20 financial performance and uncertainty around the management outlook at the half year, the Board suspended dividend payments until the new executive team was established, a Turnaround Plan put in place and delivery begins to be demonstrated against that plan. At the half year the Group net debt/EBITDA ratio was 2.72 times, close to our covenant levels of less than, or equal to, 3.0 times.

The Board has reviewed a plan for FY 2020/21 that shows the Group will operate within its banking covenants, assuming the successful completion of the fully underwritten equity Capital Raising.

We discuss the viability statement for the business in more detail on page 30 and Going Concern on pages 107 to 109.

Due to the actions taken by our CEO and the team in the second half of the year, the Group operated well within its banking covenants (which excludes the pension deficit liability) at 2.24 times debt/EBITDA at year end. In addition, De La Rue met its guidance for the year for adjusted operating profit issued in November 2019.

Following completion of the Capital Raising the capital allocation of the Company will be:

- **Organic investment:** De La Rue will invest in growth-focused R&D and technology, manufacturing efficiency and cost optimisation programmes, and the requirements of new contracts as they are awarded, where such investment is demonstrably accretive to value;
- **Regular returns to shareholders:** the Directors recognise the importance of a regular, sustainable dividend to Shareholders. The Directors intend to review regularly the reinstatement of a dividend, with an expectation that a dividend will be paid within the Turnaround Plan period once the Company is generating sustainable positive free cash flow. Once the Turnaround Plan is successfully completed, De La Rue will target a dividend cover of 2 to 3 times underlying earnings, taking into account the sustainable free cash flow generated in the relevant period;
- **Acquisitions in line with strategy:** the Directors are focused on the successful execution of the organic Turnaround Plan and therefore acquisitions are not a near term priority. In the medium term, we will explore value enhancing acquisition opportunities, which increase our technology advantage and its ability to accelerate growth in markets where we already have a leading position;
- **Balance sheet strength:** De La Rue is committed to maintaining a strong and efficient balance sheet, appropriate for the Company's investment requirements. Accordingly, the Directors will target a long term gearing policy of below 1 times net debt/EBITDA (excluding deficits on retirement benefit schemes), which it expects to achieve by the end of the Turnaround Plan period, taking into account the net proceeds of the Capital Raising.

Governance

The Board considers leadership, culture and good governance as essential factors in the Group's ongoing transformation. We discuss our governance policy in more detail on pages 42 to 53.

There is much to do to create a lean, efficient and predictable business, as well as ensuring sound succession planning and talent development. Our people have endured significant change and challenge as well as having to cope with the trials of COVID-19.

We are mindful of our impact on the environment and I am pleased that we have made good progress on our energy use during the year and further details on this area can be found on pages 32 to 40.

The Board

In September 2019, I re-joined De La Rue having been the Managing Director of De La Rue Card Systems Division from 1997 until it was sold to Oberthur at the end of 1999. I succeeded Philip Rogerson as Chairman on his retirement at the start of October 2019.

In October 2019, Andy Stevens, Senior Independent Director, stood down, with Sabri Challah becoming Senior Independent Director and Maria Da Cunha, Non-executive Director, succeeding Sabri as Chair of the Remuneration Committee.

In October 2019, we appointed Clive Vacher as our new Chief Executive Officer and as an Executive Director. Clive has more than 16 years' experience running complex P&Ls for global industrial companies in the commercial and government/defence sectors. He has significant experience of international business transformation and operational performance improvement.

In January 2020, our Chief Financial Officer, Helen Willis stepped down from her role and ceased to be a Director of the Company. Rob Harding joined De La Rue as interim Chief Financial Officer and a member of the Executive Leadership Team, although not as a Director of the Company, in March 2020.

As announced on 17 June 2020, Sabri Challah has informed the Board of his intention to step down as a Director due to his other commitments. Sabri will remain on the Board until such time as a successor Independent Non-Executive Director has been appointed, but in any event until no later than the date of the Company's forthcoming annual general meeting.

As we enter the execution phase of the Turnaround Plan, we will look to bring further appropriate skills onto the Board to support the future business direction.

People

The Board would like to thank all those who work for the Company for their hard work and dedication to De La Rue, in what has been a difficult year for many people. As a company, we have had to reduce the workforce in many areas of the business and changes of this kind are regrettable and unsettling.

At the same time as navigating through these changes, we have maintained our commitment to high ethical standards, which are incorporated in our Code of Business Principles. We are conscious of the role we play in many communities around the world and we discuss our role as a responsible business on pages 32 to 40.

Outlook

The Directors believe that the Capital Raising is required to provide the Company and its management with operational and financial flexibility to implement the Turnaround Plan.

We have seen a good start to the year in both our Authentication and Currency divisions. Our Turnaround Plan is well underway and is showing positive results, which gives us confidence in our abilities to grow our revenue and reduce our cost base. At the same time, we are mindful of the challenges we face in the marketplace and with ongoing volatility in global markets. We are confident that we can grow both our revenue and our operating profits in the coming year and aim to move the Company into a cash generating position shortly thereafter.

Considering the financial impact of the planned exit of our Identity Solutions business, we have a target of returning the Company to a strong, financial position and an operating platform which will deliver sustainable growth at high operating margins and strong cash generation in the medium term. Following an initial period of cash outflow to fund the Turnaround Plan, we aim for the Group to be generating positive free cash flow and capable of supporting sustainable cash dividends to shareholders.

Kevin Loosemore
Chairman

17 June 2020

At a glance

Our performance in financial year 2019/20

Currency

Adjusted Revenue

£281.6 (-29.4%)

IFRS Revenue

£315.1m (-29.5%)

Banknotes

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

- Increased factory order book in second half FY 2019/20
- Introduced £20 polymer note in UK

Polymer

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

- Strong growth for Safeguard® substrate
- Adopted by 25 note issuing authorities at year end

Security Features

We create features that underpin the integrity of our banknotes.

- Ignite® adopted by two central banks
- Latest Kinetic StarChrome® thread adoption by central banks

Our global footprint

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

Employees by region (%)

2,364

UK	52.1
Rest of Europe	19.4
Asia	13.1
Middle East & Africa	12.9
The Americas	2.5

Authentication

Revenue

£68.5m (+60.4%)

IFRS Revenue

£68.5m (+60.4%)

Identity Solutions

Adjusted Revenue

£76.6 (+2.1%)

IFRS Revenue

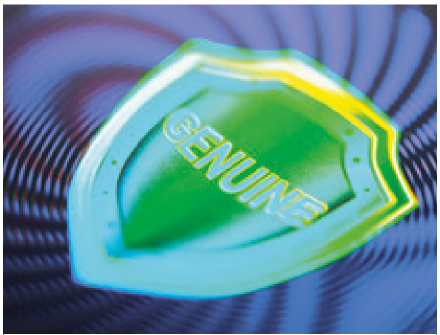
£83.2m (+10.9%)

Government Revenue Services (GRS)

Security features for product authentication (such as tax stamps) and software solutions and services.

- Growing GRS volumes
- Good pipeline of contract opportunities

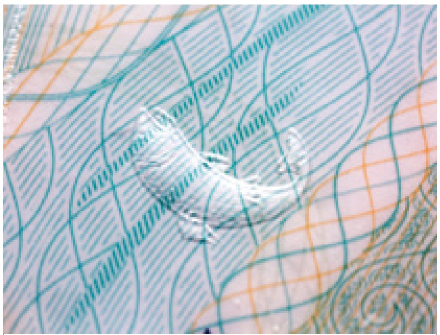
Brands



Brand protection utilising security components and software solutions.

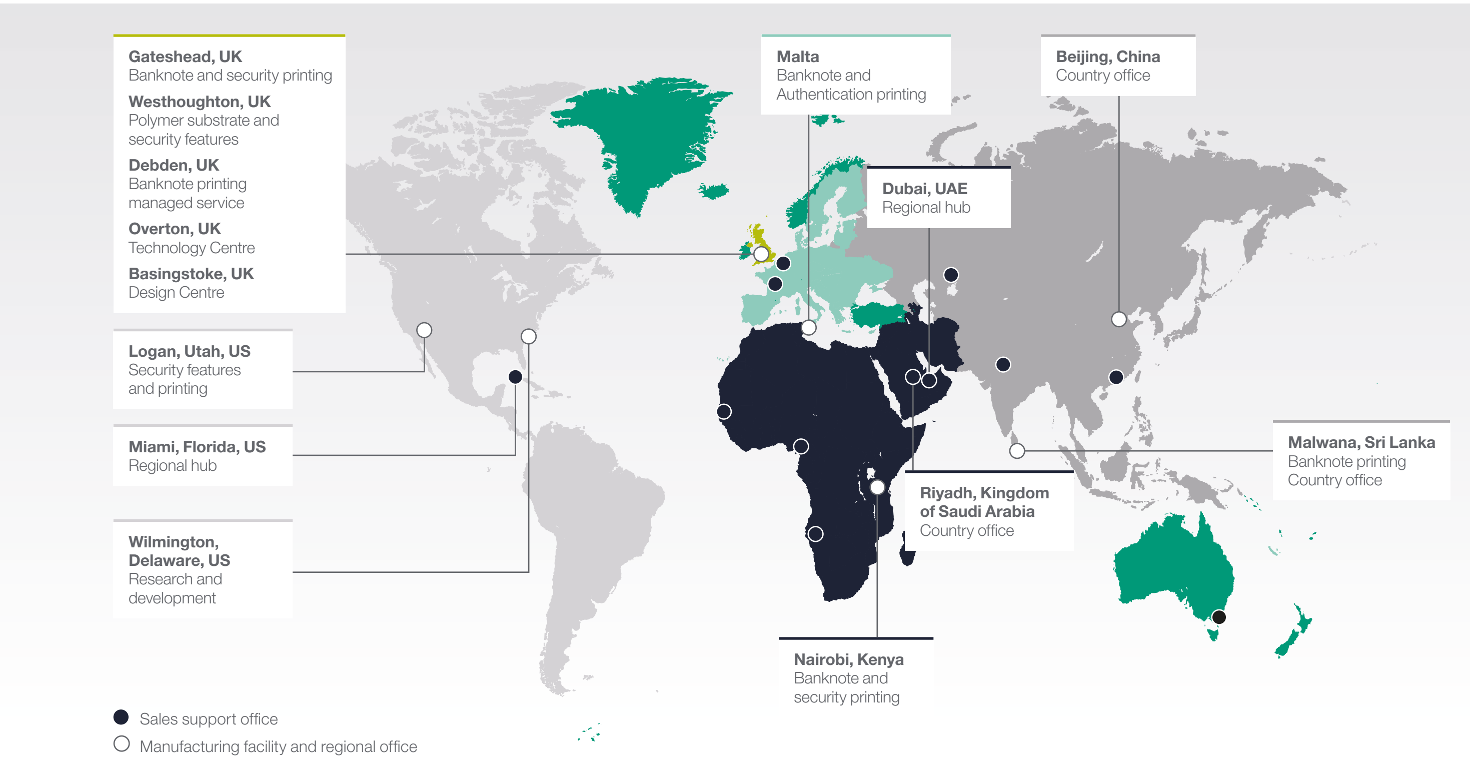
- Contract for legalised cannabis and related industries
- Launch of new suite of services

Passport and other products



Retained security features for identity including polycarbonate.

- Additional UK Passport volumes with improved margin
- Sale of International Identity Solutions business in October 2019



Our business model

How we create value

De La Rue is a provider of high security printing and related services to businesses and governments and operates on a worldwide scale. It has two customer facing divisions – Authentication and Currency – with joint support for both divisions from central functions including Finance, HR and Legal.

Inputs

- Our resources
- Our relationships

What we do

Currency

Key activities

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

Customers

- Central banks
- State printworks

Authentication

Key activities

Product authentication and brand protection using security features, software solutions and services

Customers

- Government Revenue Solutions
- Brands

Channels

- Digital
- Sales

Value proposition and cost structure

Revenue

Outputs

- Enabling participation in the economy
- Secure the world's tax revenues and protect from fraud
- Long term value for shareholders

Inputs

Key resources

The key resources which we use in Authentication cover the following main activities: the design of the physical token in the UK and secure print, storage and shipment in Malta; software design and development; IT support and customer services providing 24/7 coverage from our centres in Dubai, Riyadh and the UK; holographic design and origination in the UK and production in the UK and the USA; secure international logistics using full track and trace from our facility to customer; cheque and card printing and personalisation in Kenya and polycarbonate production in Malta. We have significant capability and capacity for the tax stamp and secure brand label market and now supply in excess of six billion physical markers from our sites in Malta and the USA, and more than two billion secure digital codes via our Traceology and Certify software systems.

In the case of the Currency division, the key resources are our design studio, origination and proofing capabilities, our Safeguard® polymer production facilities in the UK, banknote print capacity in the UK, Malta, Kenya and Sri Lanka, security feature production capabilities in the UK and software engineering capabilities in the UK. Our main manufacturing sites have ISO14001 for responsible environmental management and OHSAS18001 certification for their health and safety management systems.

Customer relationships

As noted above, our two divisions have differing customer relationships due to the variation in product offering and customer requirements.

Our Authentication division operates in both government and commercial sectors operating mainly concession contracts with governments for the deployment of tax stamp schemes and selling direction to commercial entities for brand protection schemes. We have grown our sales force to interact directly with customers around the world such as Government agencies and major brands and we endeavour to have sales forces located in the markets that they support. In general, the revenue for our Authentication division is delivered from long term contracts which deliver relatively stable month on month revenues and cash flow.

We have well-established customer relationships in our Currency division, resulting from the depth of experience De La Rue has in banknote production. Our sales force interacts on a continual basis with central banks and state printworks worldwide, as do our technical and product teams. While a major part of our revenue in Currency is for our integrated banknote offering, there is increasing demand for customers towards purchasing security features independently and we are re-focusing our sales force towards selling our security features as standalone products.

Underlying our abilities are our people – around 2,400 worldwide – and our intellectual legacy with more than 1.000 patents to our name. We also have a well-established global supply chain, honed over many years of operation.

Key partners and suppliers

In order to be able to deliver products and solutions to our customers we work with a set of key partners and suppliers. Our Authentication division sources materials from a wide range of suppliers. We apply security to these materials within DLR facilities, through the combination, construction and treatment of the materials, which transforms them into highly secure, labels, documents and security components such as holograms. We also work with software partners to provide flexible capacity to augment our in house development teams, as well as technology partners that bring capability to enhance the De La Rue software offer.

De La Rue sold its paper business in 2018 and we have a multi-year partner agreement to purchase paper in place to supply our Currency division. We purchase security inks from Sicpa in Switzerland and our printing presses are sourced from KBA and Komori.

Central Bank of The Gambia:
Gemini™

Key activities

Authentication

The key activities for our Authentication division are the supply of a range of physical and digital solutions such as: tax stamps and supporting software solutions, authentication labels and associated brand protection digital solutions, cheques and bank cards for Africa, and ID security components including polycarbonate. Increasingly our physical products are sold as part of a digital solution underpinned by our software solutions – DLR Certify (used for Government Revenue Solutions), Traceology (used for brand protection) and a dedicated licensing platform, used for Microsoft.

Currency

Our key activities for the Currency division fall in the following areas of Currency production – the design of banknotes; the substrate used for the banknote, the printing of the banknote, application of security features as well as the provision of analytical software services. We have our own design studio in the UK – we produce Safeguard® polymer substrate, print currency in four locations worldwide and provide a portfolio of security features (the main growth revenue being derived from new security features such as Ignite and Kinetic StarChrome®), and we have developed a suite of software which supports data analytics in the management of cash in circulation. Our products are supported by a worldwide sales force.

Customer segments

Our two divisions have clear differences in customer segments.

In Authentication, the products and services which we provide as tax stamp solutions supplied to governments accounts for around 50% of revenue for the division, while the remaining 50% of revenues are from the brand protection sector and ID security features. Our Currency division derives all its revenues from supplying banknotes, polymer and related services to central banks, commercial and state printing works and paper mills.

Our business model continued

Channels to market

De La Rue's two divisions are organised to serve the different types of solutions that customers require and their varying buying preferences. By aligning our structure this way, we aim to optimise the channels to market of each division to meet the customer's current and future requirements.

Danske Bank:
Safeguard®

Currency

Our Currency division's customers are central banks, state printworks, commercial print and paper mills for which we provide products and services across the main areas of banknote production. De La Rue is a deeply established player in this area and has an experienced sales force, knowledgeable technical experts as well as an established series of carefully selected partners worldwide. As a result of growing demand for polymer and security features, we have increased our sales capabilities into the state printing and papermaking sector.

Austria GRS:
Tax Stamps

Authentication

Authentication works across the commercial and government sectors, with the aim of addressing government, consumer and brand owner demand for protection against counterfeit and illicitly traded goods. As purchasing increasingly moves online, brand owners are seeking new and innovative ways of protecting their consumers against counterfeit and interacting with them through mobile applications which enable the digital verification of the physical authentication token.

This division has a dedicated global sales force which interacts directly with our commercial and government customers, and works with carefully selected partners who combine our solutions into their products for onward sale.

Value propositions

De La Rue has in-depth experience in the field of security printing and can offer either an end-to-end solution and/or individual components for both divisions. We have the capability to create bespoke work for our customers at volume.

In Authentication, our value proposition is to protect our customers' revenue and reputations through the application of modular physical and digital solutions which are sufficiently flexible to allow rapid deployment to reduce time taken to deliver the benefits to our customers. We have a strong pipeline of development of both physical and digital solutions designed to meet the emerging needs in the markets that we serve and to combine De La Rue's strong print and holographic heritage with our more recent, but proven, software capabilities.

De La Rue is the leading commercial printer of banknotes worldwide and we have retained that position for many years, due to our ability to respond flexibly and quickly to customer needs. We can supply all, or separate parts of the five elements of printing a banknote, as outlined above. Our ability to successfully integrate all parts of the banknote production is an important value proposition for many of our customers.

Each banknote is a bespoke product and is a flagship project for central banks and Governments. As a result, each banknote needs careful project management to ensure that it meets the technical requirements and specifications of our customers, as well as providing the desired 'look and feel' of the note. We are concentrating our efforts in developing a new range of security features in the areas of polymer and evolving our paper features using holographics, colour shift and micro-optics technologies to respond to customer demand which is growing substantially in these areas.

Cost structure

De La Rue has manufacturing and printing sites in six locations worldwide which incur fixed costs, with company headquarters based in Basingstoke, UK. While both divisions in De La Rue create physical security products (with digital services), the cost structure across them is different.

In the case of Authentication, most Government Revenue Solutions contracts are multi-year and incur start-up costs for IT hardware and some software customisation to establish the tax stamp scheme. For Currency, we have a large-fixed cost base in the form of machinery and people. While each contract is bespoke, they generally have a smaller upfront cost against revenue.

We are looking to reduce our cost structure to match changes in the marketplace and we discuss this in more detail on pages 12 and 13. In addition, we continue to look to reduce our environmental costs and we discuss this in more detail on pages 33 and 34.

Brand Protection:
Pure™ Holographic Label;
'Secure Globe'

Revenue streams

De La Rue's two divisions are directly customer-facing and directly generate their own revenue stream.

Our Authentication division generates revenue from government contracts and directly from brands. Within the division, we see growth in the tax stamp and traceability market, and we believe we can expand the solution to other sectors such as cannabis. De La Rue has already begun to make progress with our agreement with KushCo Holdings to supply anti-counterfeiting labels with serialisation and track and trace for the legalised cannabis sector in North America. Other products that have potential for track and trace growth include soft drinks and water.

In the case of Currency, De La Rue produces for between 40 to 80 customers annually which represents the majority of the revenue for the division. During 2018, we introduced the first banknote with PureImage™ a next-generation holographic thread. We have also sold Ignite® a combined micro-optics and colour-shifting thread to our first central bank and first State printworks customer in 2019.

We are also beginning to see some crossover between brand protection and government regulation as governments seek to protect their citizens from counterfeit goods and importers. Also, manufacturers want to ensure illicit products can be identified and removed. In this area, we also see growth in medicine, auto parts, and products such as consumer electronics.

In electronics, there is a demand to track products to end-of-life due to the circular economy, and we are looking at digital passporting to support regulations on the repair of consumer electronics. Other sectors where we have developments are in the luxury items where there is a need for recyclability and sustainability.

In Currency, our main revenue streams come from central banks/Governments, state printworks, commercial printers and paper mills. While the underlying Currency and polymer substrate market continues to grow, the market is impacted by the more unpredictable overspill activity (state printwork demand that cannot be satisfied by their own internal capacity), customers' irregular buying patterns and rapid demand changes.

Central Bank of The Gambia:
PureImage™ Thread

CEO review

Addressing the fundamentals

"We are operating in a more integrated manner and moving faster, with alignment at all levels of the Company."

Since I joined De La Rue in October 2019, I have been immensely impressed by the quality of our people and operations globally, despite what has been a financially challenging year for the Company. I am convinced that we have all the ingredients necessary to turn the business around, by streamlining costs, optimising performance and capitalising on our significant growth opportunities.

Business structure

In November 2019, we launched our new structure, creating two divisions: Currency and Authentication. These are led by Ruth Euling, Managing Director, Currency (previously Global Sales Director for Currency) and Andrew Clint, Managing Director, Authentication (previously Global Business Development Director PA&T). The two divisions allow our business activities to be arranged around value creation, enabling cross-functional working, speed to market and an even greater focus on the solutions of our individual government and commercial customers. This gives us an opportunity to reduce and streamline our central functions and overheads, by placing more of the decision making with those closest to our customers and stakeholders.

I can already see the benefit – we are operating in a more integrated manner, moving faster, and exhibiting alignment around a single plan at all levels of the Company.

Half-Year Results and Dividend Adjustment

Shortly after my arrival, I conducted an initial assessment of the business and it quickly became apparent in October 2019 that our H1 2019/20 performance was going to be well below market expectations.

The financial underperformance of the Company in H1 2019/20 resulted mainly from insufficient volumes and a reduction in margins in Currency. This was mainly due to the sanctions imposed on Venezuela at the end of the previous financial year, which stopped demand from what was a very substantial customer.

Our H1 2019/20 results showed a sharp decline in adjusted revenue and margins for our Currency business. Our net debt rose to £170.7m (FY 2018/19: £107.5m) and adjusted operating profit for the half year was down sharply at £2.2m (H1 2018/19: £17.0m). The combination of the decline in profitability and the increase in net debt resulted in the Board deciding to suspend future dividend payments. The suspension of the dividend was one of several immediate measures taken by the Company in order to address our issues, and also to provide the time needed to design and enact a Turnaround Plan.

Turnaround Plan

I initiated a full review of the business in November 2019. During the following months, the extended leadership team and I designed a comprehensive Turnaround Plan for the Company, which we announced in February 2020. Actions from the Turnaround Plan are now fully underway. Contributions were sought from across the Company, and objectives for all employees are now clear and centred around execution of the Turnaround Plan.

In summary, De La Rue aims for the Currency division to return to progressive margin growth, beginning in FY 2020/21, driven by cost reductions and investment in polymer and related features. At the same time, we will also be targeting continued strong year-on-year growth of our Authentication business, driven by further, largely project related, investment. A more detailed discussion of our plan is in our Strategy Review on pages 12 and 13.

Alongside the Turnaround Plan, in Q4 calendar 2019, we took several immediate actions including a reduction in discretionary spend and a deeper focus on cash items, including inventory management, accounts receivable and operational efficiency drivers. As a result of this and the other actions taken, we expect the Turnaround Plan to deliver £36m in annualised savings by FY 2021/22.

Full year performance

In order to deal with the issues faced in the first half of the year, the Currency teams worked hard to adjust capacity and seek out higher margin international contracts. As a result, Currency volumes and margins recovered well in the second half of the year, compared to the first half.

Overall, our adjusted revenue for the year was £426.7m, down 17.4% year-on-year, with Currency revenue declining 29.3% year-on-year, despite our efforts in the second half, with Authentication revenue increasing 60.4% in the year.

This delivered a better second half performance, enabling us to meet our guidance of adjusted operating profit for FY 2019/20 of between £20m and £25m, with full year adjusted operating profit of £23.7m. Importantly, we made excellent progress in reducing our net debt during the second half of the financial year. Our end-of-year net debt stood at £102.8m and ensured that we met our banking covenants in full. Net debt/EBITDA covenant at year end was 2.24 times, down from 2.72 times at mid-year and comfortably within the limit of 3.0 times. On an IFRS basis, revenue was down 17.4% to £466.8m, Operating profit on an IFRS basis was up £42.8m from £31.5m in FY 2018/19. (Please see the financial review on pages 19 to 21 for more details.)

It should be noted that we expect the contribution from Identity Solutions which was an adjusted operating profit of £22.8m for the year not to repeat next year as the UK Passport production contract runs off. The IFRS operating profit for Identity Solutions was higher than adjusted operating profit at £47.6m as it included the profit on the sale of the International Identity Solutions business.

Further progress

On 1 May 2020, we initiated a consultation process to reduce roles at our headquarters by 35 to 40 people, mainly in finance and supporting functions.

On 17 June 2020, we initiated a collective consultation process in relation to a proposal to close our Gateshead site for future banknote printing.

Under the proposal, the Company will retain some core services and roles at the site. We discuss this proposal in more detail on page 13.

Brexit

On 31 January 2020 the United Kingdom left the European Union with a negotiated withdrawal agreement. We have been undertaking preparations for Brexit since 2018 and have held frequent risk reviews and updates, bringing together key stakeholders within the business to coordinate and enact contingency measures to ensure preparedness and business continuity.

As part of wider mitigation measures, we have engaged with key suppliers relating to their Brexit contingency planning, conducted regular contractual reviews and analysed known tariff and free trade access changes. We actively review and adapt to new HMRC published technical notices on customs, excise and VAT as applicable. We have increased contingency stocks and adapted logistics and delivery timescales to avoid the potential risks of congestion and other related supply chain risks.

COVID-19

The COVID-19 pandemic has to date had only limited impact on the Company's operations.

We have implemented the relevant protective, regulatory and safety procedures for all employees, including home working, and there has been limited impact on our global service, support and operations activities.

De La Rue has seen the timescales for a small number of Government Revenue Solution contracts to become somewhat extended, which has been more than offset positively recent contract wins. Our factories have run continually throughout the period, except for a eight week shutdown of the Sri Lanka facility, which returned to full production in May and is working to make up the production shortfall. We have experienced limited material problems regarding raw material supply, while there have been minor delays to the transportation of finished product that are expected to be resolved shortly.

Moving forward

We have had a good start to FY 2020/21. We have been awarded contracts representing 80% of our available full-year Currency printing capacity. As a result, we continue to expect the Currency division to reach a mid-teens adjusted operating margin in FY 2020/21, before allocation of central costs.

In addition, our Authentication division has been awarded contracts with total lifetime value exceeding £100m, which further underpins our expectation of our Authentication division revenue of £100m by FY 2021/22, with strong operating margins.

I feel both a great sense of pride, and a great sense of responsibility, in leading De La Rue into the next phase of its history. The solutions that we provide – on a global scale – assist in international trade, growth and development, the protection of legitimate activities and the fight against illicit trade and counterfeiting.

I take personal responsibility for the Turnaround Plan and take great comfort that it has been designed – and is being implemented – by a strong, global, customer-focused team. De La Rue is now an organisation with one single plan and full alignment of its employees. In executing the plan, we will create over the next three years, a company with a balanced revenue generation consisting of traditional activities and high margin, high growth activities, all overlaid by unmatched global reach.

As an organisation, we have a lot still to do – meeting our cost reduction targets, secure and deliver our polymer and security feature growth plans, together with signing up new customers in our Authentication business.

I would like to thank my colleagues who have worked hard to get De La Rue where it is today and we all recognise there is much more work to do. The Capital Raising will strengthen our balance sheet and help us deliver the Turnaround Plan, enabling De La Rue to create value for our employees, customers, suppliers and shareholders.

I have confidence that we know what to do and have the teams, the clarity and the alignment to do it.

Clive Vacher
Chief Executive Officer

17 June 2020

Our strategy

Reshaping De La Rue

In recent years, several actions have been taken to reshape De La Rue and in November 2019, the Group was realigned into two divisions focused on Authentication and Currency. We have outlined the activities and functions of our two ongoing divisions in 'Business Model'.

We completed the sale of our International Identity Solutions business in October 2019, from which we received £42m in cash plus an additional amount for working capital. Following the loss of the UK Passport contract in 2018, the UK Government has announced a phased transition to the new supplier for the UK Passport production contract during H1 2020/21. We have reported Identity Solutions' financial performance for FY 2019/20 and do not discuss the strategy for this division going forward due to the above.

In order to improve Company performance, in calendar Q3 2019, we initiated a detailed review of our operations, costs, and product and service portfolios, to create a Turnaround Plan for De La Rue. The review was led by our CEO Clive Vacher and his management teams, with contributions from across the Company. The Turnaround Plan is based on a clear, compelling, simple and understandable vision for both business divisions, which is inclusive and open.

Turnaround Plan

On 25 February 2020, we announced details of a turnaround plan for the Company (the "Turnaround Plan"), which was based on more than three months' data-driven intensive work by an extended leadership team and covers the three year period from FY 2020/21 to FY 2022/23 inclusive.

We plan for the Currency division to return to progressive margin growth, beginning in FY 2020/21, driven by cost reductions, and investment in polymer and related features where there are attractive market growth opportunities. We are also targeting continued strong year-on-year growth of the Authentication business during the three year period of the Turnaround Plan, driven by further, largely project related, investment.

Bank of England £20 note:
Safeguard®

The Turnaround Plan has the following key elements, which will enable De La Rue to grow with an efficient and appropriate cost structure:

Cost reduction: The Company is enacting an accelerated cost reduction programme with a substantive proportion scheduled to complete by August 2020. Targeted savings on an annualised basis by FY 2021/22 will be approximately £36m, including actions realised in FY 2019/20 which already have secured £24.8m of annualised savings. This will significantly exceed and accelerate previous cost reduction commitments of £20m by FY 2021/22.

The Company's cost structure will be re-based to enable it to compete more strongly across all its market segments, allowing it to tender for currency orders it would previously have declined, and to improve margins on existing work. The restructuring cash costs for this element of the plan will be approximately £16m in FY 2020/21.

Currency market leadership: The Turnaround Plan is targeting improved and sustainable profitability in the Currency division, focusing on: improving profitability of banknotes, protecting and growing the Group's paper security feature position, converting the world to polymer and being the market leader, and investing in R&D in polymer security features and leapfrogging the competition. De La Rue has established a leading position in polymer: since 2013, 83% of issuing authorities who have issued banknotes on polymer globally have selected De La Rue Safeguard®.

The Bank of England £20 note released in February 2020 represented the 42nd banknote worldwide that De La Rue has secured on its Safeguard® polymer substrate. De La Rue will also be designing and printing the Bank of England's new £50 banknote for release in 2021. At year end, approximately 3% of the world's banknotes by volume and 12% by denomination had moved to polymer.

A cornerstone of the Company's strategy is investing in, and supporting customers with, the significant trend of transition from paper to polymer notes, including the development of the most secure features on polymer. With established products and recent innovations, De La Rue has also built a portfolio of industry-leading paper security features that are the choice of a growing range of customers and will continue to be a focus for the business. In the currency printing market, De La Rue is already in the process of increasing its competitiveness and has the world's most extensive experience of printing both on paper and polymer.

Continued strong growth in Authentication: De La Rue has delivered significant year-on-year growth in this division in FY 2019/20 and expects this to continue for several years as more countries adopt tobacco tax stamp schemes to comply with the World Health Organisation (WHO) Framework Convention on Tobacco Control (FCTC). De La Rue is already in discussion with a number of governments regarding the roll out of tobacco and drinks tax stamp schemes and is targeting agreements with several new countries each year.

In parallel, De La Rue will continue to invest in technology, especially in its successful suite of software solutions. The Authentication division will also drive a focused geographical and product segment expansion of the brand protection business and growth in its identification security features business. Under the Turnaround Plan, De La Rue is targeting Authentication division revenues of £100m by FY 2021/22, with strong operating margins.

Capital Raising

In June 2020, we announced a Capital Raising and the Directors believe that the Capital Raising is required to provide the Company and its management with operational and financial flexibility to implement the Turnaround Plan. In particular, given the investment needed to achieve the full benefits of the Turnaround Plan, the upcoming refinancing requirement of its existing debt facilities, the loss of the UK Passport production contract during H1 2020/21, and the current unprecedented uncertainty in the financial and commercial markets, the Directors believe that the Capital Raising is necessary in order to enable the transformation of the Group's operational and financial performance.

The Company has agreed with its lending banks to extend its existing financing facilities to December 2023, conditional on the completion of the Capital Raising. The principal use of the proceeds will be to:

- invest in new equipment to double the Currency division's capacity for polymer production;
- provide the investment required to grow the Authentication division, especially in respect of the provision of tobacco tax stamps compliant with the World Health Organisation's Framework Convention on Tobacco Control (FCTC);
- cover the restructuring cash costs of the Group's accelerated cost reduction programme;
- finance footprint related capital expenditure in respect of the Group's overseas manufacturing sites; and
- invest in the expansion of the Group's security features businesses (in respect of both the Currency and Authentication divisions).

Further progress

In order to progress our Turnaround Plan, we announced the following at our full year results.

In May 2020 we initiated a consultation process to reduce roles at our headquarters by 35 to 40 people, mainly in finance and supporting functions.

In June 2020, we announced a consultation process to commence shortly on a proposal to cease banknote printing at our Gateshead site and we will start to engage in a collective consultation process with impacted employees. Under the proposal, the Company will retain some core services and roles at the site.

Subject to the consultation process, we would expect the banknote printing operations to cease at Gateshead by the end of this calendar year.

In addition, the UK Passport operations, also in Gateshead, will cease operations during H1 2020/21 as the contract transfers to a new supplier.

Importantly, this proposal will not result in a reduction of the Company's worldwide printing capacity. We remain committed to a strong, growing Currency business, and will continue to print banknotes in the UK as well as at its international sites. Following a period of transition and the re-location of equipment from Gateshead to other sites, the proposal ensures that De La Rue has the same, or more, capacity as today, but operates with four currency print factories, down from five. This transition period is expected to be complete by the end of H2 2020/21. The consultation period is expected to last a minimum of 45 days.

We plan on giving regular updates on the progress of our turnaround plan via our website.

Central Bank of Kenya:
Kinetic StarChrome® Thread

Our markets

Focusing on our chosen markets

Currency market

We operate in two main markets – Currency and Authentication – and we outline the activities of both divisions in more detail in Our business model on pages 6 to 9.

Currency is our largest division by revenue. Looking at its market, we estimate that the total demand for cash has been growing at around three to four percent a year for the past decade and will continue to do so at that rate.

Population growth and other macro-economic factors are behind this growth. While there is a decline in cash in some economies, this is rarely the case for the countries to which we supply most of our banknote production. We expect that cash will remain central to the global economy for many years in parallel to the rise of alternative payment systems.

The global market for banknotes is approximately 170 billion per year, with the majority being printed by state printworks (SPWs). The commercial banknote market – which is the one De La Rue operates in for banknote print – represents around 20-25 billion banknotes per year. This can be broken down into two elements – printing for Governments who do not have a SPW, and providing additional capacity, known as overspill, for those who do. The overspill market historically has been unpredictable and created volatility in the commercial printing market.

A trend in the commercial printing market is that banknote customers are moving from direct contracts to tendering, which has created pricing pressure for commercial printers. In addition, while many customers buy finished banknotes from a single supplier, there is a growing move towards disaggregating the purchase to buy from multiple suppliers. This means that the elements of banknote provision, such as substrate, printing, and security features can be bought separately.

De La Rue can act as an integrated provider, selling all the components of a banknote, as an integrator combining De La Rue and third party components or as a provider for individual elements, such as printing, or security features.

There is a trend towards banknotes becoming increasingly complex and De La Rue is producing some of the more challenging banknotes in the market, (such as the Bank of England £20 polymer banknote).

Polymer

De La Rue is one of the two global providers of polymer substrate for banknotes. In general, polymer is longer lasting than paper as a banknote substrate. While polymer represents around 3% of the global market for banknotes, it represents around 12% of banknote denominations (a significant increase on a year ago), both our market share and the demand for the product is increasing rapidly. By March 2020, there were 45 denominations on De La Rue Safeguard® polymer substrate and 83% of all denominations that moved to a new polymer banknote since 2013 selected De La Rue. With many more denominations expected to move to this substrate, we expect this market to continue to grow strongly in the next few years.

Print

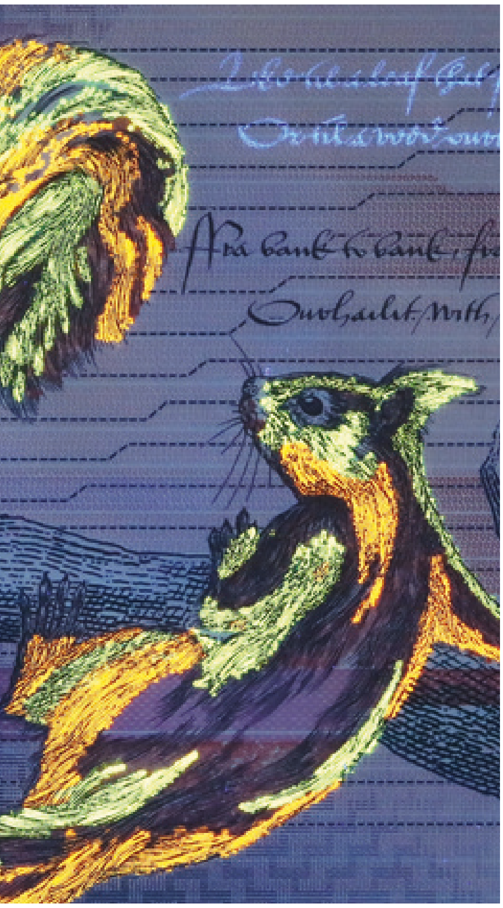
The print market for banknotes has more suppliers than the polymer market and De La Rue represents the largest market share, at around 30%. In addition to two other companies of size, there are several smaller suppliers in this market.

Royal Bank of Scotland:
Safeguard® with Gemini™

Security features

The market for security features is more fragmented, with products from both integrated providers such as De La Rue and from standalone players.

While most banknotes issued in 2019 used security threads and holographic patches, stripes have grown in popularity as polymer banknotes increasingly have an applied foil and as paper banknotes become more complex. Almost all countries buy security features or IP licences from the commercial market.



De La Rue offers one of the more diverse portfolios in the market (covering threads, applied features, print features and covert features, encompassing colourshift, holographics and micro-optics technologies).

We expect to grow this market via a new premium thread offering, new polymer security features that we are investing in, and increased sales and technical resource now focused on meeting the specific needs of the SPW market. At present we have around 10% of the security feature market by volume. Typically, security features have a long cycle – between five to fifteen years – as they are usually integrated into the design.

Authentication market

Our Authentication division supplies products and services to governments and brands to assure tax revenues and authenticate goods as genuine.

It is estimated that the illicit trade in goods is around $1.7tn per year and growing rapidly with governments, brand owners and consumers all being affected by lost tax revenues, eroded brand value and lack of consumer confidence in the products they are buying.

The traditional tax stamp market covering tobacco and alcohol has evolved significantly to include digital solutions and tobacco track and trace. The combined physical and digital solution provided by De La Rue supports governments to protect tax revenue, and to comply with government policies and international treaties such as the EU Tobacco Products Directive (EUTPD) and the World Health Organisation Framework Convention on Tobacco Control (FCTC); compliance with these regulations is currently driving growth in this market.

De La Rue is number two by volume among the suppliers of both physical tokens and end-to-end software systems in this market so is well positioned to capture share during this growth phase.

ID Secure Feature:
ID Holographic Laminate – DLR ID Protect™

The brand protection market is highly fragmented, with many operators offering partial solutions such as serialised labels and tamper-evident packaging. There is a growing move towards highly secure labels, unique ID at an item level, consumer and inspector digital applications and systems that can track and trace and authenticate products though the supply chain.

We continue to invest in software capabilities for both brand and government clients and are developing applications that provide greater functionality and visibility to inspectors and the public. In addition, we are developing our service provision to provide 24/7 coverage to our Authentication customers, bringing new embossed holography features and effects to market for brand labels and exploring blockchain technologies. Our application for validation of holograms, DLR Validate, has been piloted and will be launched to the wider market in calendar Q2 of 2020.

In October 2019, we completed the sale of our International Identity Solutions business to HID Corporation Limited, an ASSA ABLOY Group company, for a cash consideration of £42m plus an additional amount for working capital. We have retained polycarbonate manufacturing and some ID security features which we will sell as components to HID and other ID solution providers. We have some advanced IP in polycarbonate data pages which will give us a strong position in this market and consequently we expect to see good growth in this product line. Polycarbonate is used in passport datapages where it carries the document holder's personal details. The plastic datapage construction enables the integration and layering of security features protecting the page, most notably windows, holography and hinge technology alongside security print as well as the passport chip and antenna.

Review of operations

A mixed performance during year

We report the operational performance of the Currency, Authentication and Identity Solutions divisions, reflecting our operating structure after our alignment of the Group in November 2019 and the sale of International Identity Solutions in October 2019.

Authentication is focused on providing physical and digital solutions to authenticate products through the supply chain and to provide tracking of excisable goods to support compliance with government regulations.

Our brand protection business grew strongly in FY 2019/20, as a result of increased focus on securing new customers. We see good momentum into FY 2020/21, with a strong pipeline of new opportunities and the expected launch of new embossed holography labels in the first quarter of 2020/21, which will bring novel visual effects to the brand protection market.

Post the close of the trading period, we signed a five year agreement to supply polycarbonate data pages for the new Australian passport. This follows the development agreement signed with Note Printing Australia in 2017, under which De La Rue has developed several new security features which will be produced at our facility in Malta. De La Rue will complete the manufacturing scale up of the new data page and start supply at the end of FY 2020/21.

For our Authentication division, IFRS and adjusted revenue was £68.5m (FY 2018/19: £42.7m), a significant year-on-year increase of 60.4% driven by growing volumes for our GRS contracts and ongoing sales to current customers.

IFRS operating profit of £9.7m (FY 2018/19: £5.1m) and adjusted operating profit of £10.8m (FY 2018/19: £7.9m) were driven by growth in GRS volumes.

IFRS and Adjusted operating profit in FY 2018/19 was also impacted by £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 £1.9m impact of the move of our manufacturing from Gateshead to Malta in the first half of the year of the prior period.

Authentication

	FY 2019/20 £m	FY 2018/19** £m	Change %
IFRS Revenue (£m)	**68.5**	42.7	+60.4%
Adjusted Revenue (£m)	**68.5**	42.7	+60.4%
Gross profit (£m)	**28.8**	19.5	+47.7%
IFRS operating profit (£m)	**9.7**	5.1	+90.2%
IFRS profit margin	**14.2%**	11.9%	
Adjusted operating profit* (£m)	**10.8**	7.9	+36.7%
Adjusted operating margin*	**15.8%**	14.5%	

Notes:

* Excludes exceptional item charges of £0.2m (FY 2018/19: net charges of £2.1m) and amortisation of acquired intangibles of £0.9m (FY 2018/19: £0.2m). See page 165 for reconciliation of non-IFRS measures to comparable IFRS measures.

** Comparative the Authentication and Identity Solutions results for FY 2018/19 have been restated in line with the adjustment noted in the current year to present the results of one of the Group's subsidiaries solely in the Authentication division consistent with where management of the subsidiary's business now falls. The impact of this has been the transfer of the following amounts from the Identity Solutions results to Authentication: Revenue of £3.4m, Gross Profit of £2.1m and operating profit and profit before tax of £1.6m that would have been presented in the Identity Solutions division previously.

Currency

	FY 2019/20 £m	FY 2018/19 £m	Change %
IFRS Revenue (£m)	**315.1**	447.1	-29.5%
Adjusted Revenue (ex-paper) (£m)*	**281.6**	398.9	-29.4%
Gross profit (£m)	**44.2**	110.5	-60.3%
IFRS operating (loss)/profit (£m)	**(9.9)**	21.0	-147.1%
IFRS operating margin	**n/a**	4.7%	
Adjusted operating (loss)/profit* (£m)	**(9.4)**	41.7	-122.5%
Adjusted operating margin**	**n/a**	10.4%	

Notes:

* Excludes "pass-through" revenue of £33.5m related to non-novated paper contracts relating to the Portals De La Rue sale.

** Excludes exceptional item net charge of £0.5m (FY 2018/19: net charges of £20.7m). See page 165 for reconciliation of non-IFRS measures to comparable IFRS measures

Identity Solutions

	FY 2019/20 £m	FY 2018/19 £m	Change %
IFRS Revenue (£m)	**83.2**	75.0	+10.9%
Adjusted Revenue (£m)	**76.6**	75.0	+2.1%
Gross profit (£m)	**33.4**	32.4	+3.1%
IFRS operating profit (£m)	**47.6**	10.5	+353.3%
IFRS operating profit margin	**57.2%**	14.0%	
Adjusted operating profit* (£m)	**22.8**	10.5	+117.1%
Adjusted operating margin**	**29.8%**	16.2%	

Notes:

* Excludes "pass-through" revenue of £6.6m related to non-novated contracts relating to the IDS business). Excludes net exceptional item credit of £24.8m (FY 2018/19: £nil). For reconciliation of non-IFRS measures to comparable IFRS measures see note 165.

** Comparative the Authentication and Identity Solutions results for FY 2018/19 have been restated in line with the adjustment noted in the current year to present the results of one of the Group's subsidiaries solely in the Authentication division consistent with where management of the subsidiary's business now falls. The impact of this has been the transfer of the following amounts from the Identity Solutions results to Authentication: Revenue of £3.4m, Gross Profit of £2.1m and operating profit and profit before tax of £1.6m that would have been presented in the Identity Solutions division previously.

While the underlying **Currency** market continues to grow, we saw pricing pressure as a result of reduced overspill demand and were impacted by our ability to competitively bid for contracts in the first half of FY 2019/20, however significant cost reduction programmes in the second half have improved our ability to compete and to respond to rapid market demand changes.

In security features, banknotes containing our latest security thread Ignite™ were issued by the central bank of Bangladesh in March 2020, and a second central bank will issue new banknotes containing this thread in late calendar 2020. Our Safeguard® polymer substrate continues with good growth and at financial year end, 25 issuing authorities are issuing 45 circulating banknotes on this substrate, including the new Bank of England and Scottish Bank £20 notes that entered circulation in February and March this year.

Overall, Currency saw a decline in banknote and security feature volumes and price, with good growth in polymer volumes. Adjusted revenue was £281.6m (FY 2018/19: £398.9m) and IFRS revenue was £315.1m, 29.5% lower than the prior year and includes the recognition of £33.5m of "pass-through" paper revenue. At 28 March 2020, the 12 month order book for Currency was £172m and the total order book for Currency was £226m.

In June 2020, we noted post the closing period we had contacts representing 80% of our available full-year Currency printing capacity for the year.

We saw a decline in adjusted profit from £41.7m in FY 2018/19, to a £9.4m loss in FY 2019/20 due to the reduction in banknote and security feature volumes and price, an adverse product mix and negative manufacturing variances due to lower than planned lower production volumes.

Currency revenue and operating profit in FY 2018/19 benefited from the adoption of IFRS 15 by £11.9m and £6.6m respectively. The primary driver of this benefit was a material contract where the revenue was recognised over time as inventory was produced rather than on final shipment in FY 2019/20 due to the contract terms.

Currency operating profits in FY 2018/19 were also impacted net non-recurring credit of £2.3m due to the release of an accrual related to a dispute which arose out of the well-publicised events of 2010 concerning of De La Rue's key customer and the recognition of a net significant bad debt expense (excluding amounts relating to Venezuela).

Identity Solutions comprises our passport and other personal identity products. We sold our International Identity Solutions business in October 2019, which impacted FY 2019/20 revenue and profitability.

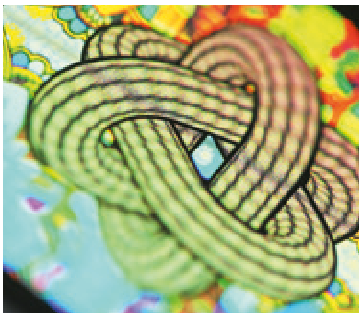
IFRS revenue was £83.2m (FY 2018/19: £75.0m) and adjusted revenue was £76.6m (FY 2018/19: £75.0m). Adjusted revenues were broadly flat as the impact of the sale of the International Identity Solutions business in October 2019 was mitigated by increased volumes within our UK Passport business. Adjusted operating profit of £22.8m, an increase of £12.3m on FY 2018/19, was due to additional UK Passport volumes at an improved margin.

IFRS operating profit of £47.6m, a substantial increase on FY 2018/19, was driven by the profit on the sale of the International Identity Solutions business in addition to the factors referred to above.

We continue to work with Her Majesty's Passport Office on the phased transition to the new supplier for the UK Passport production contract and expect revenue only for H1 2020/21 as the contract runs off.

In FY 2019/20 central costs represented approximately 8% of Group revenue (these costs being allocated to divisional adjusted operating profit by revenue in FY 2019/20). We expect these central costs to reduce to approximately 6% of Group revenue in FY 2022/23. From FY 2020/21, we expect the allocation of central costs by division to reflect the ongoing changes in the organisation as we implement the Turnaround Plan.

With effect in the FY 2019/20 external reporting, the Group has revised its methodology for allocated central costs to its reporting segments. This change was considered appropriate considering the substantial changes that have occurred in the year with the reorganisation of the business into the new Currency and Authentication divisional structure and the sale of the International Identity Solutions business. This has resulted in the Currency and Identify Solutions segments receiving a lower percentage of central costs and Authentication receiving a higher percentage of costs.



Brand Protection:
PURE™ Holographic Labels Coloured Knot

Bangladesh Bank 100 Taka:
Ignite™ Thread

ID Security Feature:
Polycarbonate datapage

Non-Financial Information Statement

Our reporting is compliant with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006.

The information given in the table opposite and the information it refers to is intended to help stakeholders understand our position on key non-financial matters. We set objectives for health and safety and the environment and report on progress in the annual report each year. The Board is mindful of the value of non-financial KPIs and will consider how they can be used in a meaningful way to measure the future performance of the business as the turnaround plan is executed.

Reporting requirement	Reference	
Environment	Responsible Business Report	See pages 33 and 34
	Carbon Disclosure Project	See page 33
Employees	Responsible Business Report	See pages 35 to 39
	Gender Pay Gap Report	See page 35
	Board diversity	See page 46
Social matters	Responsible Business Report	See pages 35 to 37
	Gender Pay Gap Report	See page 35
Human rights	Responsible Business Report	See page 35
	Modern Slavery Statement	See page 38
Anti-corruption and anti-bribery	Responsible Business Report	See page 40
	Ethics Committee Report	See pages 62 and 63
Policy embedding, due diligence and outcomes	Principal risks and uncertainties	See pages 23 to 29
	Responsible Business Report	See pages 32 to 40
	Code of Business Principles ethical framework	See page 64
Description of principal risk and impact on the business	Principal risk and uncertainties	See pages 23 to 29
	Viability Statement	See page 30
Description of business model	Our Business model	See pages 6 to 9

Financial review

Revenue and Gross Profit

We have seen significant changes since the start of the year in the market for Currency, including pricing pressure as a result of reduced overspill demand in H1 2019/20, the effect of which reduced during H2 2019/20. This had a material impact on our volumes and profitability in FY 2019/20 which has resulted in adjusted revenue of £426.7m (FY 2018/19: £516.6m), a decrease of 17.4%, driven by the decline in Currency, which more than offset the significant increase in Authentication volumes, (see below for details and the Review of Operations section on pages 16 and 17). We also saw lower revenue for Identity Solutions due to the sale of International Identity Solutions in October 2019 the impact of which, however, was mitigated by higher revenues on the UK Passport contract.

IFRS revenue reduced by 17.4% to £466.8m (FY 2018/19: £564.8m), and was in line with the decline in adjusted revenue, as lower pass-through revenue on paper of £33.5m (FY: 2019/20: £48.2m) was offset by £6.6m of pass-through revenue relating to non-novated International Identity Solutions contracts following the sale in October 2019.

Revenue in FY 2018/19 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 FY 2018/19 whereas under IAS 18 the majority of this revenue would have been recognised in FY 2020 on final delivery to the customer.

Gross profit reduced to £105.9m (FY 2018/19: £162.4m), reflecting mainly the impact of lower currency volumes and price, the sale of International Identity Solutions and negative manufacturing variances, which more than offset the positive impact in Authentication and the UK Passport production contract.

Operating profit and operating expenses

Adjusted operating profit was £23.7m (FY 2018/19: £60.1m) and reflected:

- A loss of £9.4m in Currency (FY 2018/19: profit of £41.7m) resulting from lower volumes and margin due to the reduction in banknote and security feature volumes and price, an adverse product mix and negative manufacturing variances due to lower than planned lower production volumes;
- A profit in Authentication of £10.8m (FY 2018/19: £7.9m) driven by increased volumes, partially offset by upfront operating expenses; and
- A profit in Identity Solutions of £22.8m (FY 2018/19: £10.5m), which we do not expect to repeat next year following the sale of International Identity Solutions and the rundown of the UK Passport production contract.

On an IFRS basis, an operating profit of £42.8m was recorded (FY 2018/19: profit £31.5m). In addition to the factors referred to above, a substantial net credit on exceptional items of £20.0m was recorded, (FY 2019/2019 exceptional charge of £27.9m). Exceptional items include a £25.3m gain on the sale of the International Identity Solutions business (excluding associated disposal costs), a credit of £8.7m relating to the resolution of a historical issue in respect to a change in revaluation rates for certain deferred pension scheme members, offset by the recognition of £9.3m of restructuring charges related to the reorganisation of the business into the new divisional structure and other cost out initiatives. Please see 'Exceptional Items' below for more details.

Adjusted and IFRS operating profit in FY 2018/19 benefited from the adoption of IFRS 15 which impacted operating profit by £6.9m and primarily related to a material contract where revenue was recognised over time as the inventory was produced rather than on final shipment in FY 2019/20, due the contract terms.

Adjusted and IFRS operating profit in FY 2018/19 was also impacted by a net non-recurring credit of £4.0m due to the release of an accrual related to a dispute which arose out of the well-publicised events of 2010 concerning of De La Rue's key customer and the recognition of a net significant bad debt expense (excluding amounts relating to Venezuela).

During the period the Group implemented IFRS 16 (leases). IFRS 16 has resulted in a benefit to operating profit of £0.5m. Further detail on IFRS 16 is provided in note 25.

Note:
With effect in the FY 2019/20 external reporting, the Group has revised its methodology for allocated central costs to its reporting segments. This change was considered appropriate considering the substantial changes that have occurred in the year with the reorganisation of the business into the new Currency and Authentication divisional structure and the sale of the International Identity Solutions business. This has resulted in the Currency and Identify Solutions segments receiving a lower percentage of central costs and Authentication receiving a higher percentage of central costs.

Finance charge

The Group's net interest charge was £5.2m (FY 2018/19: £4.4m), excluding IAS 19 and IFRS 16 finance charges and interest income due from the loan notes and preference shares obtained as part of the disposal of Portals paper. The increase was attributable to a higher level of net debt in H1 2019/20 prior to the proceeds from the sale of the International Identity Solutions business being received.

The IAS 19 related finance cost, which represents the difference between the interest on pension liabilities and assets, was £1.6m (FY 2018/19: £2.1m). The lower charge reflects the fall in the discount rate and the reduction in net pension liability compared to FY 2018/19.

Following the adoption of IFRS 16 (leases) the Group has also recognised a finance cost relating to the unwinding of the discount on the lease liabilities of £0.6m.

Financial review continued

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 £0.7m (FY 2018/19: £0.6m). The loan notes and preference shares are included in the balance sheet as Other Financial Assets.

The total Group net finance charge was £6.7m (FY 2018/19: £5.9m).

Exceptional items

Exceptional items during the period were a net credit of £20.0m (FY 2018/19: net charge of £27.9m).

These include:

- £25.3m gain on the sale of the International Identity Solutions business (excluding costs associated with the sale)
- £8.7m credit to the resolution of a historical issue in respect to a change in revaluation rates for certain deferred pension scheme members
- £9.3m of restructuring charges related to the reorganisation into the divisional structure and other cost out initiatives
- £3.3m of costs associated with the disposal of the International Identity Solutions business.
- £1.0m relating to the closing of the hedge position taken out in relation to Venezuela receivables for which a credit loss of £18.1m was provided and reported in exceptional items in FY 2018/19. The hedge position was closed out following the further tightening of sanctions against Venezuela following the year end.

See note 5 'exceptional items' for further details.

Taxation

The effective tax rate on continuing operations before exceptional items and the amortisation of acquired intangibles was 15.8% (FY 2018/19: 16.1%). Including the impact of exceptional items and the amortisation of acquired intangibles the net tax charge for the year was £0.0m (FY 2018/19: tax charge £4.8m). The effective tax rate for FY 2020/21 on continuing operations before exceptional items and amortisation of acquired intangibles is expected to be between 16-17%.

Net tax credits relating to exceptional items in the period were £2.5m (FY 2018/19: £4.2m). A tax credit of £0.2m (FY 2018/19: £0.3m charge) was recorded in respect of the amortisation of acquired intangibles.

Earnings per share

IFRS basic earnings per share (EPS) was 33.1p (FY 2018/19: 18.8p) and adjusted basic EPS was a 12.1p (FY 2018/19: 42.9p).

Loss from 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 £0.3m relates to the winding down of remaining activity related to CPS (net of associated tax credits) in addition to the impact in the period of a revision in estimate for the total net costs of completing a loss making CPS contract that was not novated post disposal. This contract is expected to conclude in FY 2021/22.

The prior period also included the impact of additional charges of £1.4m relating to the write-off of receivables due from CPS as they were determined as unlikely to be received.

Dividend

In November 2019, the Board decided to suspend future dividend payments (see Director's report for further details).

Cash flow and borrowings

Cash flows from operating activities was a net inflow of £1.5m, (outflow of £4.6m in FY 2018/19). Profits from operating activities were partially offset by:

- an adverse net working capital movement of £21.1m (FY 2018/19: £59.9m adverse working capital movement) due to:
  - a build in inventory (negative impact £12.1m[1]), mainly within the Currency division;
  - a reduction in receivables (positive impact £10.2m[1]) mainly due to strong cash collections in the Currency division; and
  - a reduction in payables (negative impact £19.2m[1]) resulting from a net reduction in advanced payments and settlement of trade creditors, the adverse impact of which was partially offset by increase in derivative liabilities due to currency fluctuations; and
- pension fund contributions of £21.3m (FY 2018/19: £20.5m).

Operating cashflows benefited from an increase in provisions (positive impact of £7.4m) mainly relating to the recognition of onerous contract provision relating to two contracts

Cash generated from operating activities included approximately £7.3m of payments relating to exceptional items and discontinued operations.

Cash inflow from investing activities was £25.6m (FY 2018/19: outflow £24.5m), driven by the proceeds from the sale of the International Identity Solutions business, which was partially offset by capital and development asset expenditure. Capital expenditure is stated net of cash receipts from grants received of £3.8m.

Cashflows from financing activities were a net outflow of £27.5m (FY 2018/19: inflow of £27.2m) due to the repayment of the revolving credit facility of £1.5m, dividend payments of £17.9m, interest payments in relation to the Group's borrowings of £6.0m and IFRS16 lease liability payments of £2.3m.

As a result, Group net debt decreased to £102.8m at 28 March 2020, from £107.5m at 30 March 2019. This reflects the benefit of proceeds of £42m from the sale of International Identity Solutions the benefit of which was offset by an adverse working capital movement, final dividend payment, pension funding contributions and capital expenditure.

Not withstanding the cash outflow from operating activities, the Board has reviewed a plan for FY 2020/21 that shows the Group will operate within its banking covenants. See Directors Report for further discussion on going concern.

The Group has a revolving credit facility of £275m that expires in December 2021. At the period end, the covenant tests were as follows: EBIT/net interest payable 5.2 times (covenant of ≥4.0 times), net debt/EBITDA 2.24 times (covenant of ≤3.0 times). The covenant tests use earlier accounting standards and exclude adjustments including IFRS 16, IFRS 15 and IFRS 9, or "frozen-GAAP".

Pension and funding

The valuation of the Group's UK defined benefit pension Scheme (the "Scheme") under IAS 19 at 27 March 2020 is a net surplus of £64.8m (30 March 2019: £76.8m deficit). The move into surplus since 30 March 2019 is due to pension funding contributions, an increase in the value of the Scheme's assets, due to overall investment returns across the portfolio, a reduction in Scheme liabilities, due to a reduction in inflation rate assumptions, a past service credit of £8.7m, relating to a change in revaluation rates for certain deferred scheme members (reported within exceptional items) and the impact of an experience gain due to an update in actuarial assumptions.

Management has considered whether in accordance with IFRIC 14, it is appropriate to record the full net surplus on the balance sheet. Their conclusion is that as the Group has an unconditional right to any surplus this is appropriate. As Funding contributions into the scheme in the period were £21.3m.

The charge to operating profit in respect of the administration cost of the Scheme in the period was £2.2m (FY 2018/19: £2.7m).

In addition, under IAS 19 there was a finance charge of £1.6m arising from the difference between the interest cost on liabilities and the interest income on scheme assets (FY 2018/19: £2.1m).

On 31 May 2020, the Trustee and the Company agreed the terms for a schedule of contributions and a recovery plan, setting out a programme for clearing the UK Pension Scheme deficit (the "Recovery Plan"). The latest actuarial valuation of the UK Pension Scheme as at 31 December 2019, which was based on intentionally prudent assumptions, revealed a funding shortfall (technical provisions minus the value of the assets) of £142.6m. The Recovery Plan makes an allowance for post-valuation market conditions up to 30 April 2020 (at which point there is an estimated funding shortfall of £190m), including the impact of COVID-19 on financial markets to that date.

The £190m deficit is addressed by Recovery Plan payments (payable quarterly in arrears) of £15m per annum from 1 April 2020 until 31 March 2023 and then payments of £24.5m per annum from 1 April 2023 until 31 March 2029. This replaces the recovery plan agreed with the trustee in 2016 ("2015 Recovery Plan") where payments would have been £22.2 million between 1 April 2020 and 31 March 2021, £23.1 million between 1 April 2021 and 31 March 2022 and £23 million per annum thereafter until 31 March 2028.

Additional contingent contributions in exceptional circumstances will become payable under the Recovery Plan by way of an acceleration of the contributions due in later years where: (i) the leverage ratio (consolidated net debt: EBITDA) is equal to or greater than 2.5x in either FY 2021/22 or FY 2022/23, up to a maximum of £4m in each financial year and £8m in total and/or (ii) the Company or any its subsidiaries take any action which will cause material detriment (defined in section 38 Pensions Act 2004) to the UK Pension Scheme, of £23.3m (£7.2m in FY 2020/21, £8.1m in FY 2021/22 and £8m in FY 2022/23) over the period up to 31 March 2023. In addition, the Company will pay contributions of £1.25m pa to the UK Pension Scheme to meet its expenses and will pay on behalf of the UK Pension Scheme both the PPF's scheme-based levy and risk-based levy up to 31 March 2029.

This agreement with the Trustee of the UK Pension Scheme is conditional on an amount in full settlement of the Capital Raising in the gross amount of at least £100m having been received by the Company by no later than 31 July 2020. If these criteria were not to be met then the Group's current obligations in respect of the UK Pension Scheme under the 2015 Recovery Plan would (subject to the outcome of a valuation as at 5 April 2018 which would then need to be completed) continue unaffected

Capital structure

At 27 March 2020 the Group had net assets of £93.2m (30 March 2019: net liabilities £29.2m). The improvement was primarily caused by the IAS 19 valuation of the UK pension moving from a deficit of £76.8m at 30 March 2019 to a surplus of £64.8m at 27 March 2019.

The Company had shareholders' funds of £140.8m (31 March 2018: £190.8m) and had 104m fully paid ordinary shares in issue (30 March 2019: 103.8m) at the year end.

Notes:

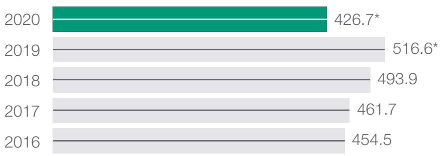
* This is a non-IFRS measure. See further explanations and reconciliation to the comparable IFRS measure on page 165.

1 Working capital movements exclude in FY 2019/20 amounts relating to International Identity Solutions disposal in order to show true cashflows for the period.

Financial review continued

Financial KPIs

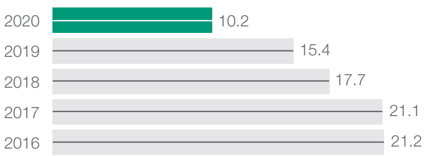
Adjusted revenue



£426.7m*

Adjusted revenue decreased by 17.4% year on year. This reduction was driven by lower sales across Currency product lines and also reflected the impact of the sale of the International Identity solutions business.

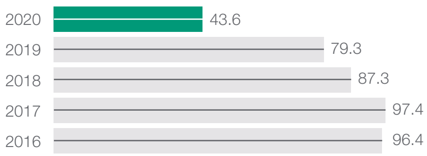
Adjusted EBITDA margin



10.2%

Adjusted EBITDA margin decreased from 15.4% in 2019 to 10.2% in 2020 due to a decrease in Currency volumes and margin combined with negative manufacturing variances due to lower than planned production volumes.

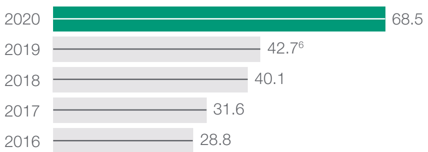
Adjusted EBITDA



£43.6m

Adjusted EBITDA is down by 45% reflecting mainly the impact of lower currency volumes and price combined with negative manufacturing variances due to lower than planned production volumes.

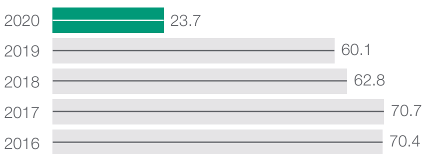
Authentication revenue



£68.5m

Revenues increased by 60.4% year on year. This strong growth is driven by growth in volumes for our GRS contracts and ongoing sales to new customers.

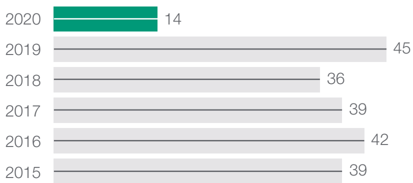
Adjusted operating profit



£23.7m

Adjusted operating profit was down by 60.6% from £60.1m in 2019 to £23.7m in 2020 driven mainly be a decline in Currency volumes and margin combined with negative manufacturing variances due to lower than planned production volumes.

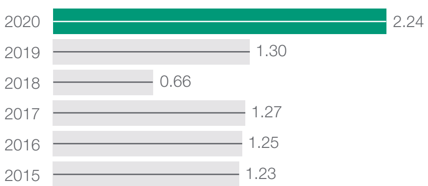
Return on capital employed



14%

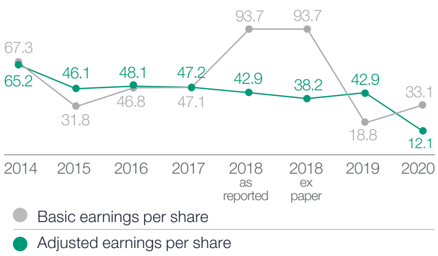
The year on year decrease was primarily driven by a higher average capital employed through the period than the prior year and the lower EBIT achieved in FY 2020.

Net debt/EBITDA covenant ratio



Adjusted net debt/EBITDA increased to 2.24 from 1.3 in 2019. This is mainly due to the decrease in EBITDA in 2020 as Net debt reduced by £67.9m since H1 2019/20, reflecting the sale of International Identity Solutions and an improved operating cash flow compared to prior year.

Basic earnings per share



Notes:

* Excluding "pass through" revenue of £33.5m in Currency and £6.6m in IDS.

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

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

3 Adjusted basic earnings per share are the earnings attributable to equity shareholders excluding exceptional items and amortisation of acquired intangible assets, 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 (calculation is on page 167).

5 Cash conversion has not been included in KPIs as in FY 2019/20 it has not been included as a key measure of performance and in the setting of Directors' remuneration.

6 Prior period authentication revenues have been restated. See note 1 for further details.

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 61. 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 60 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 30 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 several 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

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

Risk and risk management continued

Principal risk and uncertainties ranked by net possible impact

Key for strategic focus

1 Cost reduction 2 Currency market leadership 3 Continued strong growth in Authentication

Key for risk outlook

Increasing Decreasing No change

Exposure	Impact	Mitigation	Impact	Outlook
Quality management and delivery failure				
Each of our contracts has a unique specification on product quality and delivery. Given the nature of the Group's business and the fact that each product the Group makes and each service the Group provides is bespoke at some level, the majority of these contracts demand a high degree of technical specification.	A shortfall in quality management could have a material adverse impact on the Group's relationship with key customers, harm the Group's reputation, and may lead to a material increase in costs for the Group as a result of it having to pay damages in respect of the late delivery, rectification and/or the complete remake of relevant products and/or the termination of key contracts. This could have a material adverse effect on the Group's business, operations and financial condition and/or prospects.	We operate an enhanced 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 manufacturing sites are certified to ISO9001 quality management standards.	2 3	No change
Reliance on a small number of large orders				
The Group's financial performance in any particular financial period is heavily reliant on a relatively small number of large orders and the timing of the completion of production of such orders.	The revenue and profit of the Group's business in any particular financial period is often driven by a relatively small number of large orders. The precise timing of the completion of production of, and therefore the timing of the recognition of the revenue and margin earned from, such orders is difficult to predict with certainty. In addition, the timing of the execution of contracts for forecast future orders is also difficult to predict. Although the Group seeks to limit the impact of such issues on its financial performance, the Group believes that its financial performance in particular financial periods will continue to be affected in the future by these issues.	The Group seeks to limit the impact of such issues on its financial performance and has recently adopted a redesigned budgeting process which, by stipulating that: (i) all budget revenue must relate to an identified pipeline of opportunities from designated customers; and (ii) costs must be forecast in granular detail on the basis of specified cost saving plans, is expected to mitigate the risk of variances between budgeted and actual financial performance occurring.	1 2 3	No change

Exposure	Impact	Mitigation	Impact	Outlook
Failure of a key supplier[1]				
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[2], 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. This could result in the payment of damages and/or forfeiting performance bonds or loss of contracts and result in material reputational damage.	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.	2 3	↔
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). On 23 July 2019, the Company announced that the SFO had opened an investigation into the Group and its associated persons in relation to suspected corruption in the conduct of business in South Sudan. As announced by the Company on 16 June 2020, the SFO subsequently informed the Company of its decision to discontinue such investigation For further details see Note 29 on page 155.	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 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. Our whistleblowing policy and associated procedures are integral aspects of the compliance framework, which is complemented by a whistleblowing hotline.	2 3	↔
Failure to implement the Turnaround Plan and run the business				
Our business has seen a considerable level of organisational change and it is a possibility that business leaders may be unable to sustainably manage the level of change required to simultaneously Transform and Fix the business (enact the Turnaround Plan) while ensuring that day to day business goals are achieved.	As a result, key processes may break down and projects may fail to meet milestones, resulting in operational disruption, financial loss and serious consequences for the business.	The business has developed a strong leadership commitment and an aligned Executive Leadership Team. We will execute the Turnaround Plan to: 1. Provide clear objectives classified into Run, Fix and Transform. 2. Cascade clear and concise objectives via business units and support functions, to provide line of sight to strategy and link business as usual with longer term goals. 3. Provide a robust prioritisation process with regular reviews of programmes and projects. Our aim is to provide clear process improvement programmes across a number of areas of the business.	1 2 3	↔

Notes:
1 The additional impact to the failure of key supplier risk is also articulated within the Q4 emerging risk – COVID-19 on page 29.
2 The Group continues to retain an indirect interest of 10% in Portals De La Rue Limited.

Risk and risk management continued

Key for strategic focus

1 Cost reduction 2 Currency market leadership 3 Continued strong growth in Authentication

Key for risk outlook

↑ Increasing ↓ Decreasing ↔ No change

Exposure	Impact	Mitigation	Impact	Outlook
Loss of a key site or process[1]				
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 Business Continuity standard. This is supported by site-based business continuity coordinators who ensure that all other sites are aligned to ISO22301 and work effectively to the spirit of the standard. 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 meetings.	1 2 3	↔
Banking				
If the Capital Raising does not proceed and the net proceeds of the Capital Raising are not received by the Company, executing the Turnaround Plan is expected, under the Group's existing and un-amended revolving credit facility agreement, to result in the Group breaching the Consolidated Net Debt to EBITDA ratio covenant, as the Consolidated Net Debt to EBITDA ratio is expected to exceed the three times multiple threshold for the testing period ending on 30 September 2020 and subsequent testing periods.	The directors do not believe the Turnaround Plan could continue to be executed without the agreement of the lenders to waive the financial covenants under the Group's existing revolving credit facility.	In order to facilitate the Capital Raising and provide existing Shareholders and new investors with sufficient certainty around the continued availability, and terms, of the Group's financing to successfully implement the Turnaround Plan and support the future growth of the business, the Group has entered into negotiations and agreed terms with the lenders in order to secure (among other things) an extension to the maturity date of the Group's existing revolving credit facility to 1 December 2023. In exchange for agreeing to these key changes, the lenders required that the Company agree to the inclusion of a provision in the revolving credit facility agreement amendment which, if the proceeds of an equity capital raise in the gross amount of at least £100 million have not been received by the Company on or before 31 July 2020, requires the Company to agree an alternative financing plan with the lenders as soon as reasonably practicable and in any event within 45 days of 31 July 2020. If an alternative financing plan has not been agreed by this time, this shall constitute an immediate event of default under the existing revolving credit facility.	2 3	↑
Failure to convert modernisation into value				
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. 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 3	↔

Note:

1 The additional potential impact to the loss of key site or process risk(s) is also articulated within the Q4 emerging risk – COVID-19 on page 29.

Exposure	Impact	Mitigation	Impact	Outlook
Loss of 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.	The loss of material 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 and retain them. 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.	2 3	↔
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 certified 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 is compliant with built in security. 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.	2 3	↔
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. All manufacturing sites are now vertically aligned to ISO14298 and INTERGRAF certification. All the finished product manufacturing sites certified to Central Bank level, as testament of our commitment to product security. 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.	2 3	↔

Risk and risk management continued

Key for strategic focus

1 Cost reduction 2 Currency market leadership 3 Continued strong growth in Authentication

Key for risk outlook

↑ Increasing ↓ Decreasing ↔ No change

Exposure	Impact	Mitigation	Impact	Outlook
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.	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 Sanctions Board and external auditing of the programme, such as BnEI. 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.	2 3	↔
Pension fund liability				
The latest actuarial valuation of the Group's UK defined benefit scheme ("UK Pension Scheme") as at 31 December 2019, which was based on intentionally prudent assumptions, revealed a funding shortfall (technical provisions minus the value of the assets) of £142.6m. On 31 May 2020, the trustee and the Company agreed the terms for a schedule of contributions and a recovery plan, setting out a programme for clearing the UK Pension Scheme deficit (the "Recovery Plan"). The Recovery Plan makes an allowance for post-valuation market conditions up to 30 April 2020 (at which point there is an estimated funding shortfall of £190 million), including the impact of COVID-19 on financial markets to that date. The funding level of the UK Pension Scheme from time to time is dependent on the market value of the assets of the UK Pension Scheme and on the value placed on its liabilities. A variety of factors, including factors outside the Group's control, may adversely affect the value of the UK Pension Scheme's assets or liabilities, including interest rates, inflation rates, investment performance (including any further impact on performance due to the COVID-19 pandemic), exchange rates, life expectancy assumptions, actuarial data adjustments and regulatory changes.	The Group may in the future be required to increase its level of contribution to the UK Pension Scheme if the assets or liabilities of the UK Pension Scheme are adversely effected. If certain statutory requirements are met, the UK Pensions Regulator has the power to issue contribution notices or financial support directions to the Group and/or any associated company. Any requirement to contribute additional funds into the UK Pension Scheme could threaten the Group's future capital expenditure and its ability to continue or increase dividend payments and could in turn have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.	The £190m funding deficit is addressed by payments of £15m per annum (payable quarterly in arrears) under the Recovery Plan payable from 1 April 2020 until 31 March 2023 and then payments of £24.5m per annum (payable quarterly in arrears) from 1 April 2023 until 31 March 2029. Additional contingent contributions in exceptional circumstances will become payable by way of an acceleration of the contributions due in later years where: (i) the leverage ratio (consolidated net debt: EBITDA) is equal to or greater than 2.5x in either FY 2021/22 or FY 2022/23, up to a maximum of £4m in each financial year and £8m in total and/or (ii) the Company or any its subsidiaries take any action which will cause material detriment (defined in section 38 Pensions Act 2004) to the UK Pension Scheme, of £23.3m (£7.2m in FY 2020/21, £8.1m in FY 2021/22 and £8m in FY 2022/23) over the period up to 31 March 2023. The funding of the Recovery Plan is to be sourced from cash generation of the future business activities, but the trustee has contractually agreed not to request any portion of the Capital Raising proceeds. The agreement with the trustee of the UK Pension Scheme as described above is conditional on an amount in full settlement of the Capital Raising in the gross amount of at least £100m having been received by the Company by no later than 31 July 2020. Provided that these criteria are achieved, the Group's contributions to the UK Pension Scheme will not change until the next triennial valuation of the UK Pension Scheme as at 31 December 2022 (to be completed by 31 March 2024).	1	↔

Exposure	Impact	Mitigation	Impact	Outlook
Failure in health, safety and environment controls				
All 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 ISO 45001 and ISO 14001 standards. All our activities are subject to extensive internal HSE procedures, processes and controls. The Group HSE Committee regularly reviews HSE performance. This is also monitored at Group level 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.	2 3	↔
Q4 emerging risk – COVID-19[1]				
The COVID-19 pandemic could have a material adverse effect on the Group's supply chain, distribution network, manufacturing operations and/or weakening customer demand.	If the COVID-19 pandemic continues and results in a prolonged period of onerous restrictions, there is potential impact to the global supply and distribution infrastructure of the business. If current measures fail to adequately mitigate the impact of the COVID-19 pandemic in the countries in which the Group has a manufacturing presence, there is also a risk that one or more of the Group's manufacturing sites may be forced to partially or fully cease operations for a prolonged period as a result of the introduction of more stringent restrictions by the relevant authorities and/or the absence of a significant number of employees for COVID-19 related reasons.	As part of De La Rue's response to COVID-19, the business has invoked a long-standing Pandemic Incident Management Plan throughout the Group, and all sites are working towards the following four key objectives: 1. Ensuring the safety of our employees and their families. 2. Playing our part in restricting the spread of the virus. 3. Continuing to run the business, serving our customers worldwide with the timely provision of high quality products and services. 4. Ensuring that De La Rue emerges resilient to the impact of the pandemic. Our manufacturing sites are spread across several sites in the UK, Malta, Kenya, North America and Sri Lanka which allows us the ability to reprioritise and potentially relocate production in the event of a business continuity incident.	1 2 3	↔

Note:

1 The Company continues to assess the potential for disruption caused by the COVID-19 pandemic and has put in place plans and measures in order to enable the business to maintain normal operations, to the extent possible, against the backdrop of an evolving situation. The situation could change at any time and there can be no assurance that COVID-19 outbreak will not have a material adverse impact on the future operations of the Group.

Risk and risk management continued

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.

The Group announced a Turnaround Plan in February 2020 extending to the end of FY 2023. Notwithstanding the material uncertainty in an unfunded scenario as outlined in the Going Concern statement on pages 107 to 109, the Directors have a reasonable expectation the capital raise will proceed and therefore believe that an appropriate period to consider the Group's viability is three years, in line with the period covered by the Turnaround Plan. This is also consistent with the Group's banking arrangements which are (subject to the capital raise and the amendment taking effect as explained in detail in the Going Concern section of this report) in place until at least December 2023.

In assessing the viability of the Group, the Directors have reviewed the principal risks and uncertainties as set out in pages 24 to 29 in the Strategic Report and considered plausible scenarios of one or more of the risks crystallising in the same period in the context of the Turnaround Plan. The Directors have also considered key assumptions on the impact of COVID-19 on the business in this period and further plausible downside scenarios that could occur relating to this.

Consideration was given to the longer-term prospects and growth for the Group in line with the Turnaround Plan. The key elements of the Plan include cost reduction, currency market leadership and continued strong growth in authentication as explained in further detail on pages 12 to 13 of the Strategic Report.

The Directors have reviewed a detailed report which sets out the rationale and basis for the base case forecast in this three-year period as well as a 'reasonable worst case' forecast in the same period. The main considerations in the reasonable worst-case forecasts include:

- The investments in Polymer and security features not delivering the forecast returns;
- Banknote volumes being weaker in FY 2022 and FY 2023 as a result of reduced demand
- Weaker growth in Authentication due to fewer new contracts won
- Limited growth on existing contracts; and
- Reductions to the cost base not being achieved.
- The COVID-19 assumptions in a reasonable worst-case scenario are set out in detail in the Going Concern statement on pages 107 to 109.

Based on the review of these scenarios over the three-year timeframe and taking into account the Group's banking arrangements and the related covenant and liquidity headroom under the amended facility, the Directors are comfortable, subject to the successful capital raise, that the Group is able to operate within its available banking facilities and therefore have a reasonable expectation that the Group is viable and able to meet its obligations as they fall due up to March 2023.

Section 172

> "When making decisions, the Board acts in accordance with its legal duties but it also has regard to the interests of its stakeholders and wider community."

The Companies (Miscellaneous Reporting) Regulations 2018 require directors to explain how they have had regard to various matters in performing their duty to promote the success of the company under s.172A of the Companies Act 2006 (the "Act").

Under s.172A, a director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the following key factors:

a. The likely consequences of any decision in the long term;

b. The interests of the company's employees;

c. The need to foster the company's business relationships with suppliers, customers and others;

d. The impact of the company's operations on the community and the environment;

e. The desirability of the company maintaining a reputation for high standards of business conduct; and

f. The need to act fairly as between members of the company.

The table opposite identifies where in this report the Board has considered relevant for disclosure in complying with s.172 of the Act.

a.

The likely consequences of any decision in the long term

Strategic report	Page
Chairman's statement	1-3
CEO review	10
– Turnaround	10
– Moving forward	11
Our markets	14-15
Risk management	23-29
Viability statement page	30

b.

The interests of the company's employees

Strategic report	Page
Responsible business	
– Human rights	35-36
– Labour rights	38-39

Governance report	
Leadership	44
Workforce engagement	52

c.

The need to foster the company's business relationships with suppliers, customers and others

Strategic report	Page
Business model	
– Customer relationships	7
– Key partners and suppliers	7
Principal risks	24-29

Governance report	
Relations with shareholders	52

d.

The impact of the company's operations on the community and the environment

Strategic report	Page
Responsible business	
– Introduction	32
– Environment	33
– Case study	35
– Community	37
– Case study	38

Governance report	
Group Health, Safety and Environment Committee	49

e.

The desirability of the company maintaining a reputation for high standards of business conduct

Strategic report	Page
Anti-corruption	40

Governance report	
Chairman's introduction	42
Whistleblowing	52
Ethics Committee report	62-64
Code of Business Principles	64

f.

The need to act fairly between members of the company

Governance report	Page
Relations with shareholders	52

Responsible business

“We are committed to running our business sustainably.”

Enabling everyone to participate securely in the global economy remains the focus of our business as we continue to support economies and financial systems across the world.

Clear policies on the environment, human rights, labour rights and ethical issues including anti-corruption within our business and its supply chain are integral to this purpose and ensure that we continue to run our business sustainably.

De La Rue is a signatory to the UN Global Compact, and I am pleased to confirm our ongoing commitment to the initiative and its principles.

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

Clive Vacher
Chief Executive Officer

Environment

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.

For more information **see pages 33 and 34**

Human rights and social matters

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.

For more information **see pages 35 to 38**

Labour rights

We are committed to preventing slavery and human trafficking in our operations and in our supply chain. 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.

For more information **see pages 38 and 39**

Anti-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.

For more information **see page 40**

Environment

We are committed to minimising, as far as is appropriate, the impact of our operations on the environment while ensuring the sustainability of the products we offer and the future of our manufacturing sites. We set clear environmental goals and report against them each year. We share our commitment and standards with our suppliers and partners.

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 have this year achieved a score of B-, a year on year improvement. We work with our customers to reduce environmental impacts and, in addition to the case study on Samoa on page 35, 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 aim to provide our customers with the opportunity to recycle our Safeguard polymer notes as an alternative to landfill or incineration. We work with our customers to reduce environmental impacts together.

To reduce the impact of our activities on the environment, during the year we offset travel and accommodation costs for our delegates and exhibitors at several events in which we participated. Carbon offsetting projects we have supported this year, working with Carbon Footprint Ltd, included a tree planting project in the Great Rift Valley, Kenya.

Delivering against objectives

Senior management regularly review our environmental management results. Progress against 2019/20 environmental objectives is detailed below:

Objective	Progress
An absolute energy reduction target of -2.1% per year until 2021 (set on a science based trajectory).	Over the year we reduced our energy consumption by 12%.
To track our sustainability KPI at operational sites of energy used (kWh) per tonne of good output against a target of -5% per annum.	Across the sites we achieved our targets on our Sustainability KPI with good improvements at Kenya, Sri Lanka, Malta and Westhoughton sites. Gateshead was affected by the closure of one production line during the year coupled with a site base load and Debden with its relatively new machinery was level for most of the year.
To improve our waste segregation and recycling/reuse options for our polymer waste streams.	Our polymer printing waste from the Debden site is securely granulated on site and sent for mono-material recycling and reprocessing into new BOPP pellets used for new processes. Our polymer substrate manufacturing waste from the Westhoughton site is securely granulated on site and sent for blended material recycling and reprocessing into new plastic materials used for new processes. We are reviewing our mixed waste processes at Gateshead to see if we can segregate polymer-based waste for recycling.
To roll out further education on environmental awareness to >80% of operational employees across the Group.	New Environmental Awareness training materials have been uploaded to our online employee training platform for use during 2020 across the manufacturing sites.

Our environmental goals/objectives for 2020/21 are:

- To continue driving energy reduction to achieve -2.1% per year until 2021 (set on a science-based trajectory) when we will review across the business
- To roll out the new environmental awareness training to >80% of operational employees across the Group
- To widen our application of sustainability principles across key areas of our supply chain and developments
- To ensure that all capital expenditures and product/process developments have a level of environmental impact analysis to consider the best decisions and options to be made

Energy efficiency measures

In the period covered by the report, De La Rue has implemented and tracked various energy saving activities across the business. An overview of the key energy efficiency measures undertaken by De La Rue are noted below:

- At our Gateshead site in late 2018 significant energy efficiency works occurred with the replacement of chillers, compressed air system and upgrading the Building Management System (BMS) control systems. This is the first full year of the site utilising the new systems, which has resulted in a 2,800,000 kWh (23%) reduction in electricity consumption.
- A significant number of energy measures are being undertaken across the site in Malta. These measures include installing a new chilled water network, installing a centralised compressed air system and replacing the old chiller system. Combined, these measures are anticipated to save in the region of 2.5 million kWh per annum.
- Sub-metering has been rolled out across our Debden site, which will monitor energy usage on large process equipment. This will enable the site team to better understand how the site can operate more efficiently and support the identification of future energy efficiency measures.

Responsible business continued

Greenhouse gas emissions year on year comparison for FY 2019/20

		2019/20				2018/19					
		UK		Global*		UK		Global*		UK	Global*
Type of emissions	Activity	tCO_2e	% of total	tCO_2e	% of total	tCO_2e	% of total	tCO_2e	% of total	% Difference in emissions	
Direct (Scope 1)	Natural gas	**2,618**	**20.1%**	**75**	**0.5%**	2,491	13.0%	67	0.4%	5%	11%
	Other fuels	**6**	**0.0%**	**452**	**3.1%**	5	0.0%	385	2.3%	23%	17%
	Process emissions	**1,496**	**11.5%**	**–**	**0.0%**	1,496	7.8%	–	0.0%	0%	n/a
	Fugitive emissions	**95**	**0.7%**	**228**	**1.5%**	0	0.0%	–	0.0%	n/a	n/a
	Owned vehicles	**46**	**0.4%**	**88**	**0.6%**	21	0.1%	82	0.5%	118%	7%
	Subtotal	**4,262**	**32.7%**	**842**	**5.7%**	4,013	21.0%	534	3.2%	6%	58%
Indirect (Scope 2)	Electricity	**5,304**	**40.7%**	**10,244**	**69.4%**	8,006	41.9%	12,048	72.0%	(34%)	(15%)
	Subtotal	**5,304**	**40.7%**	**10,244**	**69.4%**	8,006	41.9%	12,048	72.0%	(34%)	(15%)
Total Scope 1 and 2	**Subtotal**	**9,566**	**73.4%**	**11,087**	**75.1%**	12,019	62.9%	12,582	75.2%	(20%)	(12%)
Indirect other (Scope 3)	Rail travel	**5.4**	**0.0%**	**–**	**0.0%**	4.5	0.0%	0.3	0.0%	21%	(100%)
	Air travel	**1,606**	**12.3%**	**329**	**2.2%**	4,463	23.4%	589.3	3.5%	(64%)	(44%)
	Non-owned vehicles	**28**	**0.2%**	**–**	**0.0%**	93	0.5%	–	0.0%	(69%)	n/a
	Business travel	**1,640**	**12.6%**	**329**	**2.2%**	4,560	23.4%	590	3.5%	(64%)	(44%)
	Water	**37**	**0.3%**	**52**	**0.4%**	53	0.3%	41	0.2%	(30%)	29%
	WTT all scopes	**1,790**	**13.7%**	**3,303**	**22.4%**	2,466	12.9%	3,519	21.0%	(27%)	(6%)
	Subtotal	**3,467**	**26.6%**	**3,685**	**24.9%**	7,079	37.1%	4,150	24.8%	(51%)	(11%)
Total gross emissions (tCO_2e)		**13,033**		**14,772**		**19,098**		**16,731**		(32%)	(12%)
Total gross emissions (tCO_2e) UK and Global		**27,804**				**35,830**				**(22%)**	
Energy consumption used to calculate Scope 1 and 2 emissions/kWh		**35,208,116**		**25,613,721**							

Note:
* Global represents all sites outside of the UK.

Intensity metric

	2019/20		2018/19		% Difference	
	UK	Global*	UK	Global*	UK	Global*
Total gross emissions (tCO_2e)	**13,033**	**14,772**	19,098	16,731	(32%)	(12%)
Revenue (£m)	**109.8**	**316.9**	101.1	415.5	9%	(24%)
Intensity ratio: Tonnes of gross CO_2e per million GB £ turnover	**118.70**	**46.61**	188.90	40.27	(37%)	16%
Intensity ratio UK and Global: Tonnes of gross CO_2e per million GB £ turnover	**65.2**		69.4		(6%)	

Note:
* Global represents all sites outside of the UK.

Methodology

As a large, quoted company, De La Rue is required to report its energy use and carbon emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

The data detailed in this table represent emissions and energy use for which De La Rue is responsible, including electricity, gas use, process and fugitive emissions in our offices. We have used the main requirements of the Greenhouse Gas Protocol Corporate Standard to calculate our emissions, along with the UK Government GHG Conversion Factors for Company Reporting 2019.

First carbon neutral banknotes

In June 2019, the Central Bank of Samoa unveiled the first known carbon neutral polymer banknote to celebrate the XVI Pacific Games, leading the industry and helping to combat global climate change. The 10 Tala note was designed by De La Rue and printed on our Safeguard® polymer substrate.

The Central Bank of Samoa and De La Rue are both extremely proud to have been able to work with Carbon Footprint Ltd to make this banknote Carbon Neutral by offsetting the emissions from production used through funding an equivalent carbon dioxide saving elsewhere. For this banknote, the carbon impact of both the materials and manufacturing process have been calculated and offset by supporting a power generation project in Indonesia.

Human rights and social matters

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 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.

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.

We recognise the positive impact that a diverse and inclusive workforce has on the success of the business and therefore actively seek to recruit people with diverse backgrounds, experience and ways of thinking and working.

We can see that the initiatives and policies we have put in place are effective through an increase in the score in our engagement survey in response to the statement 'De La Rue recognises and respects the value of human differences' (71% in 2017 to 81% in 2019).

Our commitment to achieving an inclusive workforce can be demonstrated by the following initiatives and activities:

- We celebrate diversity and our Women's Networks are well established in many sites with events such as lunchtime discussion groups led by employees.
- In March 2020 events were held at some of our sites to celebrate International Women's Day. The theme this year was 'Each for Equal' and provided an opportunity to raise the profile of gender and wider diversity issues across the Group.
- At our head office we have hosted our local MP who holds regular Inspiring Women events in the local community.
- Some sites showed support for women in their local communities by collecting essential items such as toiletries and food for women's refuges.
- Every manager and employee has responsibility for the implementation of our inclusivity and associated policies and procedures such as stress management, grievance and fairness and respect.
- Flexible working policies are in place and every application is carefully considered.

Our long term commitment to eliminate any gender pay gap remains. As at 5 April 2019 our gender pay gap was 14.10% (mean) or 15.78% (median) and the bonus gap was 52.62% (mean) or 12.44% (median).

Analysis has shown us that changes since the pay gaps were first reported in 2017 are due primarily to a number of significant organisational changes during this period that have impacted the figures making it premature to draw any conclusions on trends.

We are confident that we do not have issues of equal pay and remain committed to increasing the number of women in senior roles which we believe to be the underlying reason behind the gap.

Responsible business continued

Gender diversity as at 28 March 2020

Employees

Male	1,684
Female	748

Senior Management

Male	17
Female	9

Executive Management

Male	4
Female	3

The male to female ratio for Senior Leaders at the end of the financial year was 65:35 and we are pleased that we have achieved alignment with the overall UK workforce ratio of 69:31 and our aim of increasing the proportion of women within our senior leadership to 30% by 2020. Our focus is maintained on improving the diversity of our shortlists through our talent and succession planning processes and work with our recruitment partners.

Engagement

We engage with our employees on a regular basis in a variety of ways on matters of concern to them, including matters relating to the performance of the Company to ensure that communications are accessible by everyone wherever they are based. Methods include regular calls hosted by the Chief Executive Officer, Newsflashes circulated via email and printed and displayed at sites, a companywide intranet and engagement with employee forums.

Feedback is always welcome and we have a network of communications champions across our sites who regularly talk to colleagues to share information and gather ideas and feedback related to how we communicate.

Our 2019 engagement survey gave us valuable insight into our employees' perspective on where they work. Generating feedback is a real opportunity for us to build a deeper understanding of what matters to our employees, and how we can improve our business. With an 84% response rate, we used the feedback to kick off further discussions which enabled us to build tailored action plans at team level.

Since the establishment of our Currency and Authentication divisions employees receive regular updates about the area in which they work through regular calls where questions are welcome and answered openly.

Employee recognition remains a key component of our engagement strategy and we use a global recognition platform to enable employees and managers to send thanks and recognise celebrations such as work anniversaries and birthdays. 2019 saw our fourth annual Above and Beyond event take place, celebrating outstanding achievements by our employees. This is in addition to local site recognition events.

Our Sri Lanka site held their Family Day 2019 for 640 colleagues and their family members at Jetwing Lagoon in Negombo.

In 2019 we held our third annual global art exhibition celebrating the talent of our people through a variety of mediums from photography, painting and crafts. The art is displayed in head office then shared virtually in our sites.

To enable people to collaborate more easily wherever they are based we have rolled out Office 365 and Microsoft Teams and this is becoming well embedded as a way of communicating and working together.

Wherever possible we recognise significant days across our sites – in 2019 this included World Environment Day, World Mental Health Day and International Women's Day.

In line with the 2018 Corporate Governance Code, the Board has appointed a Non-executive Director responsible for engagement with the workforce, Maria da Cunha. Maria is required to support the Board's objective of gathering the views of the workforce at all levels throughout the organisation to inform its decision making.

We recognise that different sections of the workforce will have different interests and priorities and a combination of engagement methods are necessary to gain a thorough insight into the culture and concerns at different levels within the organisation.

During the year, Maria has worked with our national employee forums, meeting with both the UK Forum and European Employee Forum (EEF) to agree how best to ensure meaningful engagement.

We conducted a visit to our Debden site which included a walkaround with trade union site representatives and a visit to another UK site is planned for the coming financial year.

In February 2020 Maria met with the UK Forum representatives to brief them specifically on the remuneration policy changes proposed.

It is expected that we will continue to utilise established communications channels on an ongoing basis to engage with our employees and seek their views including:

- Ongoing attendance at the UK Employee Forum and EEF which are bodies made up of elected representative from each site and which meet with senior management twice each year
- In 2020/21 we propose to extend our current forums to a wider workforce engagement team, representing all sites, in which key information will be shared and discussed. Maria will be an invited participant
- Board site visits, which will be used to engage directly with the global workforce
- Additional methods of engagement will be used in line with planned improvements to employee communications including:
  - Listening groups for frontline workers and supervisors and/or focus/consultative groups on specific topics or subject matter
  - Meeting future/emerging leaders

We recognise that engagement methods are likely to evolve over time as we establish what is most effective and we will continue to monitor to ensure productive and effective dialogue is maintained.

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.

Training and development

There has been significant shift, changes and challenges in the business this financial year which have had an impact on delivering learning and development initiatives. With a reorganisation and challenging financial position and now combating COVID-19, face to face training initiatives have been withdrawn.

This has given us the opportunity to look at further utilising our Learning Management System and we have continued to build content in a number of areas to encourage employees' learning and curiosity. We have added new content on a wide variety of subjects every month, including building resilience, managing change, Code of Business Principles, diversity and inclusion, high performing teams and innovation and effective communication. Our plans for the 2020/21 financial year include a complete course on management fundamentals, leadership and team effectiveness. We will continue to build both bite-sized learning and curriculum to support the Company and individual objectives.

We lost many apprentices through the reorganisation and leavers. The decision was taken to put on hold all new apprenticeship schemes until we are in a position to ensure that further business changes will not impact the ability to complete apprenticeships at De La Rue.

Community

We continue to support charities in the communities where we operate.

Our sites organise their own activities to support local charities. Activities during the year have included seed and tree planting, collections of clothing, food and essential items for those most in need, bake sales and quizzes to name but a few. These activities are encouraged by the business and provide an opportunity for employees to engage with each other in a less formal way and spend time with colleagues from different teams and departments. De La Rue also supports employees who wish to give up their time to support worthy causes during work time.

During Easter week our Malta site ran a number of activities to support local charities, including the donation of Easter eggs and toys to orphanages and a local hospital.

Responsible business continued

Tree planting in Kenya

Pupils and De La Rue staff joined forces to plant 350 trees

To mark World Environment Day in June 2019 our Kenya site supported a tree planting activity at Drive Inn Primary school. Staff from different departments participated and 350 trees were planted.

World Environment Day has been celebrated every June since 1973 to raise global awareness about the importance of the healthy and green environment, solve environmental issues by implementing positive actions and increase awareness worldwide that everyone is responsible for saving the environment.

De La Rue has a Charitable Giving and Sponsorship Policy which is regularly reviewed and includes a robust governance policy to be followed before funding is approved. Giving is discretionary and the company targets the majority of its support towards charities and charitable activities within countries where it does business, and which fall demonstrably into specific categories including well-researched causes in under-developed countries, educational charities which promote relevant skills and international understanding, disaster funds and community or environmental organisations having activities directly related to the Company's geographical or commercial areas of operation.

An example of De La Rue's engagement with communities in areas where we do business is the scholarship programme in the Caribbean which was started in Jamaica in 2002 in collaboration with the Central Bank and the University of the West Indies.

Since its foundation, the programme has expanded across the region and The Association of De La Rue Scholars was launched in 2015 to promote the personal and academic fulfilment of each scholar and to help build future leaders—young men and women with a commitment to serving their community, their country and their region. There are currently 59 scholars and alumni members of the Association.

The De La Rue Charitable Trust is an independent body established by De La Rue. It provides financial support in the form of small donations to help address issues such as relief of suffering, educational support and development and self-sufficiency promotion. The Trust is accountable to the Governance Standards and Principles of The Charity Commission (UK's governing body for charities) and audited by an external auditor. The Charitable Trust Board of Trustees meets approximately three times a year to consider applications for donations and to agree how funds will be distributed.

Labour rights

We directly employ around 2,500 people and provide livelihoods to thousands more indirectly. We are committed to preventing slavery and human trafficking in our operations and in our supply chain and our modern slavery statement details the steps we take to eradicate the practice and how we comply with the Modern Slavery Act 2015. 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. We also work with our main suppliers and contractors to ensure that their health and safety processes are robust. During the year we have delivered over 1,600 person days training. Our safety policies ensure accountability and engagement throughout our business and with our suppliers.

Wellbeing

We recognise that the health of our employees includes both mental and physical wellbeing. We have a network of Mental Health First Aiders across our UK and Malta sites whose role is to provide additional support to employees and to understand and assist with any potential mental health issues. Appropriate support is also provided in other international sites. We have run a number of wellbeing events across our sites during the year, including free health checks, healthy eating workshops, cancer awareness talks, and smoking cessation sessions offering information and guidance to our employees. Health and wellbeing is recognised as being an integral part of our overall global SAFE initiative.

Health and safety

Progress against our 2019/20 objectives is detailed below:

Objective	Progress
To maintain our LTIFR per 200,000 worked hours of less than 0.25.	At the end of the year we achieved 0.37 LTIFR which fell short of our objective but is still 35% below the UK HSE All Industry average, a good achievement in changing and challenging circumstances.
To maintain our strong HSE training delivery performance of over 1,900 person days per year.	We exceeded the reduced and reset target of 1,680 HSE training days which reflected the reduction in our workforce during the year.
To achieve more than 94% conformance to our Zone 'SAFE' HSE inspection programmes.	We achieved over 95% and during the period relaunched this initiative as SAFE & SECURE covering some security aspects.
To ensure all operational line managers and process leaders are trained to IOSH Managing Safely, an equivalent, or higher qualification.	This objective was removed from the training plan part way into the year due to cost reductions and travel restrictions, but we have maintained our NEBOSH General Certificate coverage across all manufacturing sites at 100%.
To ensure our OHS management system meets all the requirements of the new international standard ISO45001:2018 (replacing OHSAH18001).	All of the sites have been successfully transitioned across to the new ISO45001:2018 International Standard during the year.

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 2020/21:

- To ensure all operational line managers and process leaders are trained to IOSH Managing Safely, an equivalent, or higher qualification (a carry forward objective)
- To achieve a reported Near Miss/My Safety Concern closure rate or >90% at all facilities
- To achieve ≥94% of conformance to our Zone 'SAFE & SECURE' HSSE inspection programmes
- To develop an online health and safety training platform for use by all employees and target these training modules as identified by the sites' Training Needs Analysis frameworks
- To maintain our strong HSE training delivery performance of over 1,500 person days per year with the lower employee headcount created by the ongoing business transformation programme

International Women's Day 2020

In recognition of 'International Women's Day 2020' Westhoughton held a 'Time to Shine' workshop to explore Life Coaching Skills and Personal Development Plans to shine a spotlight on women in the workplace and encourage them to share their ideas, aspirations and goals.

Responsible business continued

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. All employees are made aware of our zero tolerance stance through their acknowledgement of our Code of Business Principles, and online anti-bribery and corruption training is mandatory for those in relevant roles. The Ethics Committee of the Board has oversight of our anti-corruption policies and procedures (see pages 62 and 63).

Banknote Ethics Initiative

The Banknote Ethics Initiative (BnEI) is an initiative established to provide ethical business practice, with a focus on the prevention of corruption and on compliance with anti-trust law within the banknote industry. Members must adhere to a strict Code of Ethical Business Practice and all organisations that have signed the Code must become accredited after passing an audit carried out by a third party auditor.

The BnEI Audit Framework is a complete evaluation of policies and procedures a company has in place covering Leadership, Responsibility, Policies and Procedures (sales and marketing, including third party partner management and remuneration, human resources, finance, government and regulatory affairs), Due Diligence, Training, Compliance Declaration and Internal Monitoring.

De La Rue was one of the first companies to receive BnEI accreditation in 2014 after passing an audit carried out by GoodCorporation, which is recognised worldwide as one of the leading organisations working in the field of corporate responsibility and business ethics. De La Rue has passed all audits to date at Level 1, the highest level. Full audits are conducted every three years with annual affirmations of compliance and progress required between audits.

In addition to the Banknote Ethics Initiative (BnEI), De La Rue is a member of various industry bodies and associations, including Intergraf and the International Tax Stamp Association, which provide us with platforms to drive positive changes in our industries. We will continue to use our influence to promote the highest product and ethical standards and push for further transparency and accountability in our sectors.

UK HMRC:
Tax Stamps

Corporate Governance

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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 an innovative, responsive and high performing culture.

Our commitment to high ethical standards underpins our behaviours and is incorporated in our Code of Business Principles which all employees, business partners and other third party suppliers must follow.

The Board considers leadership, culture and good governance as essential factors in the Group’s ongoing transformation and in maintaining the trust of our customers, suppliers and employees. The restructuring of our business into two Divisions, Currency and Authentication, will aim to ensure the new organisation will have the management and cultural attributes to succeed, with the Divisional executive management teams playing an integral role in our governance framework by promoting positive behaviours.

As a Board, we closely monitor the Company’s corporate policies, practices and behaviour to ensure that they are aligned with our values and strategy. We have also reviewed the incentive schemes provided to our workforce in order to support behaviours consistent with the Company’s purpose, values and strategy. Further information on how we do this is set out on page 35 of the annual report.

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 revised 2018 edition of the Financial Reporting Council’s (FRC) UK Corporate Governance Code (2018 Code), both of which have applied to the Company since 31 March 2019. Both sets of reforms seek to raise the bar on existing corporate governance practices and encourage companies to demonstrate their broader responsibility within society, in fulfilment of the Government’s aim to build trust in business.

At their core, these reforms:

- Require boards to report on how they have taken wider stakeholders’ needs into account while performing their duties under s.172 of the Companies Act 2006 (s.172 statement)
- Introduce new requirements around employee consultation, pay practices, board culture, composition and diversity
- Encourage companies to report on how the 2018 Code principles have been applied each year

We have included a s.172 statement in the Strategic report on page 31. We have also described in the Strategic report and the Governance Report the Company’s purpose, values and culture, in line with the changes to the 2018 Code.

The Board has reviewed our existing practices against those outlined in the 2018 Code and implemented improvements to those current practices where deemed appropriate. One of those changes was appointing Maria da Cunha as our workforce engagement director to enable the Board to gather the views of the workforce at all levels throughout the organisation to inform its decision making. This is particularly important as De La Rue continues to navigate through challenges facing the industry and as it embeds its strategic Turnaround Plan. Further information on Maria’s work during the year in this area is set out on pages 36 and 37.

As previously, we undertook an annual review of our governance framework, examined my role and that of our Chief Executive Officer, Clive Vacher, and our Senior Independent Director, Sabri Challah, to ensure all our roles continued to remain relevant and compliant with the 2018 Code. We also included in that review the terms of reference of the Board and of each of its Committees and made appropriate amendments to ensure that such terms of reference continue to remain compliant with the 2018 Code.

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 Financial Reporting Council's (FRC) UK Corporate Governance Code 2018 (the Code). The Board considers that it and the Company have, throughout the period to 28 March 2020, 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.

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. The business has experienced unprecedented management change in the past year, with the Chairman, Chief Executive Officer, Chief Financial Officer, Senior Independent Director and most of the executive team leaving or resigning, as further discussed on page 55.

Since I joined the Company as Non-executive Director and Chairman Designate in September 2019 and took over the role of Chairman on 1 October 2019, I have been working extensively with the Board to stabilise the business and Executive Leadership Team. The Nomination Committee and I will take the lead on the development of a diverse pipeline for succession planning both at the Board and amongst our Executive Leadership Team in order to ensure that we have highly talented and qualified individuals to support the Turnaround Plan.

Board effectiveness

As detailed on page 51, an externally facilitated evaluation of the Board and its Committees was once again undertaken. As a result of the evaluation, the Board concluded that both it and its Committees are currently operating 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.

Engagement

One further item I would like to address is the significant votes received against last year's Directors' remuneration report at the 2019 annual general meeting. The Board understands that the significant vote against this resolution was due primarily to the bonus payment awarded to the departing Chief Executive Officer in the context of a decline in financial and share price performance. We are committed to taking into account all feedback received from shareholders and the Board has engaged with shareholders and proxy institutions to seek feedback on the proposed terms of the new Directors' remuneration policy which will be put before shareholders for approval on at this year's annual general meeting. Further details of the new policy are set out on pages 67 to 75 of the Directors' remuneration report. I will endeavour to work with Clive and the rest of our Board to ensure the views of our shareholders and that of our wider stakeholder group are being addressed as we move forward through the year.

Kevin Loosemoore
Chairman

17 June 2020

Structure of the corporate governance statement

The Company is subject to 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 Code have been applied during the period to 28 March 2020. The Code is issued by the FRC and is available for review on the FRC website: www.frc.org.uk

Leadership

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.

See more on **pages 44 to 49**
See more on relations with shareholders on **page 52**

Composition, succession and evaluation

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.

See more on **pages 50 and 51**

Division of responsibilities

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

See more on **page 50**

Audit, risk and internal control

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

See more on **pages 56 to 64**

Remuneration

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

See more on remuneration **pages 65 to 86**

Leadership

Board of Directors

E N

Kevin Loosemore

Chairman

Appointment to the Board
Appointed to the Board on 2 September 2019 and became Chairman on 1 October 2019

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

Current directorships and business interests
- Iris Software Group Limited, non-executive director

Career, skills and experience
Kevin has served on the boards of a broad spectrum of businesses, including as Chairman of both Morse plc, Micro Focus International plc and as a non-executive director of Big Food Group plc and Nationwide Building Society. He has also held senior executive positions, including as Chief Operating Officer of Cable & Wireless plc and senior positions in Motorola and IBM. He was Managing Director of one of De La Rue's businesses between 1997 and 1999.

N Ri

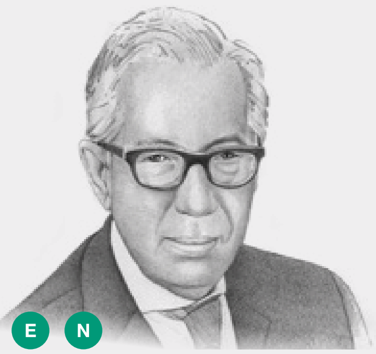
Clive Vacher

Chief Executive Officer

Appointment to the Board
Appointed to the Board on 7 October 2019

Committees
- Risk Committee

Career, skills and experience
Clive has more than 16 years' experience running complex P&Ls for global industrial companies in the commercial and government/defence sectors. He has significant experience of international business transformation and operational performance improvement. Clive was previously Chief Executive Officer and President of Dynex Power Inc., a Canadian publicly listed company, where he led the privatisation sale of the company in March 2019. He was also a Director and Chief Executive Officer of Dynex Semiconductor Limited to 5 April 2019. Previously, he has held senior positions with Pratt and Whitney, Rolls-Royce, General Dynamics Corporation and B/E Aerospace Inc. Clive currently sits on the Advisory Board of the Lincoln International Business School at the University of Lincoln.



A E N

Sabri Challah

Senior Independent Director

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

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

Current directorships and business interests
- Robert Kime Limited, advisor
- Actis, senior advisor

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.

Key for committees

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

A E N Re

Maria da Cunha

Independent Non-executive Director

Appointment to the Board

Appointed to the Board on 23 July 2015

Committees

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

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 since 2000 to July 2018, with British Airways where she is director of people and legal and is a member of the executive board, corporate security board and pensions strategy board. Maria is experienced at working with international regulators and governments and has a deep understanding of operational risk, including cyber security, data and mobile risk. She also has significant geo-political, multi-channel distribution, acquisition and post-merger integration experience.

A E N Re

Nick Bray

Independent Non-executive Director

Appointment to the Board

Appointed to the Board on 21 July 2016

Committees

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

Career, skills and experience

Nick has extensive international experience in the technology and information security industries. In 2019, he was appointed as chief financial officer of travel technology company, Travelport. Before joining Travelport, he served as chief financial officer of security software firm, Sophos Group plc, for over nine years. Nick was also 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.

Ri

Jane Hyde

General Counsel and Company Secretary

Appointment to the Board

Appointed as General Counsel on 20 January 2020 and as Company Secretary with effect from 22 January 2020

Committees

- Risk Committee (Chairman)

Career, skills and experience

Jane has many years of experience as a general counsel and an adviser to publicly quoted businesses, with a particular focus on strategic projects and risk management. Her previous role was with Hikma Pharmaceuticals plc where she was Head of Corporate and European Legal. Prior to that, she spent a number of years in investment banking, with corporate broking and corporate finance roles at JPMorgan Cazenove and in regulatory compliance at Nomura International. She trained and practised as a corporate lawyer at Freshfields and is a qualified solicitor.

Leadership continued

Governance principle

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

As at 28 March 2020, the percentage of women on the Board is 20% following the departure of Helen Willis in January. The Board hopes to improve on this in the future. More information on how the Nomination Committee intends to address this is set out on page 55.

> The Group's inclusion strategy is discussed further on **page 35**

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 54 to 86. 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 in June 2020 and were updated so as to be compliant with the 2018 UK Corporate Governance Code.

Board composition

As at 28 March 2020, the Board was made up of five members comprising a Chairman, Chief Executive Officer, and three independent Non-executive Directors. Kevin Loosemore was appointed to the Board on 2 September 2019 and became Chairman on 1 October 2019. Clive Vacher, Chief Executive Officer, was appointed to the Board on 7 October 2019. Brief biographies and skills and experience of the Directors are set out on pages 44 and 45 and the role of the Board is set out here. Other than Kevin Loosemore, none of the Non-executive Directors of the Company 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. Kevin Loosemore 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 44. 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. Helen Willis stepped down from the Board on 24 January 2020 and has been replaced on an interim basis by Rob Harding who is not a member of the Board.

In accordance with the Code, both Kevin Loosemore and Clive Vacher will be subject to election at the forthcoming AGM with each of the other Directors, except Sabri Challah, subject to re-election. As announced on 17 June 2020, Sabri Challah has informed the Board of his intention to step down as a Director due to his other commitments. Sabri will remain on the Board until such time as a successor Independent Non-Executive Director has been appointed, but in any event until no later than the date of the Company's forthcoming annual general meeting. Until then, he will continue as the Senior Independent Director, but accordingly will not be standing for re-election at the Company's forthcoming annual general meeting.

Board and Board Committee meetings

The Board and Board Committee attendance during the year is shown in the table below. One of the scheduled Board meetings was held at the Group's UK location in Debden, thus enabling all Directors to visit that site's 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, Board composition, divisional restructuring 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 2019/20[1]	Board[2]	Nomination Committee	Ethics Committee	Audit Committee	Remuneration Committee
Nick Bray	8 (9)	0 (1)	3 (3)	4 (4)	6 (6)
Sabri Challah	9 (9)	1 (1)	3 (3)	4 (4)	6 (6)
Maria da Cunha	9 (9)	1 (1)	3 (3)	4 (4)	6 (6)
Kevin Loosemore[3]	6 (6)	–	–	–	–
Philip Rogerson[4]	4 (4)	1 (1)	2 (2)	–	3 (3)
Andrew Stevens[5]	4 (4)	1 (1)	2 (2)	2 (2)	3 (3)
Martin Sutherland[6]	4 (4)	–	–	–	–
Clive Vacher[7]	5 (5)	–	–	–	–
Helen Willis[8]	6 (6)	–	–	–	–

Notes:
1 Figures in brackets denote the maximum number of meetings that could have been attended.
2 In addition to the meetings detailed within the table above, 14 Board meetings were convened on an ad hoc basis in between scheduled Board meetings to discuss the matters included in the table on page 48.
3 Kevin Loosemore joined the Board on 2 September 2019 and became Chairman on 1 October 2019.
4 Philip Rogerson retired from the Board on 1 October 2019.
5 Andrew Stevens stepped down from the Board on 7 October 2019.
6 Martin Sutherland stepped down from the Board on 7 October 2019.
7 Clive Vacher joined the Board on 7 October 2019.
8 Helen Willis stepped down from the Board on 24 January 2020.

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.

Board diversity

Executive and Non-executive Director balance

Executive Director	1
Non-Executive Directors	3
Chairman	1

Board tenure

3 to 5 years	3
Less than a year	2

Gender of the Board

Male	4
Female	1

See more about the Directors' careers, skills and experience **on pages 44 and 45**

Leadership continued

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 including the Turnaround Plan. 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 October 2019, 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 strategic transactions • Reviewed and considered the Turnaround Plan	For more information on our strategy **see page 12**
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 • Consulted with shareholders to try and understand the outcome of voting results on the Directors' remuneration report at the 2019 AGM • Reviewed and considered feedback from shareholders on the proposed new remuneration policy 2020	For more information **see page 52**
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 and trading updates	For more information **see page 22**
People	• Visited the Debden site during the Board meeting in September 2019 • 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 • Workforce engagement across the business • Appointed Maria da Cunha as workforce engagement director • Board engagement with employees at Debden during the year	
Governance and risk	• Received reports from the Group Director of Security, HSE and Risk • Approved principal risks and the risk appetite for those risks • 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 • Conducted an assessment of the UK Corporate Governance Code 2018 • 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	For more information on principal risks **see pages 23 to 29** For more information on Board Committee reports **see pages 54 to 86**
Other	• Approved the 2019 Annual Report and Accounts and the 2019 notice of AGM • Approved the 2020/21 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 to reflect Committee changes and appointments	

Our governance framework

Board responsibilities

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 65 to 86

Risk Committee

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

see page 61

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 56 to 60

Board of Directors and Company Secretary

Kevin Loosemore
Chairman

Clive Vacher
Chief Executive Officer

Sabri Challah
Senior Independent Director

Maria da Cunha
Independent Non-executive Director

Nick Bray
Independent Non-executive Director

Jane Hyde
General Counsel 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 54 to 55

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 62 to 64

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

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 table opposite 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 strategic transactions 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. Meetings of the Non-executive Directors including the Chairman are held where Executive Directors are not present.

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. She 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. The Turnaround Plan will 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 12 for more information on our strategy for reshaping De La Rue.

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 most recent performance evaluation involved the use of an external independent facilitator, Lintstock Limited.

The review process involved completion of online questionnaires which focused on Board composition, expertise and dynamics, quality of decisions made, Board support and processes, structure, behaviours and other key issues such as strategy and succession. The review also addressed delivery of the Board's objectives and any issues identified during the previous review or which became relevant during the year.

A report on the performance of the Board and each of the principal Committees was compiled by Lintstock. The results of the questionnaire as they applied to the Board were discussed collectively.

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.

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. 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 28 March 2020 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 23 to 31 and pages 56 to 60 respectively.

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

Composition, succession and evaluation continued

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

Whistleblowing

A whistleblowing hotline, CodeLine, allows De La Rue employees to raise concerns about breaches of the Code of Business Principles including in relation to dishonesty or malpractice on an entirely confidential basis. Concerns may be raised via telephone, email or an online portal, 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

The Directors set out on page 30 how they have assessed the prospects of the Company, over what period the prospects have been assessed, and the Company's formal viability statement.

Workforce engagement

Last year, Maria da Cunha was appointed to be responsible for workforce engagement and to represent the Board in this area. In her role, Maria gathers the views of the workforce at all levels throughout the organisation and shares these views with the Board for discussion. Where appropriate, actions to address concerns raised by employees are then addressed and communicated to employees via various internal newsletters and personal addresses made by the Chief Executive Officer. Further details of progress made this year are set out in the Responsible Business report on page 36.

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

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 which was deferred to June 2020. In addition, the Board continues to value the importance of building strong investor relations, delivered through an active investor relations communication programme. The Remuneration Committee, on behalf of the Board, actively engaged with the Company's major shareholders following the voting results on the 2019 Directors' remuneration report. The feedback was gratefully received and helped to shape the revised Directors' remuneration policy which is being placed before shareholders at this year's AGM for approval. Further details of the new policy can be found in the Directors' remuneration report set out on pages 65 to 86.

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.

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.

In light of the prevailing guidance from the UK Government in relation to the COVID-19 outbreak and specifically the restrictions on unnecessary travel and large gatherings, the annual general meeting will be convened with the minimum quorum of shareholders (which will be facilitated by De La Rue's management) in order to conduct the business of the meeting. Accordingly, the Company strongly encourages all shareholders to submit their proxy form in advance of the meeting, appointing the Chairman of the annual general meeting as proxy rather than a named person. In the interest of safety, shareholders will not be allowed to attend the annual general meeting in person and anyone who attempts to do so will be refused entry. The Company will continue to closely monitor the developing impact of COVID-19, including the latest UK Government guidance, should it become appropriate to revise the current arrangements for the annual general meeting, any such changes will be notified to shareholders through our website at www.delarue.com and, where appropriate, by announcement made by the Company to a Regulatory Information Service.

This year's AGM will be held at 10:30 on Thursday 6 August 2020 at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire RG22 4BS. The notice of AGM is sent to shareholders together with a copy of the annual report.

Directors are invited to attend the AGM and Committee Chairmen present take questions at the AGM.

The Company normally publishes the notice of annual general meeting and relevant related papers to shareholders at least 20 working days before the meeting. This year the Board decided to give shareholders 21 clear days notice of the AGM as permitted under the Company's articles of association and the Companies Act 2006. This will allow the Board to convene the AGM at the earliest opportunity following the delayed release of the Company's audited financial results for the full year as a consequence of the COVID-19 pandemic. The notice of AGM is available to view on the Company'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 (see advice opposite regarding this year's annual general meeting). Following the AGM, the voting results for each resolution are published and will be made available on our website.

By order of the Board

Jane Hyde
Company Secretary

17 June 2020

Shareholders by location
%

UK	74
North America	20
Rest of Europe	4
Rest of World	2

Shareholders concentration
%

Top 1 to 5	57
Top 6 to 10	14
Top 11 to 20	12
Top 21 to 60	14
The remainder	2

Composition, succession and evaluation continued

Nomination Committee

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

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

Dear Shareholder,

I am pleased to present the 2020 Nomination Committee report.

Members and attendance

Member	Directors'[5] attendance 2019/205
Kevin Loosemore (Chairman)[1]	0 (0)
Philip Rogerson[2]	1 (1)
Martin Sutherland[3]	1 (1)
Nick Bray	1 (1)
Sabri Challah	1 (1)
Maria da Cunha	1 (1)
Andrew Stevens[4]	1 (1)

Notes:

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

1 Kevin Loosemore became Chair of the Committee on 1 October 2019.
2 Philip Rogerson retired from the Board on 1 October 2019.
3 Martin Sutherland stepped down from the Board on 7 October 2019.
4 Andrew Stevens stepped down from the Board on 7 October 2019.
5 In addition to the scheduled meetings detailed within the table, further ad hoc Committee meetings were held to consider matters relating to Board succession planning.

Biographical details of the members of the Board who held office up to the date of this report can be found on pages 44 and 45.

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 formally met once and held additional informal meetings to discuss Board succession planning.

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 Chairman, Chief Executive Officer and an interim Chief Financial Officer. This was achieved through a mixture of formal meetings and frequent informal exchanges. Further detail on the process involved is under Board changes.

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 election and 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.

Kevin Loosemore
Chairman of the Nomination Committee

17 June 2020

Board changes

The Nomination Committee sought a successor to Chairman of the Board and 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. This process was led by Andrew Stevens, Senior Independent Director at the time and the outgoing Chairman, Philip Rogerson was not involved in the selection or appointment process.

I was appointed to the Board as an Independent Non-executive Director and Chairman Designate on 2 September 2019 and I became Chairman of the Board on 1 October 2019.

Martin Sutherland stepped down as Chief Executive Officer of the Board on 7 October 2019. The Committee carried out an executive search for his successor. Russell Reynolds was retained again to find a suitable successor for Martin. Clive was the preferred candidate based on his extensive experience working in a variety of complex businesses and in particular, his proven track record of turning businesses around. Clive Vacher was appointed as Chief Executive Officer on 7 October 2019.

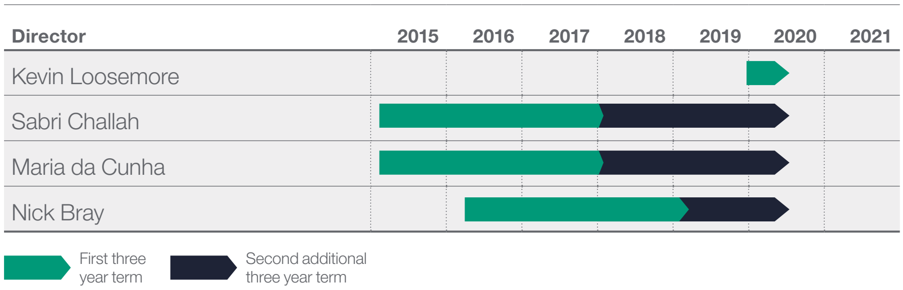
Helen Willis stepped down from the Board on 24 January 2020. Rob Harding was appointed as interim Chief Executive Officer on 9 March 2020 and is a member of the Executive Leadership Team but is not a member of the Board. An executive search for a permanent replacement is in progress.

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.

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 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 may 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 28 March 2020, the Company has one female Director (one Non-executive) which represents 20% of the Board. We aim to improve on this figure next year in line with the recommendations set out in the Hampton-Alexander report.

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 35 and 36.

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 process to align with the new proposed management structure.

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

Election and re-election

Both Kevin Loosemore and Clive Vacher will stand for election at the 2020 AGM. As in previous years, and in accordance with the Code, all other Directors will stand for re-election at the 2020 AGM with the exception of Sabri Challah who will stand down from the Board at the conclusion of the meeting.

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 effective and that they demonstrate commitment to their roles and is of the opinion that all Directors continue to provide valuable contributions to the long term success of the Company. The Board strongly supports their election and re-election and recommends that shareholders vote in favour of the resolutions at the AGM.

Audit, risk and internal control

Audit Committee

Principal responsibilities

The key areas of responsibility of the Committee are:

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

Dear Shareholder,

I am pleased to present the 2020 Audit Committee report. This report describes the Committee's ongoing responsibilities and key tasks as well as its major activities in the period ended 28 March 2020.

Members and attendance

Member	Directors' attendance 2019/20
Nick Bray (Chairman)	4 (4)
Sabri Challah	4 (4)
Maria da Cunha	4 (4)
Andrew Stevens[1]	2 (2)

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

1 Andrew Stevens stepped down from the Board on 7 October 2019.

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 current position as Chief Financial Officer of Travelport. Biographies and experience of members of the Committee can be found on pages 44 and 45.

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 auditors 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 four times.

Activities during the period

During the period, the Audit Committee dealt with the following key 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)
- Internal auditor effectiveness
- 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

Nick Bray
Chairman of the Audit Committee

17 June 2020

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

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 16 Financial Reporting standard. 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 16

During the year, the Audit Committee oversaw the adoption of IFRS 16 (leases). A detailed assessment of all leases was undertaken and the Group has recorded a right of use (ROU) asset representing its right to use the asset and a lease liability representing its obligation to make the lease payments.

The Audit Committee reviewed the analysis and the impact on the Group's balance sheet, reviewed and challenged the lease terms used and the assumptions regarding renewals and break options as well as the incremental borrowing rates used to discount the lease payments and concluded that appropriate judgements have been made. The Audit Committee considered these judgements to represent critical accounting judgements and accordingly these have been included on page 114.

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 ongoing compliance with 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.

UK 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.

The Committee discussed the reasons for the movement on the IAS 19 valuation from a net deficit to a net surplus. The Committee was satisfied that the assumptions used were appropriate and were supported by independent actuarial specialists. The Committee also considered whether in accordance with IFRIC 14 it is appropriate to present the full net surplus on the balance sheet. The Audit Committee concluded it was because the Group has an unconditional right to any surplus. Details of the key assumptions used are set out in note 26. The Committee also noted that approximately £110m of the UK defined benefit pension scheme assets were valued at 31 March 2020 as opposed to the year end date of 28 March 2020 as for these investments a valuation at the year end date was not available. The Committee considered reports presented by management which estimated the impact of the difference in valuation date to be less than £1m. The Committee considered this to not be significant when compared to total UK defined benefit pension scheme assets of in excess of £1bn and that no better valuation to that at 31 March 2020 was available. However, the Committee decided that a critical accounting judgement on this should be disclosed – see page 114.

Going Concern

The committee gave careful consideration to the Going Concern statements made in the half and full year financial statements and the disclosures given in relation to the material uncertainty relating to the approval of the Company's shareholders in respect of the Capital Raise. The Committee has conducted rigorous reviews of the Group's financial forecasts challenging key assumptions and giving careful consideration to the plausible downside scenarios included in the base forecasts.

> "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."

Audit, risk and internal control continued

The Committee has also taken into consideration the current level of headroom on the covenants and then considered the expected covenant ratios going forwards as disclosed in the Going Concern comments on page 107. The Committee has reviewed and challenged the proposed cashflows presented by management.

Matters that the Committee considered included:

- the likelihood of the Group's announced intention to raise £100m by way of a firm placing and open offer being successful and considered that they had a reasonable expectation that it would proceed, however they also noted it was conditional on shareholder approval;
- the status of agreements in principle with its lenders and pension trustees and concluded that it had a reasonable expectation the Equity Raise condition would be satisfied and thus the Long Stop Provision should not be invoked;
- the impact of COVID-19 on the operations and financial position of the Group and concluded that whilst the Group's operations have not been significantly impacted by COVID-19 so far, they acknowledged that the global impact of the Pandemic is still to be fully understood and the impact to the Group cannot be reasonably quantified;
- The Committee also considered some plausible downside scenarios that reflect the possible impact of key risks as detailed in the Strategic Report on pages 23 to 29. They included: investments in Polymer and security features not delivering the forecast returns, banknotes volumes being weaker in FY 2022 as a result of reduced demand, weaker growth in authentication due to few new contract wins and limited growth on existing contracts and reductions to the cost base not being achieved. The Directors also considered additional COVID-19 risks including further site closures and absenteeism resulting in loss of volumes and consequent revenue in Currency and further reduction to Authentication revenues due to manufacturing challenges. In the event that these downsides would occur the Directors considered mitigating actions that could be taken. The Committee concluded that the above modelling of plausible downsides, additional COVID-19 risks and mitigating actions allowed for a 32% reduction in adjusted operating profit in FY 2021 and a 49% reduction in FY 2022.

The Committee considered the outcome for the Group if the Shareholder Vote is not successful and the Capital Raise is not completed by the Long Stop Date (for further details see pages 107 to 109), the company would continue to operate under its current covenants and the Long Stop Provision would become effective. In this scenario, if the Company is not able to agree an alternative financing plan within 45 days it would constitute an immediate event of default (see further discussion on page 108). The Committee noted that while the Directors have a reasonable expectation that the Shareholder Vote will be successful, they have identified a material uncertainty which could cast significant doubt on the Group and company's ability to continue as a going concern, given that the implications of this not passing (namely the outcome of an attempt to reach agreement of an alternative financing plan) would be outside of the Company's control and could lead to an event of default under the terms of the amended RCF agreement.

In consideration of the above, the Committee reached the overall conclusion that despite the material uncertainty detailed above relating to the Shareholder Vote on the Capital Raise, the Directors have a reasonable expectation that the funds will be received before 31 July 2020 and as such do not expect the Long Stop Provision to become effective. On this basis, the Directors therefore conclude that the Group has adequate resources 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.

COVID-19

The Committee considered a detailed summary prepared by management on the potential impact of COVID-19 on the Group financial position. The Committee noted that the Group's operations have not been significantly impacted by COVID-19 so far, but carefully considered management's assessment of the potential impact on the 28 March 2020 balance sheet and financial position.

The presentation by management included consideration of each line item in the balance sheet which could be impacted by COVID-19. The overall conclusion of the Committee was that given the nature of the Group's products, it does not consider any adjustment to the numbers report in the period to 28 March 2020 or the balance sheet at this date. In arriving at this conclusion the Committee reviewed the assessment prepared by management and agreed with their conclusions. The Committee also considered that given the nature of the products the Group supplies and their importance to the customers they serve, whilst COVID-19 may cause short to medium term disruption it does not see a particular risk to the recoverability of assets on the balance sheet. The Committee agreed that as the impact of COVID-19 cannot be fully identified, it would continue to closely monitor the impact with regular updates from Management.

Valuation of inventory

The Committee reviewed the Group's policies and procedures over the valuation and recoverability of inventory (£53.9m). 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 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 provisions carried.

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. In accordance with IFRIC 23, tax provisions are recognised for uncertain tax positions where it is considered probable that the position in the filed tax return will not be sustained and there will be a future outflow of funds to a taxing authority. Tax provisions are measured either based on the most likely amount (the single most likely amount in a range of possible outcomes) or the expected value (the sum of the probability-weighted amounts in a range of possible outcomes) depending on management's judgement on how the uncertainty may be resolved. The Group is disputing a number of tax assessments received from the tax authority of a country in which the Group operates.

The disputed tax assessments are at various stages in the local appeal process, but the Group believes it has a supportable and defendable position (based upon local accounting and legal advice), and is appealing previous judgments and negotiating with the tax authority in relation to the disputed tax assessments.

The Company's expected outcome of disputed tax assessments is held within the relevant provisions in the 2020 Financial Statements.

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.

Accounting for the sale of the International Identity Solutions business to HID in October 2019

The Committee reviewed the disposal accounting for the International Identity Solutions business.

Amongst other matters, the Committee also reviewed the following key matters during the reporting period:

- The accounting treatment for the disposal group under IFRS 5
- That the International Identity Solutions business did not meet the criteria for presentation as a discontinued operation in accordance with IFRS 5
- The formation of the disposal group and impairment testing
- The completion accounts and working capital adjustment

Following presentations by management and discussions with the external auditors, the Committee was satisfied with the disclosures relating to the disposal of the International Identity Solutions business.

FRC letter response

The Company received a letter from the Financial Reporting Council (FRC) on 10 March 2020 containing a number of questions, in order to clarify understanding as to how De La Rue had satisfied certain reporting requirements. The principle areas where further information was required were:

- Revenue recognition
- Specific judgemental accruals
- Other financial assets
- Alternative Performance Measures 'APMs'

The Audit Committee reviewed the letter and challenged and developed the responses to the FRC and oversaw the development of additional disclosures for the March 2020 Annual Report and Accounts. In April the Company received a response from the FRC advising that the Company had answered all questions appropriately enabling the FRC to close their enquiry. No change to any accounting policies were required in response to the comments raised by the FRC.

FRC letters are written on the basis that the FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

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.

Audit, risk and internal control continued

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 2019/20, 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.

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, July 2018 and July 2019.

During the year ended 28 March 2020, the Audit Committee met privately with Ernst & Young LLP on four occasions, without executives of the Company being present.

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 23 to 29. 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 2020/21 Internal Audit plan was approved by the Committee in April 2020 and during the year ended 28 March 2020, 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 June 2020 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

17 June 2020

Risk Committee

"The Group sees the identifying and management of risk as critical to achieving its strategic objectives."

Principal responsibilities

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

The 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.

Dear Shareholder,

On behalf of the Risk Committee, I am pleased to present the 2020 Risk Committee report. This report sets out the composition, role and activities of the Committee in the period ended 28 March 2020.

Members and attendance

Member	Members' attendance 2019/20
Jane Hyde (Chairman)[1]	1 (1)
Edward Peppiatt	1 (1)
Andrew Davidson[2]	1 (1)
Jo Easton[2]	1 (1)
Bryan Gray[2]	1 (1)
Richard Hird[2]	1 (1)
Selva Selvaratnam[2]	1 (1)
Martin Sutherland[2]	1 (1)
Clive Vacher[3]	0 (0)
Helen Willis[2]	1 (1)
Natasha Bishop[1]	1 (1)
Andrew Clint[1]	1 (1)
Ruth Euling[1]	1 (1)

Notes:

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

1 Appointed 25 February 2020.
2 Ceased to be a member during the year.
3 Appointed to the Board on 7 October 2019.

Operation of the Committee

The Committee comprises all Executive Directors of the Board and the rest of the ELT members. The Group Director of Security, HSE and Risk attend the meetings. 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 twice.

Activities during the period

During the period, the Risk Committee considered reports on:

- The principal risks of the Group including emerging risks (see the risk and risk management report on pages 23 to 29
- 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
- Impact of the COVID-19 virus to the Group's operations and employees

The Directors acknowledge that they have overall responsibility for the Group's system of internal control for managing risks including emerging 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 23 to 29.

In addition, the Board has delegated to the Risk Committee the responsibility for identifying, evaluating and monitoring emerging 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.

Jane Hyde
Chairman of the Risk Committee

17 June 2020

Audit, risk and internal control continued

Ethics Committee

"We must deliver on our strategic objectives in the right way."

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
- Oversee compliance with the Company's policies and procedures on ethical matters
- 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

The Committee is responsible, on the Board's behalf, for considering ethical matters, including reviewing compliance with the Code of Business Principles. The Committee makes recommendations to the Board on how these matters should be addressed, reinforcing the Group's commitment to ensuring that sound ethical practices are embedded in the way we do business.

Dear Shareholder,

I am pleased to present the 2020 Ethics Committee report.

Members and attendance

Member	Directors' attendance 2019/20
Kevin Loosemoore (Chairman)[1]	1 (1)
Philip Rogerson[2]	1 (1)
Nick Bray	2 (2)
Sabri Challah	2 (2)
Maria da Cunha	2 (2)
Andrew Stevens[3]	1 (1)

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

1 Kevin Loosemore was appointed as Independent Non-executive Director and Chairman Designate on 2 September 2019 and he became Chairman of the Board on 1 October 2019
2 Philip Rogerson retired from the Board on 1 October 2019.
3 Andrew Stevens stepped down from the Board on 7 October 2019.

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 heads of both Divisional businesses, 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 28 March 2020, the Committee focused on the following activities:

- CBP activity update, including training plans
- The management of the Third Party Partner programme
- Update on BnEI activities and progress
- Review of sanctions risks and actions undertaken or planned to manage those risks
- 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

Kevin Loosemore
Chairman of the Ethics Committee

De La Rue's ethical framework

To maintain the trust and confidence of customers, and everyone it deals with, it is essential that the Group delivers on its strategic objectives in the right way, conducting its business with integrity, honesty and transparency.

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, summarised here, is underpinned by our Code of Business Principles, which is supported by standards, policies, internal controls and communication. All employees, consultants and those acting on the Group's behalf are expected to adopt these standards. The Group ensures that our ethical credentials are monitored, including through the Ethics Committee and via formal internal and external audits, ensuring that it is maintaining the highest ethical standards and receiving recommendations for improvement. We are also participants in the UN Global Compact Initiative.

Our ethics and compliance programme

Code of Business Principles (CBP)

The CBP focuses on nine core principles which define the way in which we conduct ourselves and work on a daily basis. On joining the business, and at regular intervals, all employees are required to confirm that they understand and abide by the Code. 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 was established to promote ethical business practice in the industry. The initiative sets out a robust framework for promoting high ethical standards with a focus on the prevention of corruption and on compliance with anti-trust law. Members are required to commit to the Code of Ethical Business Practice that was developed in partnership with the Institute of Business Ethics. Compliance with the code through processes, procedures and controls is rigorously tested through an audit framework developed in conjunction with GoodCorporation, recognised 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 2020. The findings of the triennial BnEI audit confirmed that De La Rue continues to perform strongly against GoodCorporation benchmarks.

Third party partners (TPPs)

We recognise that it is not just our employees who could be exposed to ethical risks but also TPPs who represent us or act on our behalf around the world, and their conduct remains one of our most significant risks. 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.

The Committee receives regular reports on payments made to sales consultants, together with an update on steps being taken to manage performance and ensure appropriate remuneration structures are in place which are aligned to BnEI requirements.

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 ethical values are embedded across the business.

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. During the year we commenced the rollout of an employee awareness campaign to remind colleagues about De La Rue's whistleblowing provision and promote confidence in the integrity of the process.

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
- Anti-bribery and competition law training where relevant for new starters
- Online training modules for TPPs and relevant employees
- Commencement of CodeLine awareness training for all employees
- One to one training for new site Ethics Champions

Kevin Loosemore
Chairman of the Ethics Committee

17 June 2020

Audit, risk and internal control continued

Code of Business Principles

Code of Business Principles – 9 Topics

1 Bribery and corruption	2 Competition and anti-trust	3 Gifts and hospitality	4 Health, Safety & Environment	5 Employment principles	6 Records and reports	7 Personal information	8 Insider trading	9 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 interest	• Group	• Equal opportunities • Fairness and respect • Diversity	• Operational Delegation of Authority • Group finance manual	• Data protection • Information Security • Clear desk/ clear screen • Document retention	• 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 • SAFE and secure audits	• Grievance procedure • Disciplinary process	• Compliance declarations • External monitoring • Separation of duties	• 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	UN Global Compact

Directors' remuneration report

Chairman's introduction

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

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 Directors and 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

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.

Dear Shareholder,

As Chair of the Remuneration Committee, I am pleased to present the Directors' remuneration report for the period ended 28 March 2020, my first as Chair which has been prepared by the Remuneration Committee and approved by the Board. I would like to extend my thanks to Sabri Challah, who stepped down as Chairman of the Committee on 7 October 2019 to take on the role of Senior Independent Director for his hard work and commitment, which laid the foundation for the proposed remuneration policy.

This year, I would like to focus on two themes: the changes that we are proposing to make to the remuneration policy which will apply from 2020/21, if approved by shareholders; and the performance of the Group in the financial year that ended on 28 March 2020, which means that no bonus under the Annual Incentive Plan will be payable to Executive Directors this year. I would also like to outline how we propose to comply with the changes to the UK Corporate Governance Code.

Members and attendance

There was a significant change in the composition of the Committee in the year. On 7 October 2019, Philip Rogerson and Andrew Stevens stepped down from the Board; Sabri Challah became the Senior Independent Director and I took over as Chairman of the Remuneration Committee.

Member	Directors' attendance 2019/20
Maria da Cunha (Chairman)[1]	6 (6)
Philip Rogerson[2]	3 (3)
Nick Bray	6 (6)
Sabri Challah	6 (6)
Andrew Stevens[3]	3 (3)

Notes:

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

1 Maria da Cunha was appointed Chairman of the Committee on 1 October 2019.

2 Philip Rogerson stepped down as Chairman and from the Board on 1 October 2019.

3 Andrew Stevens stepped down from the Board on 7 October 2019.

Committee meetings

The Remuneration Committee consists exclusively of Non-executive Directors, all of whom are regarded as independent. The Committee met six 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.

Activities during the period

- Approval of the Executive Leadership Team group and strategic individual objectives for the year
- Review of performance targets for short and long term incentive plans
- Approval of pay awards for Executive Directors and the ELT
- Determination of remuneration for the new Chief Executive Officer
- 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
- Review of market trends in relation to treatment of executive remuneration in light of COVID-19
- Awards under the UK Sharesave scheme
- Review of the report on gender pay gap and action plan

Directors' remuneration report continued

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) Regulations 2008 (SI 2008/410) as amended, 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 92 to 101 and to state that this section has been properly prepared in accordance with these regulations.

Proposed remuneration policy

Our remuneration policy remains a critical catalyst to delivering both in-year performance and the longer term transformation of De La Rue. This year we have carried out our triennial review of the policy. The proposed policy is designed to support the delivery of the Turnaround Plan in its ambition to return to progressive margin growth in Currency and strong year on year growth in Authentication by bringing sharp focus on a small number of critical measures required to:

- Drive efficiency, cost competitiveness and balanced profitable growth
- Ensure cash is managed and generated from sustainable sources to fund investment in the chosen growth markets
- Continuing to align executive and shareholder interests
- We are also proposing a number of changes to reflect evolving shareholder attitudes on a number of remuneration elements, namely:
  - Reducing the cash pension allowance for Executive Directors to be in line with the employer pension contribution for the majority of the UK workforce;
  - Increasing the shareholding requirement from 100% to 200% of salary;
  - Introducing a post-employment shareholding requirement for Executive Directors; and
  - This new policy, full details of which are set out in the policy section of the report, will be subject to a binding shareholder vote at the AGM on 6 August 2020.

The Company's existing Performance Share Plan (PSP) and Annual Bonus Plan (ABP), approved by shareholders at the 2010 AGM, come to the end of their 10 year life in accordance with best practice guidelines this year. Accordingly, we have put forward for shareholder approval rules for a replacement Performance Share Plan and Deferred Bonus Plan for approval at the 2020 AGM.

These plans are in materially the same form as those approved by shareholders at the 2010 AGM, other than to update them for best practice in light of the new UK Corporate Governance Code and, in respect of awards made to the Company's Executive Directors, will be operated in line with the remuneration policy also submitted to shareholders for their approval at the 2020 AGM and which is contained within this report.

Remuneration outcomes 2019/20

As discussed elsewhere in the Annual Report and Accounts, the business faced a number of significant challenges in the year. Insufficient volumes and a reduction in margins in currency in H1 2019/20 resulted in financial underperformance.

While the new Executive Team made substantial progress in H2, through a variety of actions, which led to a recovery of volumes and margins and a reduction in net debt, overall the performance did not achieve the level at which an annual bonus would have been payable and accordingly no ABP will be paid for 2019/20. Further details on our performance against bonus measures is set out on page 79.

The 2017 PSP is due to vest in June 2020, following the conclusion of the performance period on 28 March 2020.

However, as under the terms of the departure arrangements for Martin Sutherland and Helen Willis, PSP awards for 2017 and subsequent years lapsed, no portion of the 2017 PSP vests for current or former Executive Directors.

The Remuneration Committee engages in regular dialogue with shareholders to discuss and take feedback on its remuneration policy and governance matters. During the last year the Committee has actively consulted with our largest shareholders and the main UK institutional investor bodies on both the reasons for the low vote in favour of the remuneration report at last year's AGM and the proposals for the new Directors' remuneration policy. The Board understands that the significant vote against was due primarily to the bonus payment awarded to the departing Chief Executive Officer in the context of a decline in financial and share price performance. We are grateful for the views received on the revised policy. Our aim is to achieve an appropriate balance between incentivising Executive Directors and ensuring that variable remuneration will only be payable on performance that delivers sustainable value to shareholders. We believe that the changes in our policy along with the new metrics will meet that aim.

Maria Da Cunha
Chairman of the Remuneration Committee

Structure of Directors' remuneration report

This report is presented in three main sections: an annual statement from the Chairman of the Committee; the Directors' remuneration policy to be approved by shareholders at the 2020 AGM; and the annual report on remuneration for 2019/20.

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

- The binding triennial vote on the proposed Directors' remuneration policy as set out on page 69 to 74 which will, subject to shareholder approval, become formally effective as at the date of the 2020 AGM
- An advisory vote on the annual report on remuneration as set out on pages 77 to 86 which provides details of the remuneration earned by Directors for performance in the period to 28 March 2020

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

2019 AGM vote on the remuneration report

The Committee were disappointed that the resolution for the approval of last year's Directors' remuneration report was passed at the AGM with only 51.99% votes in favour. We understand that the significant vote against this resolution was due primarily to the payments awarded to the departing Chief Executive Officer in the context of a decline in financial and share price performance. We are committed to taking into account all feedback received from shareholders and have engaged with investors over the past year both on the reasons for the low vote and as part of the review of the Directors' Remuneration Policy.

Board changes

There were a number of changes to the executive team over the year:

- Martin Sutherland stepped down from the Board as Chief Executive Officer with effect from 7 October 2019.
- Clive Vacher was appointed Chief Executive Officer to the Board with effect from 7 October 2019.
- Helen Willis stepped down from the Board as Chief Financial Officer with effect from 24 January 2020.

The full details of the leaver arrangements for Martin and Helen are set out in full on page 82.

The details of the remuneration package put in place for Clive are set out on page 78, including the PSP award made in connection with his appointment. This award will vest based on the Company's three year TSR outperformance of the constituents of the FTSE 250 and will be subject to a further two year holding period.

2019/20 performance and remuneration outcomes

Annual Bonus Plan (ABP)

For 2019/20, annual bonus was based on Revenue (20% weighting), Operating Profit (30%), Average Net Debt (20%), and personal strategic measures (30%). Unless a minimum operating profit threshold is achieved, no bonus is payable and this was the case this year. We remain committed to clear disclosure for achievement against set performance objectives. Full details are on page 79.

Performance Share Plan (PSP)

Awards under the PSP in 2016/17 had three year performance criteria based on EPS (75%) and ROCE (25%). The EPS performance criteria were not met. Average ROCE over the three years was above the threshold target and will vest in part. The 2016/17 PSP therefore vested at 9%.

2016/17 PSP awards made to Martin Sutherland and Helen Willis lapsed under their termination arrangements, so there was no vesting of any PSP awards to current or former Executive Directors during the financial year.

Current structure and weighting %

Revenue	20
Profit	30
Net debt	20
Strategic personal objectives	30

Proposed structure and weighting %

Revenue	20
Profit	30
Net debt	30
Strategic personal objectives	20

Directors' remuneration report continued

Revised remuneration policy

During the year, the Committee conducted a thorough review of the current remuneration policy (as approved by shareholders in 2017) to ensure that it remains appropriate to support the business and takes into account evolving best practice and regulatory developments. We also considered feedback previously received from our shareholders following the low vote on the 2018/19 Directors' remuneration report.

We have concluded that the current policy remains overall fit for purpose, apart from a few relatively minor changes, which are summarised below. The full policy can be found on pages 69 to 74.

Key proposed remuneration policy changes

- **Pension:** Any newly appointed Executive Directors will receive pension contributions in line with the majority of the UK workforce. The pension contribution of the Chief Executive Officer (CEO), Clive Vacher, was set at 12% of salary on appointment in October 2019 in line with contribution levels for the UK workforce. In the financial year 2020/21 Clive Vacher will receive a pension contribution of 10% on the basis of a 6% individual contribution in line with negotiated changes for the UK workforce effective May 2020.
- **PSP:** Previously awards under the PSP were subject to three year vesting period, with 60% vesting after three years and the balance vesting after a further one year, subject to continued employment. Under the new policy, PSP will be extended to five years – three year performance period followed by two year holding period.
- **In-employment shareholding requirement:** The current shareholding requirement for Executive Directors of 100% of salary will be increased to 200% of salary, to be built up over a five year period.
- **Post-employment shareholding requirement:** The new policy will introduce a post-employment shareholding requirement under which shares equivalent to 200% of salary (or the actual shareholding if lower) must be held for the first year following exit and 50% of this guideline level for the second year following exit.

Implementation of the policy in 2020/21

If approved by shareholders at the forthcoming AGM, the Committee intends to apply the revised remuneration policy as follows:

- **Base salary and benefits:** No change to the CEO's base salary level or pension and benefits arrangements.
- **Annual Bonus Plan (ABP):** For 2020/21 the current maximum opportunity level of 135% of salary for the CEO will continue to apply, with 60% of any bonus payable immediately in cash and 40% deferred into shares released half after one year and the remaining half after a further year. The Committee has carefully considered bonus performance measures for 2020/21 and concluded that the current measures remain highly relevant for the current turnaround situation. It is proposed to increase the weighting for the Average Net Debt measure to 30% and reduce the weighting for personal strategic measures to 20%, on the basis that internal alignment will be critical to the turnaround process and will be encouraged by placing greater emphasis and a larger proportion of the bonus on a set of shared goals to promote and reward the concept of achieving as a team rather than at an individual level. Operating profit and revenue will be weighted 30% and 20%, respectively.
- **Performance Share Plan (PSP) awards:** The Remuneration Committee has given detailed consideration to the most appropriate LTIP performance measures that provide a strong link between the Turnaround Plan execution, business performance and executive reward. For awards in 2020/21, the Committee is minded to introduce Total Shareholder Return (TSR) relative to the constituents of the FTSE 250 as a performance measure to ensure that appropriate focus is placed on the key business imperative of restoring value to shareholders. This growth measure would sit alongside the existing EPS measure and replace ROCE. The current weighting of measures will be retained at 50:50. The final decision on performance measures will be deferred until we are able to calibrate appropriate targets considering volatility of the markets.

The Committee carried out a consultation exercise in relation to the proposed new policy with our largest shareholders. The feedback we received was both constructive and in a large measure supportive and it was clear that our shareholders have a good appreciation of the challenges that De La Rue is dealing with and the need for significant change through the execution of the Turnaround Plan under the leadership of CEO Clive Vacher.

I hope you will welcome the conclusions the Committee has reached on this matter as a result of the consultation process which we believe acknowledges the challenges facing the business and demonstrates our commitment to a high level of alignment between the interests of shareholders and the senior management of the business. The Committee believes that the above Policy is in the best interests of shareholders as it will encourage, reinforce and reward the delivery of sustainable shareholder value.

Priorities for 2020/21

The work of the Committee in 2020/21 will focus on ensuring that reward and incentives are aligned to behaviours that will drive a culture consistent with delivering the organisation's Turnaround Plan.

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

Maria Da Cunha
Chairman of the Remuneration Committee

17 June 2020

Directors' remuneration policy

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

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

Proposed remuneration policy

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

The policy will take effect from 6 August 2020, subject to shareholder approval at the AGM. The remuneration policy is designed to ensure execution of the Group's strategy and to align with the interests of shareholders.

As indicated in the annual statement from the Chairman of the Remuneration Committee, we are not proposing fundamental changes to our existing remuneration policy. The overriding objective is to ensure that the executive remuneration policy encourages, reinforces and rewards the delivery of sustainable shareholder value.

The Remuneration Committee believes that performance related pay and incentives should account for a significant proportion of the overall remuneration package of Executive Directors so that their reward is aligned with shareholder interests and the Group's performance, without encouraging excessive risk-taking. Performance related elements of remuneration therefore form a significant proportion of the total remuneration packages. This is illustrated on page 75.

The Committee maintains discretion to take into account performance on environmental, social and governance matters for example to adjust the outcomes of incentive arrangements in light of any ESG issues.

Policy table

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

Fixed remuneration

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
Base Salary			
Fixed competitive remuneration set at levels to recruit and retain talent. Determination informed, but not led, by reference to the market place for companies of similar size and complexity. Reflects individual skills, experience and responsibility necessary to deliver business strategy. Rewards individual performance.	Reviewed annually and fixed for 12 months (but may be reviewed more frequently). Influenced by: • Role, experience, responsibilities and performance • Change in broader workforce salary • Group profitability and prevailing market conditions • Salary levels across the Group generally • Eliminating the gender pay gap • Increases are not automatic	To avoid creating expectations of Executive Directors and other employees, no maximum base salary has been set. Increases will not normally exceed the average of increases awarded within the rest of the Group in the UK. Larger increases may be awarded in certain circumstances including, but not limited to: • Increases in scope or responsibility • Where market conditions indicate a lack of competitiveness and risk to attracting or retaining executives Where the Remuneration Committee exercises its discretion to award increases above the average for other employees, a full explanation will be provided in the next annual report on remuneration.	Individual performance is the primary consideration in setting salary alongside overall Group performance, affordability and market competitiveness.
Benefits			
Market competitive benefits sufficient to recruit and retain the talent necessary to develop and execute the business strategy.	Provision of car allowance, life assurance and private medical scheme. Executive Directors are also provided with permanent health insurance. Executive Directors can also participate in the annual leave flexibility scheme. Other benefits may be provided on an individual basis such as, but not limited to, relocation allowances including transactional and legal costs, disturbance and travel and subsistence costs.	While the Remuneration Committee has not set an absolute maximum, benefits will be market competitive taking into account role and individual circumstances.	Not applicable.

Directors' remuneration report continued

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
Pension			
To provide market competitive post-retirement income sufficient to recruit and retain executives.	Executive Directors are offered membership of a defined contribution pension plan or choice of cash in lieu (for example, where contributions to the plan would cause an Executive Director to exceed the HM Revenue and Customs (HMRC) annual allowance or lifetime allowance limits.) The contribution rates offered are aligned with pension contributions for the wider workforce and based on base salary only.	The contribution rates for newly appointed Executive Directors will be aligned to rates for the wider workforce at the date of appointment. The Executive Directors may choose to receive a cash allowance in lieu of contributions. The allowance is equal to the pension contribution that would otherwise have been paid less the Company's national insurance contribution to ensure cost neutrality.	Not applicable.

Variable remuneration

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
Annual Bonus Plan (ABP)			
To incentivise and reward delivery of financial and personal performance targets that address the distinct commercial and strategic needs of the business, and align with shareholder interests. To ensure a consistent and stable reward structure throughout the management group that will remain fit for purpose. To support a pay for performance philosophy. To help attract and retain top talent and be cost effective. Compulsory deferral of shares supports alignment with shareholder interests and also provides a retention element.	The Remuneration Committee sets Group financial targets and agrees personal objectives for each Executive Director at the start of each year. Reference is made to the prior year and to budgets and business plans while ensuring the levels set are appropriately challenging but do not encourage excessive risk-taking. Payments are determined by the Remuneration Committee after the year end. The bonus plan is non-contractual and may be offered on a year by year basis. Sixty per cent of annual bonus is payable immediately in cash. Forty per cent of annual bonus is payable in deferred shares (deferred bonus plan) and released in tranches, subject to continued employment (with early release in certain circumstances). There are no further performance conditions. Fifty per cent of deferred shares are released one year after cash payout and the remaining 50% two years after cash payout. The Remuneration Committee may increase the number of shares subject to a deferred share award to reflect dividends that would have been paid over the deferral period on shares that vest. The deferred share element (DBP) will be disclosed in the annual report on remuneration. The cash and deferred share element are subject to malus and clawback provisions to allow the Company to recoup three years from award in the event of material financial misstatement of results, gross misconduct, other acts or omissions that could bring the business into disrepute and or cause reputational damage or corporate failure. The Committee may also make discretionary adjustments, up and down, to the formulaic outcome of short and long term plans if there is misalignment with the Group's strategic goals or shareholder interests.	The current annual maximum bonus opportunity of 135% of salary for the Chief Executive Officer and 115% of salary for the Chief Financial Officer linked to business performance will continue to apply. The Remuneration Committee has the discretion to increase the overall maximum bonus level to 150% of salary, subject to this not being above the competitive market range.	The bonus payout level is determined by achievement of Group financial performance measures with an element based on personal objectives. The metrics, while stretching, do not encourage inappropriate risks to be taken. The Remuneration Committee will maintain discretion to consider the financial underpin in respect of awards under the ABP. Financial targets and weightings will be disclosed in the annual report on remuneration.

Purpose and link to strategy	Operation	Maximum potential opportunity	Performance metrics
Performance Share Plan (PSP)			
A share-based long term incentive is aligned closely with business strategy and interests of shareholders through the performance measures chosen. Under the new policy, consistent with market practice, awards will vest, subject to group performance, at the end of a three year performance period, and will be subject to a two year post-vesting holding period. This supports a pay for performance philosophy. To retain key executives over a longer term measurement period. To ensure a consistent and stable reward structure throughout the management group that will remain fit for purpose. To attract and retain top talent and continue to be cost-effective. To ensure overall cost-efficiency. To ensure any payout is supported by sound profitability. To support the strategic focus on growth and margins.	Directors receive share awards in respect of each financial year with a three year performance period and performance metrics which, while challenging, will not encourage excessive risk-taking. Awards will vest after three years provided Group performance criteria are met. This will be followed by an additional two year holding period before awards are released to participants. The Remuneration Committee may determine that the award holder will receive additional shares equal to the value of any dividends which would have been paid (by reference to the period beginning on the grant date and ending at the end of the holding period) on the shares subject to an award which vest. Vesting of awards is subject to continued employment until the vesting date but, as described on page 73, PSP awards may also vest in 'good leaver' circumstances. Awards under the PSP will vest early on a change of control (or other similar event) subject to satisfaction of the performance conditions and, unless the Remuneration Committee determines otherwise, pro-rating for time in the performance period. The Remuneration Committee has the right to claw back any PSP awards within three years of the vesting of an award to the extent there has been material financial misstatement of results, gross misconduct, any act or omission that could bring the business into disrepute and or cause reputational damage or corporate failure. Malus provision also applies. The Committee may also make discretionary adjustments, up and down, to the formulaic outcome of short and long term plans if there is misalignment with the Group's strategic goals or shareholder interests.	The maximum number of shares which may be subject to an award granted to eligible employees in respect of any financial year will not have a value (as determined by the Remuneration Committee) exceeding 100% of salary as at the award date. The Committee retains discretion in exceptional circumstances to grant awards with a face value of up to 150% of salary.	Awards will normally vest subject to the achievement of Group performance over a period of three years against key metrics set by the Remuneration Committee which are aligned to commercial business needs and strategy. The Remuneration Committee must be satisfied that vesting reflects the underlying performance of the Group and retains the flexibility to adjust the vesting amount to ensure it remains appropriate to the business performance achieved. The Remuneration Committee regularly reviews the performance conditions and targets to ensure they continue to be aligned with the Group's business objectives and strategy and retains the discretion to change the measures and their respective weightings to ensure continuing alignment with such objectives and strategy. The Remuneration Committee maintains the ability to adjust or set different performance measures if events occur or circumstances arise which cause the Committee to determine that the performance conditions have ceased to be appropriate. If varied or replaced, the amended performance conditions must, in the opinion of the Committee, be materially no more or less difficult than the original condition when set and these will be disclosed in the annual report on remuneration.
All employee share plans			
To encourage employees including the Executive Directors to build a shareholding through the operation of all employee share plans such as the HMRC approved De La Rue Sharesave scheme in the UK.	Executive Directors may participate in the Sharesave scheme on the same terms as other employees. Under the UK Sharesave scheme, the option price may be discounted by up to 20%. Accumulated savings through payroll may be used to exercise an option to acquire shares. Under the Employee Share Purchase Plan, employees in the US may be offered the opportunity to purchase the Company's shares at a 15% discount to the market price. Any purchases are funded through accumulated payroll deductions. Shareholders approved the Rules of Sharesave and the ESPP at the 2012 AGM.	The maximum savings is in line with the legislative limit which is currently £500 per month over a three or five year period under the Company's Sharesave scheme. The rules of the scheme provide for savings up to the legislative limit of £500 per month.	No performance measures but employment conditions apply.

Directors' remuneration report continued

Shareholding requirement for Executive Directors

The Remuneration Committee believes that it is important that the interests of Executive Directors should be closely aligned with those of shareholders. The Committee has adopted a policy that Executive Directors are required to build up a shareholding equivalent to two times salary. It is intended that this is met by Executive Directors retaining 100% of vested post-tax Deferred Bonus shares, restricted shares and performance shares until the requirement is met in full.

A post-employment shareholding requirement will apply of two times salary (or the actual shareholding at date of exit if lower) for the first year following exit and 50% of this level for the second year following exit.

For the purposes of the in-employment shareholding requirement, the following types of shares will be included:

- Fully beneficially owned shares, including shares purchased by the individual out of own funds and vested PSP shares after the end of the holding period
- Deferred Bonus shares (on a net-of-tax basis)
- PSP shares after the three year performance conditions have been achieved, during the holding period (on a net-of-tax basis)

For the purposes of the post-employment holding requirement, the above categories of shares will be required to be held, with the exception of shares purchased by the individual out of own funds, so as to avoid potentially disincentivising share purchases.

Employee considerations

Although employees have not directly been consulted on the proposed remuneration policy or its application, when determining the remuneration arrangements for Executive Directors, the Remuneration Committee takes into consideration the pay and conditions of employees throughout the Group.

In particular, the Committee is kept informed of the structure and application of reward policies across the Group, including:

- Salary increases for the general employee population
- Overall spend on variable pay, including annual bonus and other incentive and commission schemes in operation across the Group
- Participation in the ABP and PSP
- Gender pay gap
- CEO pay ratio analysis

Pay review budgets for senior managers and executives are set at levels which are typically lower or the same as those agreed with our trade unions for employees whose pay is collectively bargained. The remuneration policy applied to the Executive Leadership Team and the most senior executives in the Group is similar to the policy for the Executive Directors in that a significant element of remuneration is variable and dependent on Group and individual performance. The Group aims to offer competitive levels of remuneration, benefits and incentives to attract and retain talented individuals at all levels with the experience and capability to deliver the business strategy.

This year we strengthened our approach to communication with our employees in line with the provisions of the UK Corporate Governance Code, through the appointment of a Non-executive Director with direct accountability for listening to employee views. In February 2020, the Chair of the Committee, in her role of Non-executive Director responsible for employee engagement, met with UK elected employee representatives to explain the proposed policy. The views gathered were discussed and considered by the Remuneration Committee prior to adoption of the proposed policy.

The Chief Executive Officer consults with the Remuneration Committee 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, market practice and the key principles of remuneration outlined above.

On authority of the Committee, the Chief Executive Officer has discretion to make PSP awards to a limited number of employees not being Executive Directors or Executive Leadership Team members.

These arrangements ensure that the application of the policy is heavily influenced by remuneration arrangements for all employees.

Remuneration Committee discretion

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

Shareholder views

The Remuneration Committee engages in regular dialogue with shareholders to discuss and take feedback on its remuneration policy and governance matters. During the last year the Committee has consulted with De La Rue's largest UK shareholders and the main UK institutional investor bodies on the proposals for the new Directors' remuneration policy subject to a binding vote at the AGM on 6 August 2020. The Committee welcomes an open dialogue with shareholders and intends to continue to consult with major shareholders before implementing any significant change to the Directors' remuneration policy.

Service contracts

Current and new Executive Directors are employed on contracts that have a notice period that should not exceed 6 months.

The Remuneration Committee recognises that in the case of appointments to the Board from outside the Group, it may be necessary to offer a longer initial notice period, which would subsequently reduce to 6 months after that initial period.

Non-executive Directors

Kevin Loosemore, Chairman, was initially appointed as a Non-executive Director and Chairman designate on 2 September 2019.

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

Payment for loss of office

In determining compensation for early termination of a service contract, the Remuneration Committee carefully considers the specific circumstances, the Company's commitments under the individual's contract and the individual's obligation to mitigate loss. The table below outlines the framework for contracts for Executive Directors. Should additional compensation matters arise, such as a settlement or compromise agreement, the Remuneration Committee will exercise judgement and will take into account the specific commercial circumstances.

Policy	
Notice period on termination by the Company	Maximum of 6 calendar months. The Remuneration Committee recognises that in the case of appointments to the Board from outside the Group, it may be necessary to offer a longer initial notice period, which would subsequently reduce to 6 months or less.
Termination payment at the Company's sole discretion	On termination by either the Company or the relevant Executive Director, the Company retains the discretion to make a payment in lieu of notice not exceeding 6 months' basic salary, excluding bonus but including benefits in kind (which may include company car or car allowance and private health insurance) and pension contributions, or cash in lieu of pension). Benefits provided in connection with termination payments may also include, but are not limited to, outplacement and legal fees.
Change of control	Under the ABP, share awards will vest in full on change of control. Awards under the PSP will vest early on a change of control (or other similar event) taking into account the satisfaction of the performance conditions and, unless the Remuneration Committee determines otherwise, pro-rating for time elapsed in the performance period.
Vesting of incentives for leavers	The Remuneration Committee has the discretion to determine appropriate bonus amounts taking into consideration the circumstances in which an Executive Director leaves. Typically for 'good leavers', bonus amounts (as estimated by the Remuneration Committee) will be pro-rated for time in service to termination and will be subject to performance, paid at the usual time. 'Good leavers' will be those individuals who die in service or leave De La Rue as a result of their ill-health, injury, disability or the sale of their employing company or business out of the Group or in any other circumstances at the discretion of the Committee. The vesting of share awards is governed by the rules of the appropriate incentive plan approved by shareholders. Typically for 'good leavers': • Under the ABP, the provisions allow awards to vest in full at the normal vesting date or earlier at the discretion of the Remuneration Committee • Under the PSP, awards pro-rated over the performance period to the date of departure (unless the Remuneration Committee determines otherwise), will vest at the normal vesting date taking into account the extent to which the relevant performance targets have been met. The Remuneration Committee has the discretion to test the performance targets early and accelerate vesting • Good leavers under the Sharesave scheme, which is HMRC approved, are entitled to exercise options, pro-rated to the savings made • If awards are made on recruitment the treatment on leaving would be determined at the time at the Remuneration Committee's discretion in accordance with the relevant plan rules.
Pension benefits	These will be paid in accordance with the rules of the pension scheme. Where an early retirement pension is paid from a legacy UK defined benefit pension scheme, a reduction will be made to the pension to reflect early receipt using factors determined and set by the Trustees from time to time.

Directors' remuneration report continued

Remuneration policy for the Chairman and Non-executive Directors

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

Remuneration policy for new appointments

When considering the appointment of Executive Directors, the Committee balances the need to attract candidates of sufficient calibre while remaining mindful of the need to pay no more than necessary. The Committee will typically align the remuneration package with the above remuneration policy. Base salary may be set at a higher or lower level than previous incumbents. Where possible, salary may be set at an initially lower level with the intention of increasing it over the following two years dependent on performance in the role and experience gained. In certain circumstances, to facilitate the recruitment of individuals of the required calibre, incentive arrangements and awards may also be higher. The Remuneration Committee retains the discretion to make payments or awards which are outside the policy to facilitate the recruitment of candidates of the appropriate calibre to implement the Group's strategy. In addition, remuneration forfeited on resignation from a previous employer may be compensated.

The form of this compensation would be considered on a case by case basis and may comprise either cash or shares. Generally (though not necessarily in all circumstances) the Committee will favour share awards with appropriately stretching performance targets attached and, at a minimum, expects that:

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

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

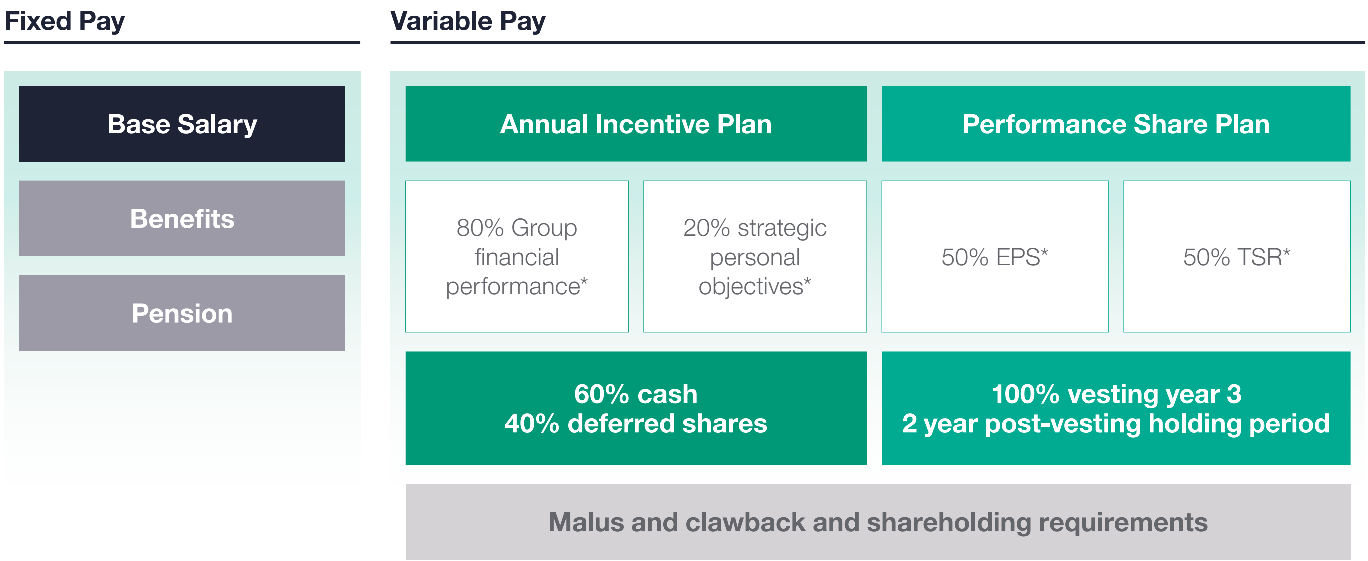
Internal appointments will receive a remuneration package that is consistent with the remuneration policy. Legacy terms and conditions would be honoured, including any outstanding incentive awards. Company pension contribution rates would be set in line with the rates available to the wider workforce at the date of appointment.

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

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

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

Summary of our remuneration policy



Note:
* We are minded to apply the policy in this format for year 1 of the plans with discretion to adjust in future years.

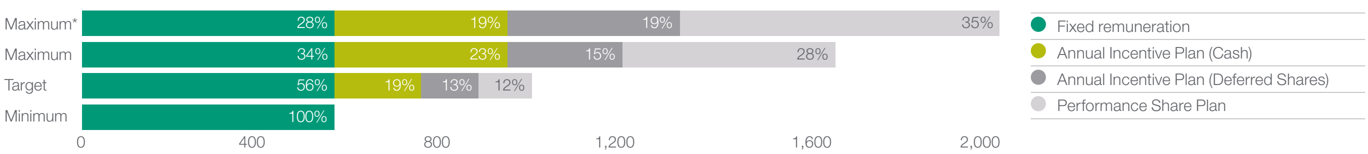
Illustration of the application of remuneration policy

The following charts illustrate the potential value of the Executive Directors' remuneration package in various scenarios in a typical year. Salary levels are as at 1 July 2020.

Performance scenarios for the ABP and PSP assume the following:

Minimum	Target	Maximum	Maximum with share growth of 50%
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	Maximum cash bonus, maximum deferred shares under ABP, maximum vesting under PSP with 50% share growth

Scenario chart



Note:
* +50% share price growth.

Directors' remuneration report continued

Illustrative scenario charts

Performance scenarios for the ABP and PSP assume the following:

Minimum	Target	Maximum	Maximum with share growth of 50%
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	Maximum cash bonus, maximum deferred shares under ABP, maximum vesting under PSP with share price growth of 50%

Assumptions for the scenario charts

Minimum	Target	Maximum	Maximum with share growth of 50%
Fixed pay (base salary, benefits and pension)	Fixed pay (base salary, benefits and pension)	Fixed pay (base salary, benefits and pension)	Fixed pay (base salary, benefits and pension)
No bonus payout	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)	100% of maximum bonus opportunity (135% of salary for CEO, 115% of salary for CFO)
No vesting under ABP or PSP	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	60% will be payable immediately in cash and 40% will be deferred in shares. 40% of ABP deferred shares vesting valued at 60%
	25% of PSP shares vesting (25% of salary for CEO and CFO)	100% of PSP shares vesting (100% of salary for CEO and CFO)	100% of PSP shares vesting valued at 150%

Executive Director remuneration mix 2020/21

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 2020/21.

Annual report on remuneration

This section of the Directors' remuneration report shows how the Remuneration Committee implemented the policy on Directors' remuneration for the financial year 2019/20 including all elements of remuneration received by Executive Directors and the incentive outturns for 2019/20.

Single figure of remuneration for each Director (audited)

The table below shows how we have applied the current remuneration policy during 2019/20. 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	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000	**2020 £'000**	2019 £'000
Executive Directors												
Clive Vacher (appointed to the Board 7 October 2019)	**220**	–	**8**	–	**–**	–	**–**	–	**21**	–	**249**	–
Martin Sutherland (stepped down from the Board 7 October 2019)	**256**	490	**15**	29	**–**	197	**–**	106	**69**	132	**340**	954
Helen Willis (stepped down from the Board 24 January 2020)	**283**	225	**19**	14	**–**	77	**–**	–	**48**	39	**350**	355
	759	715	**42**	43	**–**	274	**–**	106	**138**	171	**939**	1,309
Chairman												
Kevin Loosemore (appointed to the Board 2 September 2019 as Chairman Designate and became Chairman on 1 October 2019)	**104**	–	**–**	–	**–**	–	**–**	–	**–**	–	**104**	–
Philip Rogerson (retired from the Board 1 October 2019)	**97**	194	**–**	–	**–**	–	**–**	–	**–**	–	**97**	194
Non-executive Directors												
Nick Bray	**58**	58	**–**	–	**–**	–	**–**	–	**–**	–	**58**	58
Sabri Challah	**58**	58	**–**	–	**–**	–	**–**	–	**–**	–	**58**	58
Maria da Cunha	**54**	50	**–**	–	**–**	–	**–**	–	**–**	–	**54**	50
Andrew Stevens (stepped down from the Board 7 October 2019)	**30**	58	**–**	–	**–**	–	**–**	–	**–**	–	**30**	58
Aggregate emoluments	**1,160**	1,133	**42**	43	**–**	274	**–**	106	**138**	171	**1,340**	1,727

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 2019 and the salary shown above is for the period to 7 October 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 £5,012 which is reflected in the table above.
  ii Clive Vacher has a notional salary of £450,000 per annum effective 1 October 2019 and the salary shown above is for the period to 28 March 2020.
  iii Helen Willis has a salary of £330,000 per annum effective 1 July 2019 and the salary shown above is for the period to 24 January 2020. The figure also includes an additional payment of £12,566 to compensate for an underpayment in relation to the cash and deferred share component of the 2019 bonus paid in July of that year.

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 2019/20 is provided on page 79. Executive Directors (past and present) did not qualify for a bonus payment for the year 2019/20.

d PSP: the 2019 figure shown is the estimated value of the shares that was due to vest in June 2019 (as the vesting price was not known at the date of the 2019 Directors' remuneration report). The table showing vested, lapsed and unvested share awards on page 83 also 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 82 for further details of pension arrangements.

Directors' remuneration report continued

Changes in Executive Directors during the year

Martin Sutherland

Martin Sutherland stepped down from the Board as Chief Executive Officer with effect from 7 October 2019. Further details are disclosed on page 82.

Clive Vacher appointment

Clive Vacher was appointed Chief Executive Officer to the Board with effect from 7 October 2019. Clive receives a base salary of £450,000. In his first year following recruitment Clive Vacher received a PSP award of 326,245 shares which represents approximately 100% of salary, the policy allows awards of up to 150% of salary however the Committee was mindful of share price at point of award and scaled back accordingly. The award has specific performance targets intended to align the CEO's interests with those of shareholders and motivate and reward directly in proportion to the delivery of the Turnaround Plan.

The award is subject to specific performance criteria:

Rank of the Company's TSR within the FTSE 250	Extent to which the Performance Targets have been satisfied
Upper quartile or above	100%
Between upper quartile and median	Pro-rata between 25% and 100% on a ranking basis
Median	25%
Below median	0%

All other pay and remuneration awards were in line with our remuneration policy, pension was set at 12% company contribution level subject to a 6% employee contribution in line with contributions to the wider workforce. For the financial year 2020/21, Clive Vacher will receive a pension contribution of 10% on the basis of a 6% individual contribution in line with negotiated changes to the UK workforce effective May 2020.

No bonus award under the Annual Bonus Plan (ABP) for the 2019/20 financial year was made.

Helen Willis

Helen Willis stepped down from the Board as Chief Financial Officer with effect from 24 January 2020. Further details can be found on page 82.

Individual elements of remuneration

Base salary and fees (audited)

Base salaries for Executive Directors are normally reviewed annually by the Remuneration Committee and are set with reference to individual performance, experience and responsibilities, Group performance, affordability and market competitiveness. The Committee determined that Clive Vacher's salary should remain unchanged for 2020:

	Base salary level 2020 £'000	Base salary level 2019 £'000	Increase %
Clive Vacher[1]	**450**	–	–
Helen Willis[1]	**–**	330	–

Note:
1 Clive Vacher was appointed to the Board on 7 October 2019 and Helen Willis stepped down from the Board on 24 January 2020. The actual pro-rate amounts paid to Clive Vacher was £220,384 for 2019/20.

The Directors' remuneration policy approved by shareholders at the 2017 AGM and that to be put to shareholders at the 2020 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 remuneration policy.

The remuneration policy for Non-executive Directors, other than the Chairman, is determined by the Board. The Remuneration Committee determines the Chairman's fee. 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 2019/20. Fees payable to Non-executive Directors remain unchanged since 2017/18 and no fee increase is proposed for 2020.

The fees for 2020 are as follows:

Non-executive Director fees	2020 £'000	2019 £'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 £200,000 for 2020 and will be reviewed again in the normal way in April 2021.

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. Clive Vacher holds no external directorship appointments.

Variable remuneration (audited)

Annual bonus for 2019/20

The Annual Bonus Plan for FY 2019/20 was issued with the following financial structure and targets:

Measure	Threshold	Target	Maximum	Actual	% of maximum achieved
Group revenue	£520m	£525m	£545m	£426.7m	0%
Group adjusted operating profit	£53m	£55m	£59m	£23.7m	0%
Average Net Debt	£140m	£138m	£128m	£155.1m	0%

The Committee did not exercise any discretion to adjust bonus outcomes. As the performance criteria for the plan were unmet, no payment is due to any of the Executive Directors for the 2019/20 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 and the link to share price. 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

Awards made under the PSP 2016-2019 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
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
2020	EPS[1]	25	100	–	–
	TSR[3]	25	100	–	–

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.

3 The issuance of 2020 PSP and the final decision on performance measures will be deferred until we are able to calibrate appropriate targets considering volatility of the markets.

Directors' remuneration report continued

PSP award vesting in 2020

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 twenty-five per cent was based on ROCE of over 30%.

The performance period for the 2017 PSP awards ended on 31 March 2020. 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 above the threshold of 30%. Resulting in 9% of the PSP award vesting against the 2017 plan
- The Committee did not exercise any discretion to adjust PSP vesting outcomes

Awards made to Martin Sutherland and Helen Willis under the 2017 PSP have or will lapse under their termination arrangements, so there will be no vesting of any PSP awards for current or former Executive Directors in respect of the performance period ending 2019/20 financial year.

PSP awards made in July 2019 (audited)

Awards will lapse so there are no outstanding 2019 awards to current or former Executive Directors.

Executive Directors as listed below 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
Helen Willis	110,887	10 July 2019	100	330	25	March 2022

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 297.60p for the award on 10 July 2019. Face value is the maximum number of shares that would vest multiplied by the share price 291.4850p on 10 July 2019) 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 decided that the measures of EPS growth and ROCE remained the most appropriate measures for De La Rue.

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

Implementation of the remuneration policy in 2020/21

As described earlier in this report, a proposed new remuneration policy will be put to shareholders at the AGM in 2020. Subject to shareholder approval, remuneration arrangements in 2020/21 will then operate in line with this policy.

Salary and benefits

There will be no change to the salary level or benefits for the Chief Executive Officer in 2020/21. In line with pension levels available to the workforce, at appointment, Clive Vacher received a pension contribution of 12% of salary on the basis of a 6% individual contribution. In the financial year 2020/21 Clive Vacher will receive a pension contribution of 10% on the basis of a 6% individual contribution in line with negotiated changes to the UK workforce effective May 2020. Any new Executive Director will receive a pension in line with levels available to the workforce.

ABP 2020/21

The Remuneration Committee has carefully considered bonus performance measures for FY 2020/21 and concluded that the current measures set out in the table below remain highly relevant for the current turnaround situation. Cost competitiveness, improved efficiency and strong cash management are required to support growth in both Currency and Authentication. Revenue targets will ensure focus on top line growth and maintaining profit and net debt targets ensuring growth is balanced and profitable supporting strong cash management. A return to a 20% weighting on personal strategic targets ensures that Executive Directors are incentivised primarily on the delivery of clear and tangible financial metrics that remain underpinned by transparent personal strategic objectives explicitly linked to ensure the achievement of the financial metrics and delivery of the Turnaround Plan.

The current maximum entitlement of the Chief Executive Officer under the ABP remains 135% of salary. The structure and weightings will be as follows:

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

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.

Personal strategic objectives for the Chief Executive Officer are focused on the key strategic priorities and may include addressing the cost base of the Company, targeted growth and efficiency measures in the different business lines and a strong focus on value stream excellence across the Group, as well as the successful refinancing of the business in order to continue to fund the execution of the Turnaround Plan. 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 will rigorously review incentive outturns and will consider the overall performance of the business, not just the outcome of each measure.

The specific performance targets are not disclosed while still commercially sensitive, but will be disclosed the following year.

Performance measures applying to PSP awards to be made in 2020

The Remuneration Committee has given detailed consideration to the most appropriate LTIP performance measures that provide a strong link between the Turnaround Plan execution, business performance and executive reward. For awards in FY 2020/21 under the new share plans to be introduced following shareholder approval at the next annual general meeting, it is envisaged that Total Shareholder Return (TSR) relative to the constituents of the FTSE 250 will be introduced as a performance measure. This will ensure that appropriate focus is placed on the key business imperative of restoring value to shareholders. This growth measure will sit alongside the existing EPS measure and replace ROCE. The current weighting of measures will be retained at 50:50. The final decision on performance measures will be deferred until we are able to calibrate appropriate targets considering volatility of the markets.

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 eligible for release on the fifth anniversary of award.

Shareholding requirements

Under the proposed policy, Executive Directors are required to build up a shareholding equivalent to 200% of salary (increased from 100% in previous policy) over a five year period. It is intended that this is met by Executive Directors retaining 100% of vested post-tax Deferred Bonus shares, restricted shares and performance shares until the requirement is met in full.

The new policy will also introduce a new post-employment shareholding requirement of 200% of salary (or the actual shareholding if lower) for the first year following exit and 50% of this guideline level for the second year following exit.

Executive Directors' service contracts

The table below summarises the notice periods contained in the service contracts for Executive Directors in office as at 28 March 2020.

	Date of contract	Date of appointment	Notice from Company	Notice from Director
Clive Vacher	6 October 2019	7 October 2019	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 2022
Sabri Challah	23 July 2015	22 July 2021
Maria da Cunha	23 July 2015	22 July 2021
Kevin Loosemore	1 October 2019	30 September 2022

Directors' remuneration report continued

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, Helen Willis received a cash allowance of 20% of basic salary in lieu of pension contributions, with the allowance reduced by the amount of the Company's national insurance contribution to ensure cost neutrality with making the same contribution to the pension plan.

Clive Vacher received a pension contribution of 12% of salary on the basis of a 6% individual contribution, in line with levels available to UK-based employees. Any new Executive Director will likewise receive pension contributions in line with levels available to the workforce.

Payments for loss of office (audited)

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

Payments to past Directors (audited)

Martin Sutherland stepped down from the Board as Chief Executive Officer with effect from 7 October 2019. Martin was paid in accordance with his contract up to his cessation of employment with the Company on 13 March 2020. As previously disclosed, deferred share awards granted under prior year bonus plans plus dividend shares will continue to vest on their usual scheduled date as per current rules. The second tranche of the share award granted in June 2016 under the Performance Share Plan, pro-rata to date of ceasing employment plus dividend shares will also vest on its normal vesting date in June 2020. PSP awards granted in 2017 and 2018 lapsed in full. As previously disclosed, Martin received a contribution of £3,500, plus VAT, towards legal fees and a contribution of £50,000 plus VAT towards outplacement fees.

Helen Willis stepped down from the Board as Chief Financial Officer with effect from 24 January 2020. Helen will be paid in accordance with her contract up to her cessation of employment with the Company on 24 July 2020. In accordance with the Company's Annual Bonus Plan, the first tranche of the 2018/19 award made to Helen on 25 June 2019 will vest on 10 July 2020. All other outstanding awards under this Plan and under the Performance Share Plan will lapse.

Directors' interests in shares (audited)

The Directors and their connected persons had the following interests in the ordinary shares of the Company at 28 March 2020:

			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 Director								
Clive Vacher	48,750	6.2	326,245	–	–	1,334	–	–
Non-executive Chairman								
Kevin Loosemore	20,000	n/a	–	–	–	–	–	–
Non-executive Directors								
Nick Bray	18,348	n/a	–	–	–	–	–	–
Sabri Challah	3,400	n/a	–	–	–	–	–	–
Maria da Cunha	4,735	n/a	–	–	–	–	–	–

There have been no changes in Directors' outright interests in ordinary shares in the period 28 March 2020 to 17 June 2020. 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 57p on 28 March 2020.

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 30 March 2019**	Awarded during year	Exercised during year	Lapsed during year	**Awards held at 28 March 2020**	Awards vested (unexercised) during year	Share price at date of award (pence)	Market price per share at exercise date (pence)	Date of vesting	Expiry date
Clive Vacher (appointed to the Board on 7 October 2019)											
Annual Bonus Plan[1]		**–**	–	–	–	**–**	–	–	–	–	–
Performance Share Plan	Jan 20	**–**	326,245	–	–	**326,245**	–	131.80[2]	–	Jan 25	Jan 30
Sharesave options[1]	Jan 20	**–**	1,334	–	–	**1,334**	–	118.67[3]	–	Mar 23	Aug 23
Martin Sutherland (stepped down from the Board 7 October 2019)											
Annual Bonus Plan[1]	Jun 17	**7,438**	1,073[4]	8,511[4]	–	**–**	–	680.10[5]	210.10[6]	Jul 19	Jul 27
	Jun 19	**–**	13,050	–	–	**13,050**	–	301.60[5]	–	Jul 20	Jun 29
	Jun 19	**–**	13,051	–	–	**13,051**	–	301.60[5]	–	Jul 21	Jun 29
Performance Share Plan	Jun 15	**8,567**	1,615[7]	10,182[7]	–	**–**	–	541.00[5]	210.10[6]	Jun 19	Jun 25
	Jun 16	**54,488**	1,407[8]	15,029[8]	40,866	**–**	–	520.85[5]	210.10[6]	Jun 19	Jun 26
	Jun 16	**36,325**	–	–	28,001	**8,324[9]**	–	520.85[5]	–	Jun 20	Jun 26
	Jun 17	**42,346**	–	–	42,346	**–**	–	680.10[5]	–	Jun 20	Jun 27
	Jun 17	**28,231**	–	–	28,231	**–**	–	680.10[5]	–	Jun 21	Jun 27
	Jun 18	**53,357**	–	–	53,357	**–**	–	551.00[5]	–	Jun 21	Jun 28
	Jun 18	**35,572**	–	–	35,572	**–**	–	551.00[5]	–	Jun 22	Jun 28
Total		**266,324**	30,196	33,722	228,873	**34,425**					
Sharesave options[1]	Jan 16	**1,567**	–	–	1,567	**–**	–	344.40[3]	–	Mar 19	Aug 19
	Jan 19	**1,796**	–	–	1,796	**–**	–	372.67[3]	–	Mar 22	Aug 22
Helen Willis (stepped down from the Board on 24 January 2020)											
Annual Bonus Plan[1]	Jun 19	**–**	5,083	–	–	**5,083**	–	301.60[5]	–	Jul 20	Jul 29
	Jun 19	**–**	5,084	–	–	**5,084[10]**	–	301.60[5]	–	Jul 21	Jul 29
Performance Share Plan	Aug 18	**39,759**	–	–	–	**39,759[10]**	–	498.00[5]	–	Aug 21	Aug 28
	Aug 18	**26,506**	–	–	–	**26,506[10]**	–	498.00[5]	–	Aug 22	Aug 28
	Jul 19	**66,532**	–	–	–	**66,532[10]**	–	297.60[5]	–	Jul 22	Jul 29
	Jul 19	**44,355**	–	–	–	**44,355[10]**	–	297.60[5]	–	Jul 23	Jul 29
Total		**177,152**	10,167			**187,319**					
Sharesave options[1]	Jan 19	**1,796**	–	–	1,796	**–**	–	372.67[3]	–	Mar 22	Aug 22

Notes:

1 These awards do not have any performance conditions attached.
2 Mid market share value of a De La Rue plc ordinary share as at 6 January 2020
3 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.
4 Includes an additional 1,073 dividend shares on vesting. Martin Sutherland made an aggregate taxable gain (after dealings costs excluding PAYE/NI) of £17,745.44. The balance of shares 4,496 following disposal to meet all liabilities was retained by Martin Sutherland.
5 Mid-market share value of a De La Rue plc ordinary share averaged over the five dealing days immediately preceding award date.
6 The closing mid-market price of the Company’s ordinary share on 5 September 2019 was 210.10p (the vesting date).
7 Includes an additional 1,615 dividend shares on vesting. Martin Sutherland made an aggregate taxable gain (after dealing costs excluding PAYE/NI) of £21,229.47. The balance of shares 5,379 following disposal to meet all liabilities was retained by Martin Sutherland.
8 Includes an additional 1,407 dividend shares on vesting. Martin Sutherland made an aggregate taxable gain (after dealing costs excluding PAYE/NI) of £31,335.47. The balance of shares 7,941 following disposal to meet all liabilities was retained by Martin Sutherland.
9 Award pro-rated to date of leaving see page 82 for more information.
10 Awards will lapse see page 82 for more information.

Directors' remuneration report continued

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 ten years to 28 March 2020
- A history of De La Rue's Chief Executive Officer's remuneration for the current and previous nine 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	2011	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	**2020**
Chief Executive Officer	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	Martin Sutherland[4]	**Clive Vacher[5]**
Single figure of total remuneration £'000	433	604	1,053	634	1,071	1,107	998	899	783	954	340	**249**
Annual bonus payout as a % of maximum opportunity	44	Nil	80	Nil	Nil	14	57	40	Nil	29	Nil	**Nil**
LTIP vesting against maximum opportunity (%)	100	Nil	Nil	Nil	60	Nil	Nil	Nil	25	25	Nil	**Nil**

Notes:

1 Role as Chief Executive Officer ended on 12 August 2010.
2 Appointed Chief Executive Officer on 1 January 2011 and resigned on 29 March 2014.
3 Includes award to the value of £450,000 at the date of award under the Recruitment Share Award (which vested on 31 January 2014).
4 Appointed 13 October 2014, resigned on 7 October 2019.
5 Appointed 7 October 2019.

TSR performance

This graph shows the value, by 28 March 2020, of £100 invested in De La Rue plc on 31 March 2010, 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 was a constituent of the FTSE 250 Index for the majority of the period under review.

Total shareholder return

Source: FactSet

Chief Executive Officer pay ratio

The table below sets out the CEO pay ratios from the financial year 2019/20 comparing the single total figure of the remuneration with the equivalent figures for lower quartile, median and upper quartile UK employees.

We have used Option B methodology (based on gender pay reporting) as an established data set which accurately represents the distribution of pay within the 25th, 50th and 75th percentiles of UK employees. The three quartile individuals were identified using the gender pay gap data set and then their pay was calculated as single total figure of remuneration include benefits on a comparable basis with that used for the CEO. The CEO figures used were the combined values for both CEOs employed during the Financial year 2019/20.

As the quartile individuals are representative of the companies pay distribution the ratios presented are consistent with the pay, reward and progression policies for the UK employees. A significant portion of the CEO remuneration is delivered through variable incentives where awards are linked to business performance over a longer term. This means that ratios may fluctuate year to year.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019/2020	Option B	19:1	14:1	9:1

Total pay and benefits amounts used to calculate ratio.

		25th percentile ratio		50th percentile ratio		75th percentile ratio	
Financial year	Method	Total pay and benefits	Total salary	Total pay and benefits	Total salary	Total pay and benefits	Total salary
2019/2020	Option B	£32,002.75	£27,510.84	£44,450.36	£39,316.30	£65,907.38	£54,000.00

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 2018/19 and 2019/20. UK employees were chosen as a comparator group to avoid the impact of exchange rate movements over the year. UK employees make up approximately 51.31% of the total employee population. Martin Sutherland and Clive Vacher's salaries were combined for the 2019/20 period. Sales incentive only was paid in 2019/20.

	Salary %	Benefits %	Annual bonus %
Chief Executive Officer	-2.86%	-20%	-100%
UK employee average	0.28%	0	-49.15%

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.

	2020 £m	2019 £m	Change %
Dividends (note 10 to the financial statements)	**17.3**	25.7	48.6
Overall expenditure on pay (note 27 to the financial statements)	**129.4**	126.4	2.3

Directors' remuneration report continued

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 25 July 2019. 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 (2019 AGM)	82,417,408	42,846,302	51.99	39,571,106	48.01	20,311

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. See the Chairman of the Remuneration Committee Statement (pages 66 and 67) on how the Company has dealt with the voting in respect of the 2019 Directors' remuneration report.

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 2019/20, 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 £120,183.

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 17 June 2020 and signed on its behalf.

Maria da Cunha
Chair of the Remuneration Committee

17 June 2020

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 28 March 2020. The following also form part of this report:

- Pages 44 and 45, which show the names of all persons who served as Directors of the Company during the year, together with their biographical details, at 28 March 2020
- The reports on corporate governance set out on pages 42 to 86
- Information relating to financial instruments and financial risk management, as provided in note 16 to the financial statements
- Related party transactions as set out in note 30 to the financial statements
- Greenhouse gas emissions, set out on page 34
- Details of Committee membership for each Director are set out on page 47
- Details of Directors' interests are set out on page 82 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 56 and 23 respectively. The Statement of Directors' Responsibilities appears on page 90.

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 Guidance 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 28 March 2020 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

In November 2019, the Board decided to suspend future dividend payments. No interim dividend was paid in respect of the 2019/20 financial year. The Directors' do not recommend a final dividend to be paid for 2019/20 (2018/19: 16.7.0p per share making a total of 25.0p per share for the full year). See the Chairman's Statement on page 1 and the CEO review on page 10 for further details.

Share capital

As at 28 March 2020, there were 103,997,862 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.

Directors' report continued

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 2019 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 2019, 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 22 and 23 on pages 147 to 149 which form part of this report. Details of the share incentives in place are provided on pages 79 to 83 of the Directors' remuneration report.

Authority to purchase own shares

At the 2019 AGM, shareholders gave the Company authority to purchase up to 10,384,421 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 2020 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 77 to 86. The interests of the Directors and their families in the share capital of the Company are shown on page 82 of the Directors' remuneration report which also includes information on the Company contracts of service with its Directors on page 81.

Appointment and removal of Directors

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

Substantial shareholdings

As at 17 June 2020, 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
Crystal Amber Fund Limited	26/03/2020	Direct	19.14
Brandes Investment Partners, L.P.	09/03/2020	Indirect	11.84
Schroders plc	07/10/2019	Indirect	5.83
Aberforth Partners LLP	09/04/2018	Indirect	5.11
Royal London Asset Management Limited	22/08/2019	Direct	4.98
Neptune Investment Management Limited	13/09/2019	Direct	4.98
Majedie Asset Management Limited	11/09/2019	Indirect	4.93

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 46 to 49.

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 16 on page 134.

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, 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 2019 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 pages 24, 25 and 27.

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 157 and 158.

Acquisitions and disposals

In October 2019, the Group disposed of its International Identity Solutions business. Please see note 6 on page 123 for further information.

Post-balance sheet events

Post-balance sheet events are disclosed in note 31 to the financial statements on page 157.

Going concern

As described on page 107, the Directors continue to adopt the going concern basis (in accordance with the guidance 'Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009' issued by the FRC) in preparing the consolidated financial statements.

Directors' report continued

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:

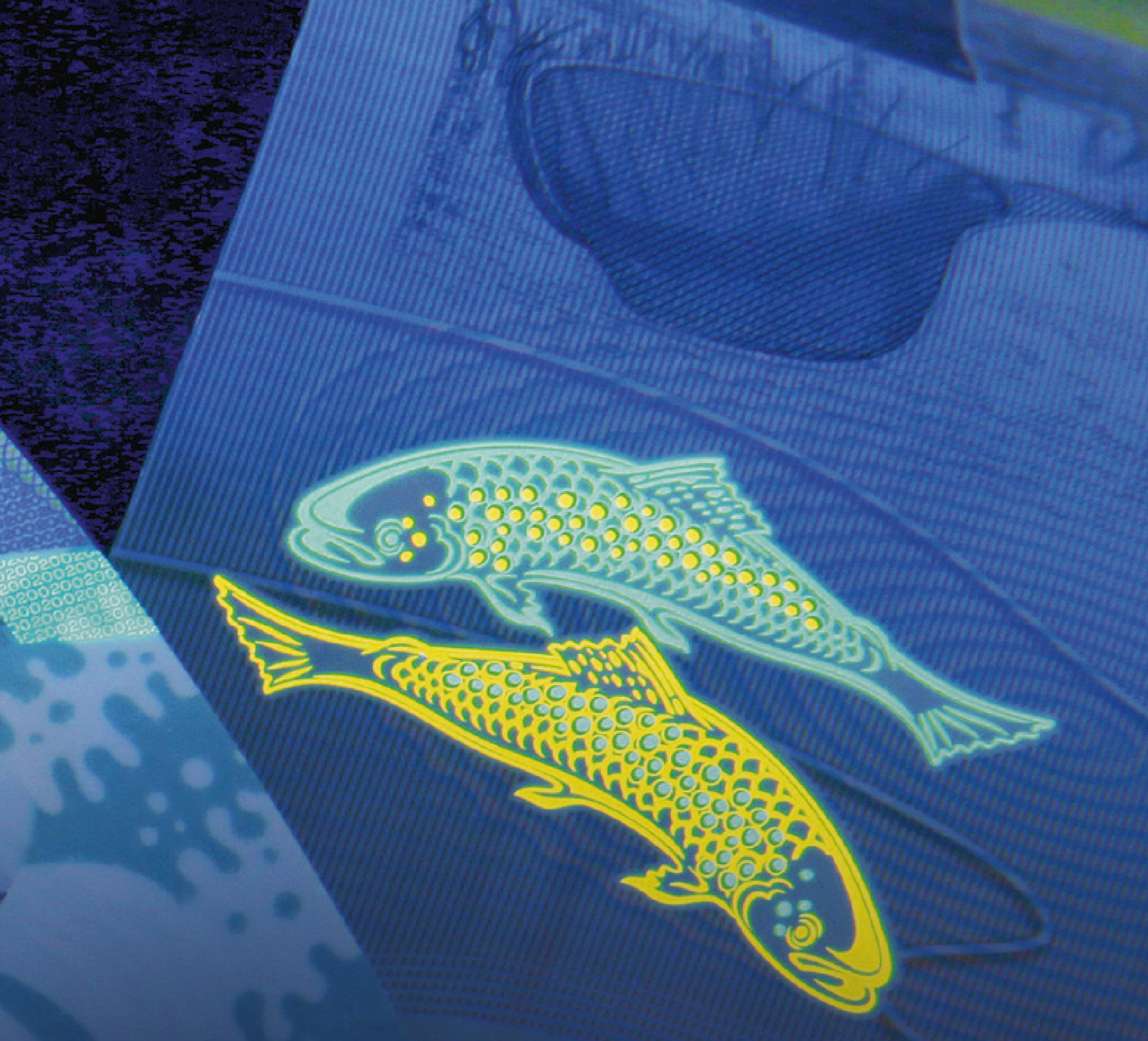
- The Group financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic report on pages 1 to 32 and the Directors' report on pages 87 to 90 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 17 June 2020.

By order of the Board

Jane Hyde
Company Secretary

17 June 2020



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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 28 March 2020 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
Consolidated income statement for the period ended 28 March 2020	Company Balance sheet as at 28 March 2020
Consolidated statement of comprehensive income for the period ended 28 March 2020	Company Statement of changes in equity for the period ended 28 March 2020
Consolidated balance sheet as at 28 March 2020	Related notes 1 to 9a to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the period ended 28 March 2020	
Consolidated cash flow statement for the period ended 28 March 2020	
Related notes 1 to 33 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.

Material uncertainty related to going concern

We draw attention to Accounting Policies (page 107) in the financial statements which indicates that the ability of the Group and Company to continue as a going concern is subject to a material uncertainty which could cast significant doubt on the Group and company's ability to continue as a going concern.

The material uncertainty relates to the outcome of the shareholder vote for the Capital Raise. The completion of the Capital Raise is dependent on approval from the Company's shareholders, in addition to the fulfilment of other customary conditions which are set out in full in the Company's going concern disclosure in Accounting Policies (page 107) of the financial statements. If the Capital Raise is not completed and the proceeds of an equity capital raise in the gross amount of at least £100 million are not received by the Company on or before 31 July 2020, the Long Stop Provision under the RCF amendment agreement would be triggered. This would require the Company to agree an alternative financing plan with the relevant lenders within 45 days (or such longer period as the Company and the lenders may agree), failing which an immediate event of default under the facility agreement would be automatically triggered. As a result, the lenders would have the right to immediately withdraw and cancel the Group's facility and demand repayment of any drawings on the facility, which, at the Balance Sheet Date, amounted to £117 million.

As such, if the shareholder vote, along with other customary conditions of the Capital Raise, is not completed before 31 July 2020 and if an alternative financing plan could not be agreed the lenders could withdraw the Group's facility and demand repayment of any drawings on the facility. In this scenario and assuming an alternative financing plan could not be agreed, the Group would not be expected to have sufficient cash resources to repay the amounts drawn and/ or continue trading. This would cast significant doubt on the Group and the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

We describe below how our audit responded to the risks related to going concern:

- The audit engagement partner and associate partner increased their time directing and supervising the audit procedures in respect of going concern and utilised Corporate Finance specialists to assist their assessment of the going concern model and related assumptions.
- We confirmed our understanding of De La Rue's going concern assessment process as well as the review controls in place over the preparation of the group's going concern model and the memoranda on going concern presented to the board of directors.
- We discussed with the appointed legal counsel and Sponsor in respect of the Capital Raise the feasibility of, and process in respect of, the Capital Raise including the customary nature of the conditions to the Capital Raise other than the shareholder vote to which the material uncertainty relates. We also inspected a copy of the relevant underwriting agreement. We were supported in this work by our Corporate Finance specialists.
- Inspected an advanced draft of the prospectus/circular in respect of the Capital Raise ahead of its publication date to determine the consistency of the disclosure in such document and those in the annual report and financial statements.
- We obtained the cash flow and covenant forecasts and sensitivities prepared by management and tested for arithmetical accuracy of the models as well as checking the net debt position at the year-end date which is the starting point for the model.
- We challenged the appropriateness of management's base and reasonable worst case forecasts, which included:
  - We inspected evidence (such as contracts) and made enquiries of management to assess the reasonableness of the forecasts including an assessment of secured orders and the status of cost-out initiatives.
  - We considered the adequacy of management's COVID-19 assumptions (which are discussed in the going concern section of Accounting Policies (page 107) taking into account the nature of the business, the possible impact on both supply and demand and considering the actual trading performance post year-end versus the base forecasts adjusted for COVID-19.
  - We evaluated those accounting judgements which we identified that could impact either forecast profit or cash flows in the going concern period. This included assessing, through discussions with key management personnel assisted where appropriate by our own specialists, the likelihood that any contingent liabilities or uncertain tax positions could give rise to a cash outflow in the going concern period. We also assessed the proposed classification of forecast exceptional items against the Company's accounting policy and terms agreed with representatives of the lenders.
  - We performed a 'reverse stress' test to determine the difference between the results that would be required to happen in this scenario (one where a covenant is breached) and those modelled in management's reasonable worst case scenario and performed our own sensitivities on this difference (or 'headroom') to identify any unmodelled downsides, taking into consideration our knowledge of the company's historical forecasting accuracy (historically and in the current year under new management).
- We understood each of the available mitigating actions and obtained analysis to determine if these were in the control of management and evaluated the expected impact of the mitigation in the light of our understanding of the business and its cost structures.
- We reviewed the working capital report prepared by the Company's reporting accountants and discussed the basis for their conclusions with them and compared those conclusions with our own conclusions from our own testing procedures.
- We read the covenant definition within the existing Revolving Credit Facility agreement and checked to ensure that calculations were in line with the terms of the agreement.
- We inspected the latest draft (subject to Capital Raise) of the amendment to the existing RCF agreement and assessed its impact on the forecasts as prepared by testing the revised model prepared by the company against its terms.
- We inspected the signed (subject to Capital Raise) deficit reduction contribution plan agreed with the pension trustee and assessed its impact on the forecasts as prepared by testing the revised model prepared by the company against its terms.
- We held discussions with the Audit Committee and full board of Directors to corroborate the forecasts and their basis as prepared by management.
- We assessed the disclosures in the Annual Report & Accounts relating to going concern, including the material uncertainty to ensure they were fair, balanced and understandable and in compliance with IAS1.

We draw attention to the Viability Statement in the Annual report on page 30, which indicates that an assumption to the Viability Statement is that the Capital Raise completes. The Directors consider that the material uncertainty referred to in respect of going concern may cast significant doubt over the future viability of the Group and Company, should the Capital Raise not complete. Our opinion is not modified in respect of this matter.

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

Conclusions relating to principal risks, going concern and viability statement

Aside from the impact of the matters disclosed in the material uncertainty relating to going concern section, 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 23 to 29 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 61 in the annual report that they have carried out a robust assessment of the emerging and principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- 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 89 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	– The adoption of IFRS 16 (Leases) – Revenue recognition (cut-off) – Post-retirement benefits – Liabilities – Virtual audit procedures and inventory counts in response to COVID-19
Audit scope	– We performed an audit of the complete financial information of four components, an audit of specific balances of three components and performed specified procedures for a further 11 components. – The components where we performed full, specific or specified audit procedures accounted for 106.2% of adjusted EBITDA (being EBITDA adjusted for exceptional items), 100.0% of Revenue and 103.0% of Total assets.
Materiality	– Overall group materiality of £850,000 which represents 2% of Adjusted EBITDA (being EBITDA adjusted for exceptional items). A full reconciliation of EBITDA to application of materiality" section below.

Key audit matters

In addition to the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. Key audit matters are those matters that, in our professional judgment, 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 the risk	Key observations communicated to the Audit Committee
The adoption of IFRS 16 (Leases) – £1.1m transition adjustment to reserves (2019 – nil) *Refer to the Audit Committee Report (page 57); Accounting policies (page 109); and Note 25 of the Consolidated Financial Statements (page 150).* IFRS 16 'Leases' has been adopted by the Group from 31 March 2019. On the initial accounting for, and in the re-assessment of accounting for leases there are accounting judgements, estimates and assumptions that impact the amounts recognised as right of use assets and lease liabilities. There is a risk of inappropriate assumptions being applied, which could have a significant impact on the valuation of amounts recognised in the balance sheet.	We have evaluated the application of IFRS 16 and tested the resulting impact on the balance sheet and income statement. We assessed whether the accounting regarding leases is consistent with the definitions of IFRS 16 including factors such as the assessment of the lease term and measurement principles. We performed a completeness analysis to ensure Management's calculation was consistent with company accounting and legal records, locations listed in the annual report and specific responses from the Company's finance sites. Due to the degree of management judgment in establishing the underlying assumptions we have involved a Treasury specialist in assessing the appropriateness of the incremental borrowing rates applied by Management in the IFRS 16 calculations.	Based on our audit procedures we have concluded that management's judgements in relation to accounting for the impact of IFRS 16 is in accordance with the Group's stated accounting policy and the related disclosure of these items is appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition (cut-off) – £466.8m (FY 2019 – £564.8m) *Refer to the Audit Committee Report (page 57); Accounting policies (page 112); and Note 2 of the Consolidated Financial Statements (page 120).* 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 using the lowest end of the performance materiality range applicable for addressing the occurrence assertion impacted by a significant risk. We focused on revenue recognised around the period end date ensuring that, for our sample selected, 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 this process (referred to as "invoicing into stock" by the Company) was stipulated in the contractual terms, the related goods had been manufactured at the year-end date (including physically verifying a sample of these items) and that control had passed to the customer. We inspected 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. We performed journal entry testing procedures to identify unusual journal entry postings. We obtained supporting audit evidence including invoices and credit notes for unusual and/or material revenue journals. At each full scope audit location with significant revenue streams (4 components) including (where relevant) consolidation adjustments, we performed audit procedures which covered 94.0% of the Group's Revenue.	Based on our audit procedures we have concluded that revenue is appropriately recognised in the period and appropriately accrued or deferred at 28 March 2020.
Post-retirement benefit Liabilities – £982.1m (FY 2019 – £1,081.6m) *Refer to the Audit Committee Report (page 57); Accounting policies (page 116); and Note 26 of the Consolidated Financial Statements (page 151).* The valuation of the pension liabilities requires significant levels of judgement and technical expertise in choosing appropriate assumptions. A number of the key assumptions (including salary increases, inflation, discount rates and mortality) can have a material impact on the calculation of the liability. 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 and statement of 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 salary increases and mortality rates which we compared to national and industry averages. We agreed the discount and inflation rates used in the valuation of the pension liability to our internally developed benchmarks. We sought to understand the actuarial valuation used as the basis for the Companies IAS 19 valuation through enquiry with the Company's external actuaries. We assessed the competency of the third parties used in determining the actuarial valuation. We verified the basis of recognition of the UK pension surplus by obtaining Management's legal advice in respect of the scheme rules and considered this against the requirements of IFRIC 14. We obtained the Company's legal advice with respect to the Pension Underpin, considered the disclosure of this matter against the requirements of IAS 37 (refer to Note 5 of the Consolidated Financial Statements). We have evaluated the competency of the third parties engaged to provide the legal advice, as an expert. We assessed the appropriateness of Management's retirement benefit obligation disclosure in reference to the applicable accounting standards. We obtained Management's calculation and related legal advice for the £8.7m indexation gain relating to deferred members and compared it to our own independent recalculation performed by our specialists. We assessed Management's judgement in respect of the treatment of the indexation gain as an income statement item, taking into account the time lapsed since the UK government changed its main rate of indexation to CPI.	Based on our audit procedures, we have concluded that the actuarial assumptions applied within the valuation of post-retirement benefits at period-end are appropriate.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Virtual audit procedures and inventory counts in response to COVID-19 The global Coronavirus (COVID-19) pandemic has caused disruption to the business operations of the Group and posed unique auditing challenges. Due to the various restrictions imposed in different countries in which the group operates, as part of the measures to combat the COVID-19 outbreak, we were not able to visit audited entity premises for the year end execution and conclusion phase of the audit. This created practical challenges including how to manage company personnel availability, the collection of sufficient and appropriate audit evidence and challenges in communication. The mandatory "lockdowns" in various countries also resulted in certain physical inventory counts not being possible, with virtual counts performed in some locations. There is a risk that sufficient audit evidence could not be obtained to conclude on the appropriateness of the inventory balance at year end.	We increased the involvement of more senior and experienced engagement team members in performing procedures related to complex issues. We developed alternative approaches for the direction and supervision of audit team members and maintained regular and effective communication within the audit team and with the Company via video conferencing, discussing issues timely thereby allowing for appropriate intervention when required. We revised our audit strategy in respect of testing the existence of inventory. We observed physical (in person) inventory counts in Malta and Kenya based on the appropriate 'social distancing' guidelines in those countries. During our observations we conducted sample testing to validate the existence of inventory. In locations where physical inventory count observations were not possible (UK and Sri Lanka), we observed inventory counts virtually using video conferencing technology and conducted test counts virtually. This excluded work in progress which could not be counted virtually for security reasons (see below). In response to the heightened risk of attending counts virtually; – The virtual inventory counts were conducted by two senior, more experienced EY team members – Sample sizes were increased from the standard mandated sample size for physical inventory counts. – We revisited a sample of inventory counted to validate it was in the same location. We traced the location of the operative holding the electronic device conducting the virtual inventory count. For the uncounted work in progress which amounted to £2.5m, we tested, on a sample basis direct materials to actual delivery receipts, traced the accounting of the materials from production to finished goods and the subsequent shipment of these goods to the customer. We verified, either physically or virtually, 74% of bill and hold inventory. For the remainder of bill and hold related inventory, we vouched the associated revenue to payment and completion certificates distributed to the customer.	Based on the procedures performed, including those in respect of inventory existence, we did not identify any evidence of material misstatement in the inventory balance recognised at 28 March 2020 and appropriate disclosures have been provided.

In the prior year, our auditor's report included the following key audit matters which have been removed due to the specified basis;

- Specific judgemental accruals: In the current year, it was concluded that this no longer represented a key audit matter as Management released the remainder of a material accrual relating to a historic dispute concerning agency commissions in the prior year.
- The adoption of IFRS 15 'Revenue from contracts with customers': The assessment and implementation of this standard was completed in the prior year and as such there are no further complex judgements to be made by Management in reference to adopting this standard.
- Recoverability of trade and other receivables: In the current year, it was concluded that this no longer represented a key audit matter as this was specifically in relation to a receivable due from Banco Central de Venezuela which was provided for in full in the prior year (and remains so as disclosed in the financial statements).

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, 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 51 reporting components of the Group, we selected seven components as full or specific scope covering entities within United Kingdom, Malta, Sri Lanka, Kenya and Group consolidation adjustments, which represent the principal business units within the Group.

Of the seven 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 three 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 full and specific audit procedures accounted for 137.2% (2019: 115.2%) of the Group’s adjusted EBITDA (a full reconciliation of EBITDA to the adjusted EBITDA figure is set out in the “Our application of materiality” section below), 96.2% (2019: 98.9%) of the Group’s Revenue and 96.0% (2019: 96.9%) of the Group’s Total assets. For the current year, the full scope components contributed 123.6% (2019: 131.2%) of the Group’s adjusted EBITDA, 94.0% (2019: 98.8%) of the Group’s Revenue and 76.0% (2019: 81.4%) of the Group’s Total assets. The specific scope component contributed 13.6% (2019: (16.0%)) of the Group’s adjusted EBITDA, 2.2% (2019: 0.1%) of the Group’s Revenue and 20.0% (2019: 15.5%) 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 accounts tested for the Group. The remaining coverage (being (31.0%) of adjusted EBITDA) related to specified procedures performed through a combination of centralised testing by the group team and instructions to component teams in 11 further locations. These typically represent cost centres and specifically, we performed specified procedures on certain aspects of Revenue; Other operating expenses; interest income and expense, provisions, intangible assets and amortisation in response to our risk assessment for these individual financial statement captions.

Of the remaining 33 components that together represent (6.2%) of the Group’s adjusted EBITDA, none are individually greater than 1.1% of the Group’s adjusted EBITDA. For these components, we performed other procedures, including cash and borrowings verification testing on balances material to the group, analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The table below illustrates the coverage obtained from the work performed by our audit teams.

	Adjusted EBITDA (%)	Revenue (%)	Total Assets (%)
Full Scope (4 Locations)	123.6	94.0	76.0
Specific Scope (3 Locations)	13.6	2.2	20.0
Specified Procedures (11 Locations)	(31.0)	3.8	7.0
Testing Total	106.2	100.0	103.0
Other Procedures (33 Locations)	(6.2)	–	(3.0)
Group Total	100.0	100.0	100.0

Changes from the prior year

For the current year, we evaluated that the overseas manufacturing locations in Malta, Sri Lanka and Kenya were specific scope locations whereas in 2019, Malta, Sri Lanka and Kenya were full scope locations. This determination was made through our updated risk assessment and a reflection of the number of misstatements identified in the prior year across these three locations which had reduced significantly compared to our initial audit in 2018. Furthermore, we have refined the scope of these locations to focus specifically on the accounts which are significant in size relative to the overall group (predominantly inventory and property, plant and equipment) and/or pertain to the key audit matters described above.

Furthermore, we have extended the number of specified procedures performed centrally by the group audit team to perform testing on locations which we have not performed substantive procedures on in previous audits, in order to add an element of unpredictability into our scoping. For example, we have performed specified procedures on Operating Expenses in cost centres in Saudi Arabia and the United Arab Emirates for the first time.

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

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. The audit procedures on the four full scope components were performed directly by the primary audit team. For the three specific 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 the specific scope overseas locations. This decision was taken based on the relative contribution of the full scope UK locations to the overall Group (123.6% of the Group's adjusted EBITDA, 94.0% of the Group's Revenue and 76.0% of the Group's Total assets). Detailed instructions were sent to all specific scope overseas locations which covered the significant areas that should be addressed by the component team auditors and the information which should be reported by to the Group audit team. Furthermore, as described above, the number of misstatements identified in the prior year across the three locations reduced significantly compared to our initial audit in 2018 and remained low in the current year. The primary team interacted regularly with the component teams during various stages of the audit including attending planning, update and closing meetings via conference calls. The primary team 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 £850,000 (2019: £2.6 million), which is 2% of adjusted EBITDA (2019: 4.9% of profit before tax adjusted for exceptional items).

We changed our basis for materiality (from the 2019 audit) from adjusted Profit before Tax to adjusted EBITDA. Given the material uncertainty related to going concern as disclosed by Management in the half year results for the six months ended 28 September 2019, there is an increased focus on the banking covenants applicable to the Company which are based on adjusted EBITDA. As such, we believe that adjusted EBITDA provides us with a reasonable basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity.

We determined materiality for the Parent Company to be £2.8 million (2019: £3.8 million), which is 2% (2019: 2%) of equity.

Our materiality is based on the Group's EBITDA 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 EBITDA £63.6m
Adjustments	• Add back net exceptional items of £20m as disclosed on the Group Income statement
Materiality	• Totals £43.6m • Materiality of £850,000 (2% of adjusted EBITDA)

During the course of our audit, we reassessed initial materiality due to a significant reduction in the Group's profitability.

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% (2019: 50%) of our planning materiality, namely £425,000 (2019: £1.3m). 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 £85,000 to £400,000 (2019: £329,000 to £1,304,000).

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 £42,500 (2019: £130,000), 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 90, 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.

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 60** – 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 56** – 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 43** – 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.

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

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
- 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 90, 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 year 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 3 years, covering the years ending 31 March 2018 to 28 March 2020.
- 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

17 June 2020

Consolidated income statement
for the period ended 28 March 2020

	Notes	2020 £m	2019 £m (restated*)
Revenue from customer contracts	2	**466.8**	564.8
Cost of sales		**(360.9)**	(402.4)
Gross Profit		**105.9**	162.4
Adjusted operating expenses	4	**(82.2)**	(102.3)
Adjusted operating profit		**23.7**	60.1
Adjusted Items:			
– Amortisation of acquired intangibles		**(0.9)**	(0.7)
– Net exceptional items		**20.0**	(27.9)
Operating profit		**42.8**	31.5
Interest income	7	**1.0**	0.6
Interest expense	7	**(6.1)**	(4.5)
Net retirement benefit obligation finance expense	7, 26	**(1.6)**	(2.1)
Net finance expense		**(6.7)**	(6.0)
Profit before taxation from continuing operations		**36.1**	25.5
Taxation	8	**–**	(4.8)
Profit from continuing operations		**36.1**	20.7
Loss from discontinued operations	3	**(0.3)**	(2.4)
Profit for the year		**35.8**	18.3
Attributable to:			
– Owners of the parent		**34.1**	17.0
– Non-controlling interests		**1.7**	1.3
Profit for the year		**35.8**	18.3
Earnings per ordinary share			
Basic	9		
Basic EPS continuing operations		**33.1p**	18.8p
Basic EPS discontinued operations		**(0.3)p**	(2.3)p
Total Basic EPS		**32.8p**	16.5p
Diluted	9		
Diluted EPS continuing operations		**33.0p**	18.8p
Diluted EPS discontinued operations		**(0.3)p**	(2.3)p
Total Diluted EPS		**32.7p**	16.5p

Note:

* The prior year column has been restated to show cost of sales separate from total operating expenses as reported in previous periods, thus allowing presentation of gross profit. The inclusion of this level of information is considered useful for the users of the Annual Report and Accounts and will provide greater insight into the performance of the business. For FY 2018/19 total operating expenses – ordinary of £505.4m was originally reported. This was made up of costs of inventories recognised as an expense of £403.6m, positive manufacturing variances of £1.2m (credit) and adjusted operating expenses of £102.3m. Consistent with the new presentation format above, the prior year amounts of cost of inventories recognised as an expense and the positive manufacturing variances have been presented combined on the cost of sales line (net value £402.4m and adjusted operating expenses of £102.3m have been presented separately.

Consolidated statement of comprehensive income
for the period ended 28 March 2020

	Notes	2020 £m	2019 £m
Profit for the year		**35.8**	18.3
Other comprehensive income			
Items that are not reclassified subsequently to profit or loss:			
Remeasurement gain/(loss) on retirement benefit obligations	26	**114.1**	(4.8)
Tax related to remeasurement of net defined benefit liability	8	**(20.5)**	1.5
Other movements		**–**	0.7
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**3.3**	(0.9)
Foreign currency translation difference reclassified to income statement on disposal of subsidiary		**1.3**	
Change in fair value of cash flow hedges		**1.4**	(2.6)
Other movements		**–**	–
Change in fair value of cash flow hedges transferred to profit or loss		**1.4**	0.4
Income tax relating to components of other comprehensive income	8	**–**	0.7
Other comprehensive income/(loss) for the year, net of tax		**101.0**	(5.0)
Total comprehensive income for the year		**136.8**	13.3
Comprehensive income for the year attributable to:			
Equity shareholders of the Company		**135.1**	12.0
Non-controlling interests		**1.7**	1.3
		136.8	13.3

Consolidated balance sheet
at 28 March 2020

	Notes	2020 £m	2019 £m
ASSETS			
Non-current assets			
Property, plant and equipment	11	**114.6**	115.0
Intangible assets	12	**31.0**	33.3
Right-of-use assets	25	**12.9**	–
Retirement benefit obligations	26	**64.8**	–
Other financial assets	13	**8.0**	7.3
Investments in associates and joint ventures		**–**	–
Deferred tax assets	18	**5.5**	18.4
Derivative financial assets	16	**2.1**	0.2
		238.9	174.2
Current assets			
Inventories	14	**53.9**	42.3
Trade and other receivables	15	**67.1**	114.4
Contract assets	2	**18.3**	24.9
Current tax assets		**0.3**	3.3
Derivative financial assets	16	**14.5**	4.0
Cash and cash equivalents	17	**14.6**	12.2
		168.7	201.1
Total assets		**407.6**	375.3
LIABILITIES			
Current liabilities			
Borrowings	20	**(116.6)**	(118.7)
Trade and other payables	19	**(133.3)**	(175.0)
Contract liabilities	2	**(0.3)**	(6.0)
Current tax liabilities		**(12.5)**	(11.7)
Derivative financial liabilities	16	**(14.0)**	(6.7)
Lease liabilities	25	**(2.8)**	–
Provisions for liabilities and charges	21	**(10.6)**	(3.5)
		(290.1)	(321.6)
Non-current liabilities			
Retirement benefit obligations	26	**(1.8)**	(78.6)
Deferred tax liabilities	18	**(8.8)**	(3.4)
Derivative financial liabilities	16	**(2.1)**	(0.2)
Provisions for liabilities and charges	21	**–**	(0.7)
Lease liabilities	25	**(11.1)**	–
Other non-current liabilities		**(0.5)**	–
		(24.3)	(82.9)
Total liabilities		**(314.4)**	(404.5)
Net assets/(liabilities)		**93.2**	(29.2)
EQUITY			
Share capital	22	**47.8**	47.7
Share premium account		**42.2**	42.1
Capital redemption reserve		**5.9**	5.9
Hedge reserve		**0.1**	(2.5)
Cumulative translation adjustment		**9.6**	5.0
Other reserve		**(83.8)**	(83.8)
Retained earnings		**56.2**	(53.5)
Total equity attributable to shareholders of the Company		**78.0**	(39.1)
Non-controlling interests		**15.2**	9.9
Total equity		**93.2**	(29.2)

Approved by the Board on 17 June 2020.

Kevin Loosemore
Chairman

Clive Vacher
Chief Executive Officer

Registered number: 3834125

Consolidated statement of changes in equity
for the period ended 28 March 2020

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Cumulative translation adjustment £m	Other reserve £m	Retained earnings £m	Attributable to equity shareholders / Non-controlling Interests £m	Total equity £m
Balance at 1 April 2018	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 as previously reported	47.7	42.1	5.9	(2.5)	5.0	(83.8)	(53.5)	9.9	(29.2)
Accounting policy restatement – IFRS 16	–	–	–	–	–	–	(1.1)	–	(1.1)
Balance at 31 March 2019 (restated)	47.7	42.1	5.9	(2.5)	5.0	(83.8)	(54.6)	9.9	(30.3)
Profit for the year	–	–	–	–	–	–	34.1	1.7	35.8
Other comprehensive income for the year, net of tax	–	–	–	2.6	4.6	–	93.8	–	101.0
Other movements	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	2.6	4.6	–	127.9	1.7	136.8
Transactions with owners of the Company recognised directly in equity:									
Transactions with non-controlling interests (see note 33)	–	–	–	–	–	–	0.8	4.2	5.0
Share capital issued	0.1	0.1	–	–	–	–	–	–	0.2
Employee share scheme:	–	–	–	–	–	–	(0.7)	–	(0.7)
– value of services provided									
Income tax on income and expenses recognised directly in equity	–	–	–	–	–	–	(0.4)	–	(0.4)
Other	–	–	–	–	–	–	0.5	–	0.5
Dividends paid							(17.3)	(0.6)	(17.9)
Balance at 28 March 2020	**47.8**	**42.2**	**5.9**	**0.1**	**9.6**	**(83.8)**	**56.2**	**15.2**	**93.2**

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. When a hedged forecast transaction subsequently results in the recognition of a non-financial asset, the amount is removed from the cash flow hedge reserve and included directly in the initial cost or other carrying amount of the asset as a basis adjustment.

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 prior period an amount of £1.5m was reclassified to the cumulative translation adjustment reserve from retained earnings which was been included on the other movements line.

Consolidated cash flow statement
for the period ended 28 March 2020

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Profit before tax*		**35.9**	22.8
Adjustments for:			
Finance income and expense		**6.7**	6.0
Depreciation of property plant and equipment and right-of-use assets		**16.9**	16.7
Amortisation of intangible assets		**3.9**	3.2
Increase in inventory		**(12.1)**	(7.3)
Decrease/(increase) in trade and other receivables and contract assets		**10.2**	(67.3)
(Decrease)/increase in trade and other payables and contract liabilities		**(19.2)**	14.7
Increase/(decrease) in provisions		**7.4**	(2.0)
Special pension fund contributions		**(21.3)**	(20.5)
Share based payment expense		**(0.6)**	0.7
(Deduct)/add back of non-cash pension liability adjustment		**(8.7)**	1.7
(Gain)/Loss on disposal of subsidiary (net of associated costs)		**(22.7)**	3.0
Add back of non-cash credit loss provision for Venezuela		**–**	18.1
Add back of non-cash credit loss provision		**1.0**	4.4
Add back impairment of Property, plant and equipment and intangible assets		**2.3**	–
Other non-cash movements		**1.9**	1.2
Cash generated from operating activities		**1.5**	(4.6)
Net tax refund/(paid)		**3.5**	(2.0)
Net cash flows from operating activities		**5.1**	(6.6)
Cash flows from investing activities			
Proceeds from the sale of subsidiary (net of cash disposed and associated disposal costs)		**42.0**	0.2
Purchases of property, plant and equipment		**(11.4)**	(18.9)
Purchase of software intangibles and development assets capitalised		**(5.8)**	(6.5)
Proceeds from sale of property, plant and equipment		**–**	0.7
Interest received		**0.2**	–
Receipt of RDEC		**0.6**	–
Net cash flows from investing activities		**25.6**	(24.5)
Net cash flows before financing activities		**30.7**	(31.1)
Cash flows from financing activities			
Proceeds from issue of share capital		**0.2**	4.3
Net draw down of borrowings		**(1.5)**	53.5
Repayment of principle portion of IFRS 16 lease liabilities		**(2.3)**	–
Interest paid		**(6.0)**	(4.4)
Dividends paid to shareholders		**(17.3)**	(25.7)
Dividends paid to non-controlling interests		**(0.6)**	(0.5)
Net cash flows from financing activities		**(27.5)**	27.2
Net increase/(decrease) in cash and cash equivalents in the year		**3.2**	(3.9)
Cash and cash equivalents at the beginning of the year		**11.3**	15.2
Exchange rate effects		**–**	–
Cash and cash equivalents at the end of the year		**14.5**	11.3
Cash and cash equivalents consist of:			
Cash at bank and in hand	17	**14.6**	12.2
Short term deposits	17	**–**	–
Bank overdrafts		**(0.1)**	(0.9)
	24	**14.5**	11.3

Note:

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

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 169 of this Annual Report. The consolidated financial statements of the Company for the period ended 28 March 2020 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 28 March 2020, 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 of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 28 March 2020, being the last Saturday in March. The comparatives for the 2018/19 financial period are for the period ended 30 March 2019. The prior year income statement has been restated to show cost of sales separate from total operating costs thus allowing presentation of gross profit. The inclusion of this level of information is considered useful for the users of the Annual Report and Accounts and will provide greater insight into the performance of the business.

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 160 and 161 and the accounting policies in respect of the Company financial statements are set out on page 162.

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

Background and relevant facts

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 1 to 17 of the Strategic report. In addition, pages 134 to 142 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 in pages 20 to 21 of the Strategic report.

The Group currently has a revolving credit facility ('RCF') of £275m that expires on 1 December 2021, which allows the drawing down of cash and the committed use of bonds and guarantees up to the level of £100m, which reduces the available cash facility. These are subject to the overall RCF limit and six-monthly covenant tests. At 28 March 2020, the covenant tests were as follows: EBIT/net interest payable 5.2 times (covenant of ≥4.0 times), net debt/EBITDA 2.24 times (leverage covenant of ≤3.0times).

At the balance sheet date, net debt was £102.8m and none of the committed bonds and guarantees facility was utilised. However, in addition there were £61.5m of bonds and guarantees in place under bilateral uncommitted bonding facilities, where certain of the lending banks have the ability to request, at their sole discretion, that outstanding and futures bonds issued under those facilities are cash collateralised. If such cash collateralisation were to be requested under the uncommitted bonding facilities in any scenario where the Company continued to operate under the existing terms of the RCF, there would likely be a breach of the leverage covenant in the existing RCF agreement at the next testing date in September 2020.

In order to determine the appropriate basis of preparation for the financial statements for the year ended March 2020 the Directors must consider whether the Group can continue in operational existence for the foreseeable future, being at least 12 months from the approval date of these financial statements, taking into account the liquidity headroom afforded by the Group's banking and bonding facilities.

As detailed in the Chairman's statement on page 2 and the CEO review on page 10, the Group has announced its intention to raise £100m by way of a firm placing and placing and open offer of shares ('Capital Raise'). The Capital Raise is fully underwritten by Barclays Bank PLC, Investec Bank plc and Numis Securities Limited (the 'Joint Bookrunners'). The receipt of the £100m is conditional on:

(i) the passing by the Company's shareholders of the resolutions to be proposed at the general meeting (scheduled for 6 July 2020);

(ii) the relevant placing and placing and open offer and underwriting agreement having become unconditional in all respects, save for the condition relating to the admission of the Company's new ordinary shares to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange ('Admission'), and not having been terminated in accordance with its terms before Admission occurs; and

(iii) Admission having become effective by not later than 8:00 a.m. on 7 July 2020 (or such later time and/or date as the Company and the Joint Bookrunners may agree, not being later than 21 July 2020).

If any of the conditions are not satisfied or, if applicable, waived, then the Capital Raise will not take place.

Accounting policies continued

In order to facilitate the Capital Raise, the Group has entered into an agreement with its lenders amending the terms of its existing RCF agreement ('Revolving Facility Agreement Amendment'). The relevant amendments, among other things, extend the maturity date of the RCF to December 2023, reset the interest cover ratio (covenant of ≥ 2.4 times for FY 2021, ≥ 2.8 times for FY 2022 and ≥ 3 times beyond that date) and provide available committed bonding facilities that do not need to be cash collateralised. The Company has also separately reached an agreement with the trustee of its UK defined benefit pension scheme ('Trustee') to reduce the amount of the Group's annual contributions to such scheme from £23m to £15m per annum during 2020 to 2023 inclusive (subject to additional contingent contributions which would be accelerated from later years in exceptional circumstances). Full details of the new pension arrangement and these exceptional circumstances are set out in note 26 to the financial statements.

The agreement with the Trustee and, save for the Long Stop Provision (defined below), the amendments to the RCF envisaged by the Revolving Facility Agreement Amendment are conditional, among other things, upon the Company receiving the proceeds of an equity capital raise in the gross amount of at least £100 million no later than 31 July 2020 (the 'Equity Raise Condition'). Should the Capital Raise not take place and the Equity Raise Condition fail to be satisfied: (i) the reduction in the contributions due to the pension scheme would not take effect; and (ii) pursuant to the Revolving Facility Agreement Amendment, a provision would be triggered meaning that the Company would be required to agree an alternative financing plan with the relevant lenders (acting reasonably) within 45 days of 31 July 2020 ('Plan Deadline') (such provision being the 'Long Stop Provision').

Unfunded Assessment

If the Capital Raise were not to be completed by 31 July 2020 such that the Equity Raise Condition were not fulfilled, the Group would continue to operate under the terms of its existing RCF (with no change to its covenants) and the Long Stop Provision would become effective. In this scenario, the ability of the Company to operate as a going concern would not be entirely within the control of the Directors. The Company would seek to agree an alternative financing plan with its lenders before the Plan Deadline. This would be subject to negotiation and there can be no certainty that an alternative financing plan would be agreed with the relevant lenders by the Plan Deadline and there can be no certainty as to the terms of any agreement and the impact on the Company's strategy and ownership structure. In this scenario, if the Company is not able to agree an alternative financing plan by the Plan Deadline, this would constitute an immediate event of default under the RCF (pursuant to the Revolving Facility Agreement Amendment) and as a result, the relevant lenders would have the right to immediately withdraw and cancel the Group's facility and demand repayment of any drawings on the facility (£117.0m at the balance sheet date). In this scenario and assuming an alternative financing plan could not be agreed, the Group is not expected to have sufficient cash resources to repay the amounts drawn and/or to continue trading and the Group could be forced into insolvent liquidation.

The Directors believe that the key condition to the Capital Raise relates to the shareholder vote, given the customary nature of the other conditions to the Capital Raise and the value of the firm placing commitments and conditional placing commitments (underpinning the open offer element) which have been procured from investors as at the approval date of these financial statements.

While the Directors have a reasonable expectation that shareholder approval for the Capital Raise will be obtained, given such approval has not yet been obtained, they have identified the securing of such approval as a material uncertainty which could cast significant doubt on the Group and Company's ability to continue as a going concern.

Funded Assessment

Having undertaken a rigorous assessment of the Group's financial forecasts, taking into account the amended agreements with its lenders and the Trustee, considering the anticipated proceeds from the Capital Raise (subject to the conditions above), the anticipated impact (and additional downside risks) of COVID-19 and other plausible downside scenarios, the Board has concluded that it is appropriate to adopt the going concern basis for the preparation of the accounts.

As the original forecasts were prepared before the pandemic in respect of COVID-19 was announced, the Directors considered the potential impact of COVID-19 on the Group's forecasts and modelled the expected impact on revenue and profit and related impact on working capital and capital expenditure, of reduced banknote production in some key sites in H1 2021 and delays in certain Authentication contract wins during FY 2021.

In addition to adjusting the original 'base' forecast for the expected impact of COVID-19, the Directors have then considered and modelled (i) plausible downside scenarios that reflect the possible impact of key risks as detailed in the risk report on page 30 of the Strategic report, as well as (ii) potential additional downside risks as a result of COVID-19, which are discussed further below.

The plausible downside scenarios modelled include: the investments in Polymer and security features not delivering the forecast returns, banknote volumes being weaker in FY 2022 as a result of reduced demand, weaker growth in Authentication due to fewer new contracts won, limited growth on existing contracts and reductions to the cost base not being achieved.

Additional downside COVID-19 risks modelled include further site closures and absenteeism resulting in loss of volumes and consequent revenue in Currency and further reductions in Authentication revenues due to manufacturing challenges.

In the event these downsides were to occur, the Directors have considered and modelled the mitigating actions they would take. These include a reduction in temporary staff commensurate with reduced activity levels in a downside scenario and a short term reduction in travel and marketing expenses.

The result of the above modelling of the base case, adjusted for the expected impact of COVID-19, plausible downside scenarios, further downside COVID-19 risks and mitigating actions results in a 'reasonable worst case scenario' that has been used as the basis of the going concern conclusion. This model shows a 32% reduction in adjusted operating profit in FY 2021 and a 49% reduction in adjusted operating profit in FY 2022 (both measured against the base case forecast in each of these years).

This ‘reasonable worst case’ forecast, which covers a period of more than 12 months, show that the Group can operate within its available banking facilities (under the amended RCF agreement), assuming the Capital Raise completes. The Directors believe that the possibility of the actual results being sufficiently worse to erode the liquidity and covenant headroom shown in this ‘reasonable worst case’ forecast is remote.

As at the date of the approval of these financial statements, COVID-19 has had only a limited impact on the operations of the Group. However, the modelling performed above takes into account the risk of additional disruption post the period to 17 June 2020. The Company believes that it is appropriate to provide additional disclosure on the key COVID-19 assumptions modelled in relation to the prospective impact of, and business disruption during, the COVID-19 pandemic. The assumptions listed below are the aggregate impact modelled in the Group’s ‘reasonable worst case’ scenario (so are reflected in the conclusions reached above) and are each relevant to the period post 17 June 2020:

- In respect of the manufacturing sites which service the Group’s Currency division:
  - Production output at each of the UK-based sites is reduced to 75 percent of Company budget forecast levels for a period of two months;
  - Production output at the Group’s Malta site remains at the Company’s budget forecast level; and
  - The Group’s Sri Lanka-based and Kenya-based sites each record production output equal to zero percent of Company budget forecast levels for a period of two months, 25 percent of Company budget forecast levels for a further period of one month, 50 percent of Company budget forecast levels for a further period of one month and 75 percent of Company budget forecast levels for a further period of one month.
- Within the Group’s Authentication division:
  - Entry into new contracts in the Government Revenue Solutions (“GRS”) market is delayed by three months compared to the relevant original budgeted date, with corresponding impacts to Group revenue anticipated to accrue from those contracts of up to 2 percent of Company budget forecasts for Group revenue in FY 2020/21 and the capital expenditure anticipated to be spent in service of those contracts of up to 4 per cent. of Company budget forecasts for Group capital expenditure in FY 2020/21;
  - The Group’s Kenya-based site records production output equal to zero per cent. of Company budget forecast levels for a period of one month and 75 percent of Company budget forecast levels for a further period of one month.
  - Production output from the Group’s UK-based site at Westhoughton is reduced to 75 percent of Company budget forecast levels for a period of one month; and
  - GRS production output from the Group’s Malta-based site is reduced to 75 percent of Company budget forecast levels for a period of one month.

Overall conclusion

There is a material uncertainty relating to the approval of the Company’s shareholders in respect of the Capital Raise, which at the time of issuing these financial statements has not yet been obtained. Failure to obtain such shareholder approval would mean that the ability of the Company to operate as a going concern would not be entirely within the Directors’ control (as explained further above).

Despite this, the Directors have a reasonable expectation that the Company’s shareholders will approve the Capital Raise and that funds will be received by 31 July 2020 such that, accordingly, they do not expect the Long Stop Provision (as described above) to become effective. On this basis and taking into account the reasonable worst case forecasts described above on a funded basis, the Directors therefore conclude that the Group has adequate resources 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 but note that a material uncertainty exists that casts significant doubt upon the Company and Group’s ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the Company or Group was unable to continue as a going concern.

Adoption of new International Reporting Standards adopted by the Group

Several new or amended standards became applicable for the current reporting period, and the Group changed its accounting policies as a result of adopting IFRS 16 Leases.

The impact of the adoption of the new leasing standard is disclosed below.

In addition, IFRIC 23 (uncertainty over income tax treatments) has been effective. IFRIC 23 has been adopted and is effective for the group from 31 March 2019 but has not had a material impact.

The other standards did not have any impact on the Group’s accounting policies and did not require retrospective adjustments.

IFRS 16 ‘Leases’

IFRS 16 Leases (‘IFRS 16’) became effective for reporting periods beginning on or after 1 January 2019 and replaced IAS 17 Leases and related interpretations. It results 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.

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.

The Group has applied the modified retrospective transition approach. On a lease by lease basis the Group has either measured the right to use asset at the amount of the liability adjusted for any prepaid or accrued lease payments or has followed the asset recalculated approach.

Accounting policies continued

The determination of treatment has been made based on the availability of historical lease data. Under the asset recalculated approach, the right to use asset recorded on transition was measured as if IFRS 16 had been applied at the start of the lease, but using the incremental borrowing rate as at the transition date. Under both methods the lease liability will be calculated based on future lease payments. The cumulative effect of adopting IFRS 16 has been recognised as an adjustment to retained earnings as at 31 March 2019, with no restatement of comparative information.

The Group has taken the following practical expedients on transition:

- to exclude initial direct cost from the measurement of the right to use asset;
- to not recognise a right to use asset and lease liability where the lease expires within 12 months;
- to apply the portfolio approach where a group of leases has similar characteristics including applying the same incremental borrowing rate;
- to not record a right to use asset or related lease liability for low-value items; and
- to grandfather the definition of a lease on transition.

Impact on adoption

The cumulative effect of adopting IFRS 16 has been recognised as an adjustment to retained earnings as at 31 March 2019, with no restatement of comparative information:

Impact on the Balance Sheet as previously reported at 31 March 2019:

	As at 31 March 2019 £m	Impact of IFRS 16 £m	As at 31 March 2019 restated for IFRS 16 £m
Right to use asset – property	–	12.6	12.6
Right to use asset – plant and machinery	–	0.7	0.7
Prepayments and accrued income	3.4	(0.2)	3.2
Lease liability	–	(14.3)	(14.3)
Deferred tax assets	18.4	0.1	18.5
Total impact on net assets		**(1.1)**	
Impact on retained earnings:		**(1.1)**	
Total impact on retained earnings		**(1.1)**	

The following summarises the impacts of adopting IFRS 16 on the Group's income statement in 2019/20. The adoption of IFRS 16 has had an impact on several of the Group's key metrics due to operating lease payments under IAS 17 being replaced with depreciation and interest charges:

The impact on the income statement for the period to 28 March 2020

	Pre the impact of IFRS 16 £m	Impact of IFRS 16 £m	As reported post adoption of IFRS 16 £m
Adjusted operating expenses*[1]	(82.7)	0.5	(82.2)
Adjusted operating profit	23.2	0.5	23.7
Operating profit	42.3	0.5	42.8
Adjusted EBITDA[1]	40.7	2.9	43.6
Net finance charges	(6.1)	(0.6)	(6.7)
Profit before tax	36.1	–	36.1

Note:

* Comprises reversal of rental expense previously recognised under IAS 17 of £2.9m and the recognition of depreciation on the right to use asset of £2.4m.

1 See page 166 for reconciliation to the nearest equivalent IFRS measure.

Reconciliation between operating lease commitments and lease liability:

	£m
Total minimum lease payments reported at 30 March 2019 under IAS 17	34.8
Impact of discounting	(22.4)
Change in assessment of lease term under IFRS 16	1.9
Lease Liability recognised on transition to IFRS 16 at 31 March 2019	14.3

The adoption of IFRS 16 has resulted in an improvement of £2.9m to operating cashflows as lease payments are now shown within finance activities split between interest payments and repayment of principal. The overall impact on the net cash outflow to the Group in FY 2019/20 is nil.

The weighted average incremental borrowing rate used for discounting the lease liabilities under IFRS 16 is 4.0%.

During 2019/20 an amount of less than £0.1m has been recorded to the income statement in relation to leases where the low value or short term practical expedients have been applied.

See below for further details on the Group's lease accounting policy.

International Financial Reporting Standards issued but not yet effective

The standards that are issued but not yet effective are not expected to have any material impact on the Group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) up to 28 March 2020. 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 28 March 2020. The results of subsidiaries where the financial statements are not prepared to 28 March are still included in the consolidation as at 28 March with the income statement and other financial information being also prepared for the year ended 28 March 2020.

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 16 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.

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, allocation of the transaction price and recognition of revenue on satisfaction of 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, plus 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 an invoice, 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.
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.	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.
Authentication segment	Multiple performance obligations are included in some Authentication contracts. Where multiple performance obligations exist, the transaction price for the contract is allocated to each performance obligation separately 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.
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 using the input method based on the cost incurred relative to the expected total cost. 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.

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 where the contract signed with the customer creates enforceable rights and obligations. If a sales contract takes the form of an over-arching agreement which does not create such enforceable rights and obligations (ie committed sales volumes and values from the customer) then sales commission payments are not made.

Capitalised commission fees are amortised when the related revenues are recognised.

The Group applies the practical expedient in paragraph 94 of IFRS 15 and 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.

Bid costs:

Bid costs are capitalised only when they relate directly to a contract and are incremental to securing the contract, and would not have been incurred had the contract not been won. There were no capitalised bid costs in FY 2020 (FY 2019: £nil) as no costs met this requirement.

Other revenue recognition matters:

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.

Accounting for profit limits on revenue contracts:

The Group has a small number of contracts where the terms with the customers place a limit on the profit margin that can be earned under these. As these profit margin impacts the amount of revenue that the Group can bill the customers, detailed reconciliations of the profit margins earned on these contracts at each reporting period end are completed to ensure that amount of revenue recorded in the year is not overstated (ie to ensure the transaction price is "constrained" in accordance with IFRS 15). Any adjustment required is recorded as a reduction to revenue.

Warranties:

All warranties are considered to be of a standard nature (assurance type) and as such are accounted for under IAS 37 rather than IFRS 15.

Lease accounting

At the inception of a contract, the Group assesses whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group accounts for identified leases in accordance with IFRS 16 ('Leases')

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.

Management has made certain judgements on lease terms based on the Group's current expectations of whether break or renewal options will be taken. Judgements have also been made in estimating the incremental borrowing rates to use when discounting lease payments.

From 31 March 2019, leases are recognised on the balance sheet (unless they are low value or for a term of less than 12 months) with a right to use asset and corresponding lease liability being recorded at the date the lease asset is available for use.

The right to use asset is depreciated over the shorter of; the assets useful economic life and the lease term. Each lease payment is allocated between repayment of the lease liability and finance cost.

The finance cost is charged to the income statement over the lease term to produce a constant periodic rate of interest on the remaining lease liability.

At commencement date of the lease liability is initially recognised on the balance sheet at the present value of future lease payments (including fixed payments and variable lease payments that depend upon an index) and any lease penalties payable on the early exit of a lease if management anticipates taking these, discounted using the incremental borrowing rate appropriate for that lease, absent of the interest rate implicit in the lease being available.

The right to use asset is initially measured at cost, being; the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease and any initial direct costs and any restoration costs. Payments in respect of short term leases (duration of less than 12 months) or low value leases continue to be charged to the income statement on a straight line basis over the lease term. Right of use assets are tested for impairment when indicators of impairment exist.

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.

Accounting policies continued

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

Determination of lease term

Management has made certain judgements on lease terms based on the Group's current expectations of whether break or renewal options will be taken. In arriving at these judgements, management has considered it current business plans including the locations in which it wants to operate in addition to the impact of any cost-out programmes it is considering.

Determination of the incremental Valuation date of certain fund assets in the UK defined benefit pension scheme

The UK defined benefit pension scheme assets are made up of a number of separate funds. For the majority of these funds valuations have been available as at the Group's year end of 28 March 2020. However, the Multi Asset Credit funds held by the UK Pension Scheme are valued on a monthly basis only at calendar month ends and the 31 March 2020 fund valuation has been used to determine the IAS19 position as at the 28 March 2020 as it is not practicable to obtain a valuation as at 28 March 2020.

The UK Multi Asset Credit funds account for approximately £110m of the pension assets. If a valuation for these funds were to be conducted as at 28 March 2020 it is estimated the impact would be less than £1m, compared to total UK Pension Scheme assets of over £1bn.

The potential impact has been estimated by observing what were considered to be the most relevant comparable indices to establish the level of day to day volatility in the market.

The Multi Asset Credit funds are largely composed of sub-investment grade corporate debt and the most relevant indices were determined to be those which measure the return on high yield corporate bonds. Management has therefore made the judgement that valuing the pension assets using the 31 March 2020 valuation for these funds is reasonable given there is no practical way of obtaining a better estimate and a less than £1m difference is not considered significant compared to the total value of the assets in the pension scheme.

Consideration of whether the IDS disposal required discontinued operation presentation

The Group has considered whether the sale of the IDS business in, October 2019, would require that business to be presented as discontinued operations in the financial statements. Management has considered whether the business being sold is considered a clear independent component of the Group operationally, a separate CGU for financial reporting purposes and if it is deemed to be major line of business. Management has determined that the IDS business being sold only represents part of the total IDS segment and it does not therefore represent a separate major line of business. As such disclosure as discontinued is not considered appropriate.

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 or 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.

This judgement is particularly important in the Currency division due to the material nature of certain contracts which may ship near to a reporting period end. Management has carefully reviewed material customer contracts with particular focus on those shipping in the last quarter of the financial period to ensure revenue has been recorded in the correct 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 is obtained if considered necessary to allow management to make this assessment. Management has carefully reviewed material contracts relating to revenue recognised in the period to determine if an enforceable right to payment exists which results in revenue being recorded 'over-time' rather than 'point in time'. In FY 2019/129 the Group has had customer contracts where revenue is recognised 'over-time' in the Currency and the IDS divisions.

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.

Classification of exceptional items

The Directors consider items of income and expenditure which are 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 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 5 on pages 122 and 123 for further details.

COVID-19

The Group is monitoring developments related to COVID-19 as referred to on page 29 of the Annual Report. The Directors' have made their Going Concern and Viability assessments including scenarios which model the potential impact of COVID-19, see pages 107 to 109 for further details

In addition, management have assessed the potential impact of COVID-19 on the financial position of the Group as at March 2020:

Property, plant and equipment

As required by IAS 16 Property, plant and equipment depreciation continued to be charged in the income statement while the assets were temporarily idle. It is also the case that given the long term UEL's of De La Rue's machines, the current disruption to production is short term is not considered to represent an indicator of impairment as asset values are still expected to be recovered through value in use.

Based on the going concern forecasts (including the COVID-19 base case) PPE value in use still support the NBVs as at 28 March 2020.

Intangible assets

Intangible asset recoverability was reviewed at year end as part of the Group's normal process.

Development costs, software assets, Distribution rights and assets in course of construction

A number of assets in this grouping were identified during the period as no longer being core to the Group's strategy under the Turnaround plan and consequently their value could not be supported as they were no longer going to be developed and/or brought to market. Total impairments of £1.6m were recorded. Management therefore considers that assets in this grouping on the balance sheet with remaining value are those which are central to the Group's strategy. These assets relate to both the Authentication and Currency divisions and given the core importance of products that the Group is selling and these technologies being fundamental to the Group servicing the needs of customer, COVID-19 is considered to be a short to medium terms issue and does not represent an impairment trigger. Management's forecasts used in the Going concern assessment include short term disruption to sales but management expects sales to recover post COVID-19 thus not suggesting that longer term cashflows will be materially lower. Management considers that the Business performance at the start of FY 2021 is supportive of this as at the current time it has not seen a notable change in sales levels.

Goodwill, intellectual property, Customer Relationships and Trade names

These assets were recognised following the acquisition of De La Rue Authentication Inc in January 2017. Management has considered the impact of COVID-19 on the De La Rue Authentication Solutions Inc. intangible assets. Whilst a COVID-19 downside has not been applied, management are confident that the any potential disruption to the business will be short term and the long-term profitability of the business remains as forecasted. Currently the discount rate of 12.3% represents the break-even point on the DCF impairment test. Even reducing revenues by 33% in FY 2021 and FY 2022, the break-even discount rate is still at 10.8%. The discount rate used in the base case impairment test was 8.5%. This stress test demonstrates that the Group can be comfortable the assets do not require impairment due to COVID-19.

Inventories

Management have reviewed the potential impact of COVID-19 on the value of inventory as at 28 of March 2020 and concluded that there was no indication of impairment at that time. Due to the site closure in Sri Lanka, there was a built up of raw materials and WIP, however as stated above the site is now operational. Going forward, there is the potential for a delay in shipments due to the restrictions in relation to the COVID-19, however management expects this to be temporary. It is noted that given the nature of De La Rue's products (that they are bespoke, non-perishable and required by Countries to ensure their economies can operate) it is not expected, and we have not seen any customers try to cancel orders.

Accounting policies continued

Trade and other receivables

Trade and other receivables are recognised net of allowance for ECL. In accordance with IFRS9, the Group calculates an allowance for potentially uncollectable accounts receivable balances using the ECL model and follows the simplified approach. The total accounts receivable for IFRS 9 consideration as at the FY 2020 is £47.3m, £28.0m is from Government Departments and National banks and £19.3m from private or publicly traded organisations. As part of the review of the potential impact of COVID-19 on the trade and other receivables the management have assessed whether COVID-19 has an impact on the level of allowance for ECL.

For private or publicly traded organisations the Group uses the total balance on accounts receivable and split it between categories based on the age of the receivable. To each category an appropriate percentage rate is applied to estimate the ECL.

Following the review on the impact of COVID-19 to the non-government debt, it was concluded that the current level of the provision is sufficient to cover any potential effects of the pandemic.

It is also noted that cash collections towards the end of FY 2020 were strong and the accounts receivable balance is currently at a five year low.

For the Government debt the Group applies country credit ratings issued by Moody's, and all debt from the countries in the 'speculative' grade is then split between different categories based on the age of the receivable and an appropriate percentage rate is then applied to estimate the ECL.

Due to the global pandemic, there is a possibility that some countries rating will be downgraded, therefore it was assumed that all countries which are currently in the 'medium' grade move one band below to 'speculative' grade, therefore increasing the IFRS9 provision. The impact of this would be an increase of £5.5k.

In addition to the above, the Group considers it appropriate for FY 2021 to introduce a new bucket to include all countries with the 'medium risk' and then following the same methodology of grouping receivables by age and then applying an appropriate percentage to determine the ECL. This is considered an appropriate change in policy as it will pick up sooner if there is worsening in credit risk which in turn increases the potential ECL the Group will need to record.

The potential impact of downgrading of all high grade rated Government bank debtors as at 28 March 2020 to medium grade is increase of £35.6k.

Therefore, the potential impact of COVID-19 to the government debt as at 28 March 2020 is considered not material.

Derivatives and hedging

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. Based on the fair value measurements applied, it is considered that the reported values naturally reflect the financial impact of COVID-19 on these balances.

Other financial assets

Other financial assets comprise of loan notes and preference shares related to interests held in MooreCo Limited (obtained as part of the consideration for the Portals paper disposal).

At the current time, management has no reason to believe that these are not collectable or that an ECL is required for this. The management notes the long-term nature of these instruments but it is considered that, like De La Rue, Portals has a long-term business model, which will be able to trade through the current COVID-19 challenges.

Other matters

The Group has not identified COVID-19 at the current time to result in any contracts being onerous.

COVID-19 has also not had an impact on any lease extension or termination decisions.

Critical accounting estimates

Incremental borrowing rate for a lease

The incremental borrowing rate for a lease reflects a rate to borrow over a similar lease term, with similar security funds to a similar value to the right-of-use asset in a similar economic environment. The Group has estimated the incremental borrowing rate using the 1) The risk of the asset and similar economic environment has been calculated by reference to the Treasury Bond Curve for the country the lease asset is located in. This is considered to derive the risk-free rate plus the appropriate level of country risk premium. 2) The credit risk factor was calculated based on the credit risk factor of similar corporate bond with a term of 50% of the lease term which is standard convention for the purposes of setting an IBR under IFRS 16.

Management has modelled the impact of change the discount rates for three of its most material leases, with the longest remaining durations by an additional plus and minus 1% and 2% and this demonstrated that the impact on the P&L was immaterial, however the impact on the right of use asset and liability was material.

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

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. In accordance with IFRIC 23, tax provisions are recognised for uncertain tax positions where it is considered probable that the position in the filed tax return will not be sustained and there will be a future outflow of funds to a taxing authority. Tax provisions are measured either based on the most likely amount (the single most likely amount in a range of possible outcomes) or the expected value (the sum of the probability-weighted amounts in a range of possible outcomes) depending on management's judgement on how the uncertainty may be resolved.

The Group is disputing a number of tax assessments received from the tax authority of a country in which the Group operates.

The disputed tax assessments are at various stages in the local appeal process, but the Group believes it has a supportable and defendable position (based upon local accounting and legal advice), and is appealing previous judgments and negotiating with the tax authority in relation to the disputed tax assessments.

The Company's expected outcome of the disputed tax assessments is held within the relevant provisions in the 2020 Financial Statements.

Notes to the accounts

1 Segmental analysis

The continuing operations of the Group have three main operating units: Currency, Authentication and Identity Solutions. 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
- Authentication – the supply of a range of physical and digital solutions such as: tax stamps and supporting software solutions, authentication labels and associated brand protection digital solutions, cheques and bank cards for Africa, and ID security components including polycarbonate.
- Identity Solutions – involved in the provision of passport, ePassport, national ID and eID, driving licence and voter registration schemes

Inter-segmental transactions are eliminated upon consolidation.

On 14 October 2019, the Group completed the sale of the International Identity Solutions business to HID Corporation Limited. The results of the International Identity business are included within the identity solutions segment until the date of disposal. Please see note 6 for further details.

The segment note is focused on three divisions which reflects what has been reported to the Chief Operating Decision Maker, this is in line with the commentary in the front half on the financial performance. The commentary in the front half relating to the future strategy only refers to the Currency and Authentication divisions.

2020	Currency £m	Authentication £m	Identity Solutions £m	Unallocated £m	Total of Continuing operations £m
Total revenue from contracts with customers	315.1	68.5	83.2	–	466.8
Less: inter-segment revenue	–	–	–	–	–
Revenue from contracts with customers	**315.1**	**68.5**	**83.2**	**–**	**466.8**
Cost of sales	(270.9)	(39.7)	(49.8)	(0.5)	(360.9)
Gross Profit	**44.2**	**28.8**	**33.4**	**(0.5)**	**105.9**
Adjusted operating expenses	(53.6)	(18.0)	(10.6)	–	(82.2)
Adjusted operating profit	**(9.4)**	**10.8**	**22.8**	**(0.5)**	**23.7**
Adjusted items:					
– Amortisation of acquired intangible	–	(0.9)	–	–	(0.9)
– Net exceptionals	(0.5)	(0.2)	24.8	(4.1)	20.0
Operating profit	**(9.9)**	**9.7**	**47.6**	**(4.6)**	**42.8**
Interest income	0.7	–	–	0.3	1.0
Interest expense	(0.8)	(0.1)	–	(5.2)	(6.1)
Net retirement benefit obligation finance expense	–	–	–	(1.6)	(1.6)
Net finance expense	**(0.1)**	**(0.1)**	**–**	**(6.5)**	**(6.7)**
Profit before taxation	**(10.0)**	**9.6**	**47.6**	**(11.1)**	**36.1**
Segment assets	199.6	28.9	46.8	132.3	407.6
Segment liabilities	(81.3)	(28.6)	(11.8)	(192.7)	(314.4)
Capital expenditure on property, plant and equipment	(6.9)	(2.7)	(1.2)	(0.6)	(11.4)
Capital expenditure on intangible assets	(0.2)	(0.5)	(0.8)	(4.2)	(5.7)
Impairment of Property, plant and equipment on intangible assets	(1.0)	(0.1)	–	(1.2)	(2.3)
Depreciation of PPE and right-of-use-assets	(12.2)	(1.9)	(1.2)	(1.7)	(17.0)
Amortisation of intangible assets	(0.7)	(1.5)	–	(1.7)	(3.9)

Unallocated assets principally comprise UK defined benefit obligation net surplus of £64.8m deferred tax assets of £5.5m (FY 2019: £17.4m), cash and cash equivalents of £14.6m (FY 2019: £12.2m) which are used as part of the Group's financing offset arrangements and derivative financial instrument assets of £16.6m (FY 2019: £4.2m) as well as current tax assets, associates and centrally managed property, plant and equipment.

1 Segmental analysis continued

Unallocated liabilities principally comprise overseas retirement benefit obligations of £1.8m (FY 2019: £78.6m), borrowings of £116.6m (FY 2019: £118.7m), current tax liabilities of £12.5m (FY 2019: £11.7m) and derivative financial instrument liabilities of £16.1m (FY 2019: £6.9m) as well as deferred tax liabilities and centrally held accruals and provisions.

2019	Currency £m (restated)	Authentication* £m (restated)	Identity Solutions* £m (restated)	Unallocated £m (restated)	Total of Continuing operations £m (restated)
Total revenue from contracts with customers	447.5	42.7	75.0	–	565.2
Less: inter-segment revenue	(0.4)	–	–	–	(0.4)
Revenue from contracts with customers	447.1	42.7	75.0	–	564.8
Cost of sales	(336.6)	(23.2)	(42.6)	–	(402.4)
Gross profit	110.5	19.5	32.4	–	162.4
Adjusted operating expenses	(68.8)	(11.6)	(21.9)	–	(102.3)
Adjusted operating profit	41.7	7.9	10.5	–	60.1
Adjusted items:					
– Amortisation of acquired intangible assets	–	(0.7)	–	–	(0.7)
– Net exceptional items	(20.7)	(2.1)	–	(5.1)	(27.9)
Operating profit	21.0	5.1	10.5	(5.1)	31.5
Interest income	0.6	–	–	–	0.6
Interest expense	(0.7)	–	–	(3.8)	(4.5)
Net retirement benefit obligation finance expense	–	–	–	(2.1)	(2.1)
Net finance expense	(0.1)	–	–	(5.9)	(6.0)
Profit before taxation	20.9	5.1	10.5	(11.0)	25.5
Segment assets	195.0	34.0	59.1	87.2	375.3
Segment liabilities	(84.3)	(7.2)	(47.1)	(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	2.0	2.9	0.2	6.5
Impairment of Property, plant and equipment on intangible assets	–	–	–	–	–
Depreciation of property, plant and equipment	10.4	0.9	3.8	1.6	16.7
Amortisation of intangible assets	2.2	0.5	0.5	–	3.2

Note:

* The above prior year comparatives have been restated to show cost of sales separate from total operating expenses as reported in previous periods, thus allowing presentation of gross profit by segment. The inclusion of this level of information is considered useful to the users of the Annual Report and Accounts and will provide greater insight into the performance of the business. In addition, the Authentication and Identity Solutions results for FY 2018/19 have been restated in line with the adjustment noted in the current year to present the results of one of the Group's subsidiaries solely in the Authentication division consistent with where management of the subsidiary's business now falls. The impact of this has been the transfer of the following amounts from the Identity Solutions results above to Authentication: Revenue of £3.4m, Gross Profit of £2.1m and Adjusted operating profit of £1.6m that would have been presented in the Identity Solutions division previously.

Geographic analysis of non-current assets

	2020 £m	2019 £m
UK	**176.7**	96.4
Malta	**19.9**	21.7
USA	**19.3**	17.0
Sri Lanka	**13.2**	15.2
Other countries	**9.8**	5.3
	238.9	155.6

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

Major customers

The Group had two major customers from which it derived total revenues in excess of 10% of Group revenue. One customer was in the Currency segment with revenue £46.6m which equates to 10.0% of Group revenue and one in the IDS segment with revenue of £53.2m which equates to 11.4% of Group revenue. (FY 2019: £101.0m and 17.9% – this customer was in the Currency segment).

Notes to the accounts continued

2 Revenue from contracts with customers

Information regarding the Group's major customers, and a segmental analysis of revenue is provided in note 1.

Timing of revenue recognition across the Group's revenue from contracts with customers is as follows:

2020	Currency £m	Authentication £m	Identity Solutions £m	Total of Continuing operations £m
Timing of revenue recognition:				
Point in time	**273.6**	**68.5**	**65.7**	**407.8**
Over time	**41.5**	**–**	**17.5**	**59.0**
Total revenue from contracts with customers	**315.1**	**68.5**	**83.2**	**466.8**

2019	Currency £m	Authentication £m	Identity Solutions £m	Total of Continuing operations £m
Timing of revenue recognition:				
Point in time	435.2	39.3	78.1	552.6
Over time	11.9	–	0.3	12.2
Total revenue from contracts with customers	447.1	39.3	78.4	564.8

Geographic analysis of revenue by destination

	2020 £m	2019 £m
Middle East and Africa	**188.4**	154.1
Asia	**86.5**	83.7
UK	**109.8**	149.2
The Americas	**41.5**	153.6
Rest of Europe	**24.8**	20.1
Rest of world	**15.8**	4.1
	466.8	564.8

Contract balances

The contract balances arising from contracts with customers are as follows:

	2020 £m	2019 £m	2018 £m
Trade receivables	**72.8**	119.2	68.8
Provision for impairment	**(19.9)**	(25.3)	(5.5)
Net trade receivables	**52.9**	93.9	63.3
Contract assets	**18.3**	24.9	3.2
Contract liabilities	**(0.3)**	(6.0)	(14.1)

Trade receivables have fallen compared to 2019 reflecting cash collections made in the year and the impact of lower revenue. Contract assets have fallen compared to 2019 primarily due to the fact that 2019 included a material balance related to a customer contract where revenue was recorded on an "over-time" basis and the customer was not invoiced until post year end in 2020. Contract liabilities have fallen as result of the International Identity Business sale as contract liabilities in the prior year primarily related to that segment.

Set out below is the amount of revenue recognised from:

	2020 £m	2019 £m
Amounts included in contract liabilities at the beginning of the year	**6.0**	–
Performance obligations satisfied in previous years	**–**	–

2 Revenue from contracts with customers continued

Performance obligations

Information about the Group's performance obligations is summarised in the Accounting policies section on page 114.

The following table shows the transaction price allocated to remaining performance obligations for contracts with original expected duration of more than one year. The group has decided to take the practical expedient provided in IFRS15.121 not to disclose the amount of the remaining performance obligations for contracts with original expected duration of less than one year.

	Total* £m
Within 1 year	**23.0**
Between 2 – 5 years	**24.0**
5 years and beyond	**–**
	47.0

Note:
* All within the currency division.

3 Discontinued operations

The Group completed the sale of the entire issued share capital of Cash Processing Solutions Limited and related subsidiaries (together 'CPS') to CPS Topco Limited, a company owned by Privet Capital on 22 May 2016.

The loss on discontinued operations in the period of £0.3m relates to the winding down of remaining activity related to CPS (net of associated tax credits) in addition to the impact in the period of a revision in estimate for the total net costs of completing a loss making CPS contract that was not novated post disposal. This contract is expected to conclude in FY 2021/22. The prior period also included the impact of additional charges of £1.4m relating to the write-off of receivables due from CPS as they were determined as unlikely to be received. The tax charge relating to discontinued operations was immaterial.

During the prior period there was 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 was recorded in reserves rather than discontinued operations in the income statement as the release was considered to be consistent with that of an actuarial gain.

4 Adjusted operating expenses by nature

	2020 £m	2019 £m
Depreciation of property, plant and equipment	**14.6**	16.7
Impairment of inventories	**2.3**	1.7
Amortisation of intangibles	**3.9**	3.2
Cost of sales relating to inventory	**355.2**	403.6
Leases:		
– Hire of property (pre-transition to IFRS 16)	**–**	3.0
– Expenses related to short-term and low value leases	**0.1**	–
– Depreciation of right-to-use assets	**2.4**	–
Amounts payable to EY and its associates:		
– Audit of these consolidated financial statements	**0.6**	0.3
– Audit of the financial statements of subsidiaries pursuant to legislation	**0.4**	0.4
– Non-Audit Services	**0.1**	–
– Taxation services	**–**	–
Research and non-capitalised development expense	**9.1**	12.4
Employee costs (including Directors' emoluments) (note 27)	**129.4**	126.4
Foreign exchange loss/(gains)	**1.0**	5.0

Notes to the accounts continued

5 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.

	2020 £m	2019 £m
Site relocation and restructuring	**(9.3)**	(4.8)
Gain/(loss) on disposal of subsidiary (net of costs associated with disposal)	**22.7**	(2.6)
Pension underpin costs	**(1.1)**	(0.5)
Guaranteed minimum pension adjustment	**–**	(1.7)
Gain on resolution of a historical issue relating to UK defined benefit pension scheme	**8.7**	–
Venezuela expected credit loss provision	**(1.0)**	(18.1)
Acquisition related	**–**	(0.2)
Exceptional items in operating profit	**20.0**	(27.9)
Tax (charge)/credit on exceptional items	**2.5**	4.2

Site relocation and restructuring costs

Site relocation and restructuring costs in FY 2019/20 included: Charges of £8.9m relating to the reorganisation during the period of the Group into our new divisional structure and other cost out programmes, primarily being redundancy costs and in addition to consultant and advisor fees. Costs in relation to this programme are expected to be incurred until the end of FY 2021/22.

£0.2m (H1 2018/19: £1.2m) relating to the finalisation of the manufacturing footprint review announced in December 2015, the costs are associated to employees working on project completion.

£0.2m (H1 2018/19: £0.5m) in relation to the finalisation of the upgrade to our finance systems and processes comprising personnel costs for individuals solely employed to work on the project and consultancy fees.

Gain/(Loss) on disposal of subsidiary and associated costs

Following the sale of the Group's International Identify Solutions business on 14 October 2019, the Group has recorded a gain of £25.3m before the deduction of costs associated with the disposal. The gain has been calculated included an estimate for the working capital adjustment which remains subject to agreement with HID in accordance with the sales agreement. See note 6 for further details. Costs associated with the disposal of the subsidiary were £3.3m. In addition during the year a £0.7m gain was made in H1 2019/20 on the final release of the recompense provision provided for in relation to the sale of the Portals De La Rue business. Delivery against the remaining contracts for which a recompense provision was recognised has now been satisfactorily completed and as such no further risk of the recompense provision being triggered is considered to exist.

The loss on disposal in FY 2018/19 related to the sale of the Portals De La Rue business, following finalisation of the disposal accounting on confirmation of the final working capital adjustment and update of the estimated liability under the recompense clause.

Pension underpin costs

Legal fees of £1.1m were 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 continue to assess this.

Gain on resolution of a historical issue relating to the UK defined benefit pension scheme

A gain of £8.7m has been recorded following the resolution of a historical issue in respect to a change in revaluation rates for certain deferred pension scheme members. This resulted in an equivalent reduction to the liabilities in the pension scheme. See note 26 for further details.

Venezuela Credit loss provision

£1.0m were recognised relating to the close out of the hedge position taken out in relation to Venezuela receivables for which a credit loss of £18.1m was provided and reported in exceptional items in FY 2018/19. The hedge position was closed out in H1 2019/20 as subsequent to year end sanctions have further tightened against Venezuela.

5 Exceptional items continued

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 prior period which was 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.

The policy for exceptional items described in these Financial Statements is used when calculating our financial covenants as agreed with our lenders.

Taxation relating to exceptional items

Tax charges relating to continuing exceptional items arising in the period were £2.5m (FY 2019: tax credit of £4.2m).

Included in the exceptional tax charge is a deferred tax credit of £1.1m (2018:19 £nil). This relates to the recognition of a deferred tax asset in relation to UK tax interest losses that under IAS12 must be recognised even though there is no expected future utilisation of these losses. This is because the large movement in the pension from a deficit to a surplus in the year has led to an overall net deferred tax liability position in the UK and any potential deferred tax assets must be recognised against this deferred tax liability. As the majority of the deferred tax in relation to the pension movement is recognised directly in the Statement of Comprehensive Income, to recognise the creation of this asset as an operating item would distort the Operating Effective Tax Rate and therefore considered to be unhelpful for users of the accounts. This movement and any future unwind of this asset is therefore considered to be an Exceptional item for financial reporting purposes.

6 Disposal of International Identity Solutions business

On 12 June 2019, the Group announced it had agreed the sale of its International Identity Solutions business to HID Corporation, an ASSA ABLOY Group company, for cash consideration of £42m plus an amount for working capital. Under the terms of the agreement, HID Global will acquire De La Rue's International Identity Solutions contracts, associated software, passport assembly facilities in Malta, and certain printing contracts of security documents such as visas and birth/death/marriage certificates. A separate supply agreement for De La Rue to supply printed paper and polycarbonate to HID Global until March 2022 was also signed. The UK passport contract is outside the scope of the agreement.

This transaction will allow the Group to refocus on identity-related security features and components where the market opportunities are more accessible. Strong synergies in technology and customer relations between identity security features and the rest of the Group will enable it to generate better returns on investment. The sale proceeds will strengthen the Group's balance sheet, providing it with greater flexibility to invest in other strategic growth areas.

The Group's International Identity Solutions business does not meet the IFRS 5 definition of a discontinued operation and as such its results have been included within continuing operations. The Group tested the disposal Group for impairment prior to the completion of the transaction and concluded that no impairment of the disposal group was required.

On 23 August 2019, prior to the external sale to HID, the Group transferred the trade and assets associated with its International Identity Solutions business from its wholly owned subsidiary De La Rue International to a newly created and also wholly owned subsidiary ID Global Solutions Limited. On the final sale to HID on 14 October 2019, the Group sold the ID Global Solutions Limited subsidiary in addition to a number of other subsidiaries which were engaged in the International Identify Solutions business. These subsidiaries were De La Rue Services Limited; De la Rue Caribbean Limited, De La Rue Angola Limitada and De La Rue Kenya Limited

On 14 October 2019, the Group completed the final sale to HID and in addition to the £42m referred to above the Group received an additional amount in relation to working capital which was estimated at £5.0m but which remains subject to agreement with HID management in accordance with the sales agreement. The working capital adjustment included amounts related to cash that was included in the net assets disposed of at the point of final sale.

No UK defined benefit pension liability transferred as part of the disposal.

Notes to the accounts continued

6 Disposal of International Identity Solutions business continued

The carrying amounts of assets and liabilities as at the date of sale (14 October 2019) were:

	£m
Property, plant and equipment	**1.9**
Right to use assets	**0.4**
Intangibles	**4.7**
Inventories	**1.3**
Trade and other receivables	**26.6**
Cash and cash equivalents	**2.5**
Total assets	**37.4**
Trade and other payables	**(17.4)**
Lease liabilities	**(0.4)**
Provisions	**(0.3)**
Total liabilities	**(18.1)**
Net assets	**19.3**

The gain on disposal on the sale of the subsidiary was:

	£m
Amounts paid by purchaser:	
Cash	47.2
Estimated working capital adjustment	(1.3)
Total disposal consideration	45.9
Net assets and liabilities disposed	(19.3)
CTA reclassified on disposal	(1.3)
Gain on disposal (before associated costs)	25.3
Costs associated with disposal of subsidiary	(3.3)
Gain on disposal (after associated costs)	22.0

Proceeds from sale of subsidiary in the consolidated cashflow statement are stated net of cash received of £47.2m, cash disposed of £2.5m payments for costs associated with the disposal of £2.7m.

7 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.

	2020 £m	2019 £m
Recognised in the income statement		
Interest income:		
– Interest on loan notes and preference shares	**0.7**	0.5
– Cash and cash equivalents	**0.3**	0.1
	1.0	0.6
Interest expense:		
– Bank loans	**(4.8)**	(3.4)
– Other, including amortisation of finance arrangement fees	**(0.7)**	(1.1)
– Interest on lease liabilities	**(0.6)**	–
Total interest expense calculated using the effective interest method	**(6.1)**	(4.5)
Retirement benefit obligation net finance expense (note 26)	**(1.6)**	(2.1)

All finance income and expense arises in respect of assets and liabilities not restated to fair value through the income statement.

7 Interest income and expense continued

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 (FY 2018: £nil).

8 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.

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, uncertainty over the tax treatment can arise. De La Rue assesses whether it is probable or not the tax authority will accept the tax treatment; if probable that the treatment will be accepted then the potential tax effect of the uncertainty is a tax-related contingency. If it is not probable of being accepted, the most likely amount or the expected value is recognised. There is one tax assessment where a provision has been made for the estimated most likely amount on the basis of current communications with the tax authority that is less than the assessments received. In the possible event that there was an adverse outcome to negotiations this could result in a material outflow.

Notes to the accounts continued

8 Taxation continued

	2020 £m	2019 £m
Consolidated income statement		
Current tax		
UK corporation tax:		
– Current tax	**4.7**	3.8
– Adjustment in respect of prior years	**0.6**	(0.3)
	5.3	3.5
Overseas tax charges:		
– Current year	**1.8**	2.2
– Adjustment in respect of prior years	**(0.3)**	(0.3)
	1.5	1.9
Total current income tax charge	**6.8**	5.4
Deferred tax:		
– Origination and reversal of temporary differences, UK	**(6.4)**	(1.6)
– Origination and reversal of temporary differences, overseas	**(0.4)**	0.6
Total deferred tax charge/(credit)	**(6.8)**	(1.0)
Income tax expense reported in the consolidated income statement in respect of continuing operations	**–**	4.8
Income tax expense/(credit) in respect of discontinued operations (note 2)	**–**	(0.4)
Total income tax charge in the consolidated income statement	**–**	4.4
Tax on continuing operations attributable to:		
– Ordinary activities	**2.7**	8.7
– Amortisation of acquired intangible assets	**(0.2)**	0.3
– Exceptional items	**(2.5)**	(4.2)
Consolidated statement of comprehensive income:		
– On remeasurement of net defined benefit liability	**20.5**	(1.5)
– On cash flow hedges	**0.2**	(0.2)
– On foreign exchange on quasi-equity balances	**(0.2)**	(0.5)
Income tax (credit)/charge reported within other comprehensive income	**20.5**	(2.2)
Consolidated statement of changes in equity:		
– On share options	**0.4**	0.3
Income tax charge reported within equity	**0.4**	0.3

8 Taxation continued

The tax on the Group's consolidated profit before tax differs from the UK tax rate of 19% as follows:

	2020				2019			
	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	**17.0**	**20.0**	**(0.9)**	**36.1**	54.2	(27.9)	(0.7)	25.6
Tax calculated at UK tax rate of 19% (FY 2018: 19%)	**3.2**	**3.8**	**(0.2)**	**6.8**	10.3	(5.3)	(0.1)	4.9
Effects of overseas taxation	**(1.0)**	**–**	**–**	**(1.0)**	(1.1)	–	–	(1.1)
(Credits)/charges not allowable for tax purposes	**0.9**	**(6.2)**	**–**	**(5.3)**	(0.6)	1.6	–	1.0
(Utilisation)/increase in unrecognised tax losses	**–**	**–**	**–**	**–**	–	–	–	–
Adjustments in respect of prior years	**(0.6)**	**(0.1)**	**–**	**(0.7)**	–	(1.1)	0.4	(0.7)
Change in UK and overseas tax rate	**0.2**	**–**	**–**	**0.2**	0.1	0.6	–	0.7
Tax charge/(credit)	**2.7**	**(2.5)**	**(0.2)**	**–**	8.7	(4.2)	0.3	4.8
Underlying effective tax rate (Tax charge/Profit before tax)	**15.8%**				16.1%			

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. In accordance with IFRIC 23, tax provisions are recognised for uncertain tax positions where it is considered probable that the position in the filed tax return will not be sustained and there will be a future outflow of funds to a taxing authority. Tax provisions are measured either based on the most likely amount (the single most likely amount in a range of possible outcomes) or the expected value (the sum of the probability-weighted amounts in a range of possible outcomes) depending on management's judgement on how the uncertainty may be resolved.

The Group is disputing a number of tax assessments received from the tax authority of a country in which the Group operates.

The disputed tax assessments are at various stages in the local appeal process, but the Group believes it has a supportable and defendable position (based upon local accounting and legal advice), and is appealing previous judgments and negotiating with the tax authority in relation to the disputed tax assessments.

The Company's expected outcome of the disputed tax assessments is held within the relevant provisions in the 2020 Financial Statements.

Notes to the accounts continued

9 Earnings per share

Accounting policies

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted for the impact of the dilutive effect of share options.

The Directors are of the opinion that the publication of the adjusted earnings per share, before exceptional items, is useful to readers of the accounts as it gives an indication of underlying business performance.

	2020 Continuing operations pence per share	**2020 Discontinued operations pence per share**	**2020 Total pence per share**	2019 Continuing operations pence per share	2019 Discontinued operations pence per share	2019 Total pence per share
IFRS earnings per share						
Basic earnings per share	**33.1**	**(0.3)**	**32.8**	18.8	(2.3)	16.5
Diluted earnings per share	**33.0**	**(0.3)**	**32.7**	18.8	(2.3)	16.5
Adjusted earnings per share						
Basic earnings per share	**12.1**	**n/a**	**n/a**	42.9	n/a	n/a

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

Earnings

	2020 Continuing operations £m	2019 Continuing operations £m
Earnings for basic and diluted earnings per share	**34.4**	19.4
Amortisation of acquired intangible assets	**0.9**	0.7
Exceptional items	**(20.0)**	27.9
Less: tax on amortisation of acquired intangibles	**(0.2)**	0.3
Less: tax on exceptional items	**(2.5)**	(4.2)
Earnings for adjusted earnings per share	**12.6**	44.1

Weighted average number of ordinary shares

	2020 Number m	2019 Number m
For basic earnings per share	**104.0**	102.9
Dilutive effect of share options	**0.2**	0.3
For diluted earnings per share	**104.2**	103.2

10 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.

	2020 £m	2019 £m
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
Final dividend for the year ended 30 March 2019 of 16.7p paid on 03 August 2019	**17.3**	–
	17.3	25.7

No dividends are proposed on ordinary shares in 2020.

11 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.

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. The grant reduces the carrying amount of the asset and then is recognised in profit or loss over the useful life of the depreciable asset by way of a reduced depreciation charge.

No depreciation is provided on freehold land. Building improvements 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 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
Exchange differences	0.3	3.8	0.3	0.1	4.5
Additions	–	0.8	0.8	15.5	17.1
Transfers from assets in the course of construction	0.2	6.3	1.5	(9.2)	(1.2)
Disposals	–	(3.0)	2.7	(0.6)	(0.9)
Disposal of subsidiary	(1.9)	(9.5)	(0.5)	(0.1)	(12.0)
At 28 March 2020	48.7	241.4	33.5	14.5	338.1
Accumulated depreciation					
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
Exchange differences	0.2	3.0	0.2	–	3.4
Depreciation charge for the year	1.4	10.3	2.9	–	14.6
Disposals	–	(3.2)	2.9	–	(0.3)
Disposal of subsidiary	(1.5)	(8.1)	(0.5)	–	(10.1)
Impairments	–	(0.1)	–	0.5	0.4
At 28 March 2020	28.2	169.5	25.3	0.5	223.5
Net book value at 28 March 2020	20.5	71.9	8.2	14.0	114.6
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

During the year £3.8m of government grants were received by De La Rue Currency & Security Print Limited for the purchase of certain items of property, plant and equipment, which is offset against Plant and machinery. The following conditions are attached to these grants: to retain an average employment level of 250 workers for a period of 8 years and retain the investment project in Malta for a minimum of 8 years. The investment project began on 1 September 2015.

Notes to the accounts continued

12 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 FY 2017 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.

12 Intangible assets continued

	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 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
Exchange differences	0.6	–	–	–	0.3	0.3	–	–	1.2
Additions	–	–	0.5	–	–	–	–	5.3	5.8
Disposals	–	–	(0.2)	–	–	–	–	(0.2)	(0.4)
Disposal of subsidiary	–	–	–	–	–	–	–	(4.7)	(4.7)
Reclassification	–	3.2	4.8	–	–	–	–	(6.7)	1.3
At 28 March 2020	**9.2**	**21.3**	**15.6**	**0.1**	**3.5**	**4.1**	**0.2**	**3.6**	**57.6**
Accumulated amortisation									
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
Exchange differences	–	–	–	–	0.1	0.1	–	–	0.2
Amortisation for the year	–	1.7	1.4	–	0.3	0.5	–	–	3.9
Impairment*	–	0.3	0.7	–	–	–	–	0.6	1.6
Disposals	–	–	(0.2)	–	–	–	–	–	(0.2)
Disposal of subsidiary	–	–	–	–	–	–	–	–	–
At 28 March 2020	**–**	**14.0**	**8.7**	**0.1**	**0.9**	**1.5**	**–**	**1.4**	**26.6**
Carrying value at 28 March 2020	**9.2**	**7.3**	**6.9**	**–**	**2.6**	**2.6**	**0.2**	**2.2**	**31.0**
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

Note:

* A number of assets were identified during the period as no longer being core to the Group's strategy under the Turnaround plan and consequently their value could not be supported as they were no longer going to be developed and/or brought to market.

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.

Notes to the accounts continued

13 Other financial assets

Accounting policies

As part of the consideration received for the disposal of the Portals De La Rue paper business, the Group received loan notes, preference shares and ordinary shares in Mooreco Limited, a parent company of the purchaser. The instruments relating to the loan notes and preference shares are being held solely to collect principal and interest payments on specified dates (SPPI) and they meet the business test model to be held at amortised cost. Amortised cost approximated fair value at the date these instruments were received, as they were obtained in an arms-length transaction with a third party and priced accordingly as part of the sales negotiation process. 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) and the value of these represents £0.2m of the amounts shown below.

	28 March 2020 £m	30 March 2019 £m
Opening balance	**7.3**	6.6
Interest accrued in the period	**0.7**	0.7
Closing balance	**8.0**	7.3

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. See note 7 for further details.

No expected credit loss (ECL) has been recognised for this balance as based on the information available, it is management's opinion that these amounts are expected to be recovered in full.

14 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.

	2020 £m	2019 £m
Raw materials	**24.7**	18.7
Work in progress	**11.9**	12.9
Finished goods	**17.3**	10.7
	53.9	42.3

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 £2.3m was recognised in operating expenses – ordinary in FY 2020 (FY 2019: £1.7m).

15 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. 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 16.

	2020 £m	2019 £m
Trade receivables	**72.8**	119.2
Provision for impairment	**(19.9)**	(25.3)
Net trade receivables	**52.9**	93.9
Other receivables	**9.0**	17.1
Prepayments	**5.2**	3.4
	67.1	114.4

The Group has three customers that account for approximately 46% of the trade receivables at 28 March 2020.

The ageing of trade and other receivables (excluding prepayments) at the reporting date was:

	Gross 2020 £m	**ECL allowance 2020 £m**	Gross 2019 £m	Provision 2019 £m
Not past due	**48.7**	**(0.2)**	77.5	(0.3)
Past due 0-30 days	**4.8**	**–**	16.7	(1.0)
Past due 31-120 days	**7.5**	**(0.1)**	20.5	(11.0)
Past due more than 120 days	**20.8**	**(19.6)***	21.6	(13.0)
	81.8	**(19.9)**	136.3	(25.3)

Note:

* The ECL amount included in the past due more than 120 days bucket primarily relates to the £18.1m recorded in relation to Venezuela in 2019. The remaining unprovided balances is still considered collectable.

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:

	2020 £m	2019 £m
Balance at beginning of year	**(25.3)**	(5.5)
Impairment losses recognised	**(1.9)**	(24.2)
Impairment losses reversed	**7.3**	4.4
Balance at end of year	**(19.9)**	(25.3)

There is no expected credit loss on contract assets.

Notes to the accounts continued

16 Financial risk

Financial risk management

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.

16(a) Financial instruments

As permitted by IFRS 9, the Group has continued to apply the requirements of IAS 39 at the current time. 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.

16 Financial risk continued

16(a) Financial instruments 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 hierarchy	Total fair value 2020 £m	Carrying amount 2020 £m	Total fair value 2019 £m	Carrying amount 2019 £m
Financial assets					
Trade and other receivables[1]	Level 3	**61.9**	**61.9**	114.4	114.4
Contract assets	Level 3	**18.3**	**18.3**	24.9	24.9
Other financial assets[2]	Level 3	**7.8**	**7.8**	7.1	7.1
Cash and cash equivalents	Level 1	**14.6**	**14.6**	12.2	12.2
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**6.7**	**6.7**	2.0	2.0
– Short duration swap contracts designated as fair value hedges	Level 2	**1.0**	**1.0**	–	–
– Foreign exchange fair value hedges – other economic hedges	Level 2	**2.1**	**2.1**	1.2	1.2
– Embedded derivatives	Level 2	**6.8**	**6.8**	1.0	1.0
– Interest rate swaps	Level 2	**–**	**–**	–	–
Total financial assets		**119.2**	**119.2**	162.8	162.8
Financial liabilities					
Unsecured bank loans and overdrafts[3]	Level 2	**(117.4)**	**(117.4)**	(119.7)	(119.7)
Trade and other payables[4]	Level 3	**(130.7)**	**(130.7)**	(170.3)	(170.3)
Derivative financial instruments:					
– Forward exchange contracts designated as cash flow hedges	Level 2	**(6.5)**	**(6.5)**	(4.7)	(4.7)
– Short duration swap contracts designated as fair value hedges	Level 2	**(0.1)**	**(0.1)**	(0.5)	(0.5)
– Foreign exchange fair value hedges – other economic hedges	Level 2	**(9.2)**	**(9.2)**	(0.8)	(0.8)
– Embedded derivatives	Level 2	**(0.1)**	**(0.1)**	(0.8)	(0.8)
– Interest rate swaps	Level 2	**(0.2)**	**(0.2)**	(0.1)	(0.1)
Total financial liabilities		**(264.2)**	**(264.2)**	(296.9)	(296.9)

Notes:
1 Excluding prepayments.
2 Excluding ordinary shares of £0.2m which are accounted for as fair value through profit and loss.
3 Excluding unamortised pre-paid borrowing.
4 Excluding contract liabilities/deferred income and taxes.

	2020 £m	2019 £m
All derivatives		
Hedge of the Group's functional cash flows		
Asset b/f	**0.2**	0.2
Fair/value (losses)/gains recognised in equity	**–**	(0.2)
Fair/value (losses)/gains recognised in income statement	**1.9**	0.2
Cash settlement on maturity of cash flow hedges	**–**	–
Asset c/f	**2.1**	0.2

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

- 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
- 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.

Notes to the accounts continued

16 Financial risk continued

16(a) Financial instruments continued

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. See fair value hierarchy above.

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.

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 28 March 2020 was gain £0.1m, (30 March 2019: loss £2.5m). Net movements in the hedge reserve are shown in the Group statement of changes in equity. Comprehensive income after tax was £2.6m comprising a loss of £1.0m of fair value movements on new and continuing cash flow hedges, a loss of £0.4 on maturing cash flow hedges and a £1.4m 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 loss of £2.8m amounted to £0.2m. Hedge reserve movements in the income statement were as follows:

	Revenue £m	Operating expense £m	Interest expense £m	Total £m
28 March 2020				
– Maturing cash flow hedges	**(0.9)**	**(0.7)**	**–**	**(1.6)**
– Ineffectiveness on de-recognition of cash flow hedges	**–**	**0.2**	**–**	**0.2**
	(0.9)	**(0.5)**	**–**	**(1.4)**
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)

The ineffective portion of fair value hedges that was recognised in the income statement amounted to £nil (FY 2019: £nil). The ineffective portion of cash flow hedges that was recognised in the income statement within operating expenses was a £0.2m gain (FY 2019: gain of £0.1m within revenue).

16 Financial risk continued

16(b) 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.

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

28 March 2020	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	After 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	**117.4**	**–**	**–**	**–**	**117.4**	**–**	**117.4**
Trade and other payables	**130.7**	**–**	**–**	**–**	**130.7**	**–**	**130.7**
Obligations under leases	**2.8**	**2.5**	**6.4**	**24.2**	**35.9**	**(22.0)**	**13.9**
Derivative financial liabilities							
Gross amount payable from currency derivatives:							
– Forward exchange contracts designated as cash flow hedges	**133.2**	**0.2**	**–**	**–**	**133.4**	**(126.9)**	**6.5**
– Short duration swap contracts designated as fair value hedges	**7.0**	**–**	**–**	**–**	**7.0**	**(6.9)**	**0.1**
– Fair value hedges – other economic hedges	**144.9**	**21.3**	**–**	**–**	**166.2**	**(157.0)**	**9.2**
Interest rate swaps	**0.2**	**–**	**–**	**–**	**0.2**	**–**	**0.2**
	536.2	**24.0**	**6.4**	**24.2**	**590.8**	**(312.8)**	**278.0**

30 March 2019	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	After 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

Notes to the accounts continued

16 Financial risk continued

16(b) Liquidity risk continued

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

28 March 2020	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	**14.6**	**–**	**–**	**–**	**14.6**	**–**	**14.6**
Trade and other receivables	**81.8**	**–**	**–**	**–**	**81.8**	**–**	**81.8**
Contract assets	**18.3**	**–**	**–**	**–**	**18.3**	**–**	**18.3**
Other financial assets[1]	**–**	**–**	**–**	**7.8**	**7.8**	**–**	**7.8**
Derivative financial assets							
Gross amount receivable from currency derivatives:							
– Forward exchange contracts designated as cash flow hedges	**152.3**	**0.4**	**0.1**	**–**	**152.8**	**(146.1)**	**6.7**
– Short duration swap contracts designated as fair value hedges	**50.2**	**–**	**–**	**–**	**50.2**	**(49.2)**	**1.0**
– Fair value hedges – other economic hedges	**61.2**	**0.1**	**–**	**–**	**61.3**	**(59.2)**	**2.1**
Interest rate swaps							
	378.4	**0.5**	**0.1**	**7.8**	**386.8**	**(254.5)**	**132.3**

Note:
1 Excludes ordinary shares of £0.2m which are accounted for as fair value through profit and loss.

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

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 28 March 2020, the Group has a total of undrawn committed borrowing facilities, all maturing in more than one year, of £158m (30 March 2019: £156.5m in more than one year). The amount of loans drawn on the £275m facility is £117m (30 March 2019: £118.5m). Guarantees of £nil (30 March 2019: £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 5.2 times, net debt/EBITDA of 2.24 times. The covenant tests use earlier accounting standards and exclude adjustments including IFRS 16, IFRS 15 and IFRS 9.

16 Financial risk continued

16(b) Liquidity risk continued

Forward foreign exchange contracts

The net principal amounts of the outstanding forward foreign exchange contracts at 28 March 2020 are US dollar 170.1m, euro 27.7m, Swiss franc 25.3m, Japanese yen 68.0m and Saudi Arabian riyal 6.3m.

The net principal amounts outstanding under forward contracts with maturities greater than 12 months are US dollar 25.5m. 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 28 March 2020 will be released to the income statement at various dates between one month and 25 months from the balance sheet date.

	Notional amount in currency	Notional amount in £m	Maturity	Average forward rate
As at 28 March 2020				
Forward exchange forward contracts				
USD	**172.9**	**(133.0)**	**2022**	**1.2993**
EUR	**(36.1)**	**31.9**	**2021**	**1.1303**
CHF	**(18.9)**	**15.4**	**2021**	**1.2265**
30 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

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 28 March 2020 was £0.1m (FY 2019: £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 28 March 2020 are US dollar 8.4m, euro 14.4m, Swiss franc 3.0m, United Arab Emirates dirham 0.2m and Saudi Arabian riyal 8.8m.

(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 28 March 2020 was £0.8m (FY 2019: loss £0.5m). Gains and losses on balance sheet swaps are included in the consolidated income statement.

The principal amounts outstanding under balance sheet swaps at 28 March 2020 are US dollar 31.5m, euro 4.7m, Swiss franc 0.7m, South African rand 0.7m.

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 28 March 2020 was £6.7m (FY 2019: £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 £1.3m gain relating to balance sheet hedges (FY 2019: loss £0.3m), loss £2.4m relating to other fair value hedges (FY 2018: loss £1.6m), and gain £0.1 relating to cash management hedges (FY 2019: £nil).

Notes to the accounts continued

16 Financial risk continued

16(c) 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.

Currency risk

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

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

The Group's risk management policy aims to hedge firm commitments in full, and between 60% 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.

Exposure to currency risk

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2020	2019	**2020**	2019
US dollar	**1.27**	1.32	**1.22**	1.31
Euro	**1.14**	1.13	**1.11**	1.17

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.

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

	Carrying amount	
	2020 £m	2019 £m
Variable rate instruments		
Financial assets	**14.6**	12.2
Financial liabilities	**(117.4)**	(119.7)
	(102.8)	(107.5)

At the year ending 28 March 2020 the Group had £65m of floating to fixed interest rate swaps with financial institutions and of these £10m had a maturity of October 2020 and £55m had a maturity of November 2020.

Excluded from the above analysis is £13.9m of amounts payable under leases, which are subject to fixed rates of interest.

16 Financial risk continued

16(c) Market risk continued

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)				
28 March 2020	(0.8)	1.1	–	–
30 March 2019	(0.3)	0.7	–	–

16(d) 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.

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	**2020 £m**	2019 £m
Trade and other receivables (excluding prepayments)	15	**61.9**	111.0
Other financial assets		**7.8**	7.3
Cash and cash equivalents	17	**14.6**	12.2
Forward exchange contracts used for hedging		**9.8**	3.2
Embedded derivatives		**6.8**	1.0
Interest rate swaps		**–**	–
		100.9	134.7

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

	Carrying amount	
	2020 £m	2019 £m
UK	**8.1**	27.3
Rest of Europe	**17.5**	17.1
The Americas	**2.9**	9.0
Rest of world	**33.4**	57.6
	61.9	111.0

Notes to the accounts continued

16 Financial risk continued

16(d) Credit risk continued

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

	Carrying amount 2020 £m	Carrying amount 2019 £m
Banks and financial institutions	**21.1**	66.7
Government institutions	**16.2**	34.7
Other	**24.6**	34.9
	61.9	136.3

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.

16(e) 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	2020 £m	2019 £m
Total equity attributable to shareholders of the Company		**78.0**	(39.1)
(Deduct)/add back long term pension surplus/(deficit)		**(64.8)**	78.6
Adjusted equity attributable to shareholders of the Company		**13.2**	39.5
Net debt	24	**102.8**	107.5
Group capital		**116.0**	147.0

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 20 and 24.

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 9 and 10.

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 £26.3m in ongoing research and development expenditure and total capital expenditure. There is no proposed 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.

16(f) Changes in liabilities arising from financing activities

The analysis in Note 24 provides a reconciliation between the opening and closing positions in the balance sheet for liabilities arising from financing activities together with movements in cash loan receivables and derivatives relating to the items included in Net Debt.

17 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.

	2020 £m	2019 £m
Cash at bank and in hand	**14.6**	12.2
Short term bank deposits	**–**	–
	14.6	12.2

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 16.

18 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:

	2020 £m	2019 £m
Deferred tax assets	**5.5**	18.4
Deferred tax liabilities	**(8.8)**	(3.4)
	(3.3)	15.0

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

	2020 £m	2019 £m
Beginning of the year	**15.0**	16.8
Exchange differences	**0.2**	(0.3)
Income statement credit/(charge)	**6.8**	1.0
Tax credit/(charge) to OCI and equity	**(25.3)**	(2.5)
End of the year	**(3.3)**	15.0

Notes to the accounts continued

18 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	Retirement benefits £m	Total £m
Liabilities					
At 31 March 2018	(3.6)	(1.4)	(1.6)	–	(6.6)
Recognised in the income statement	1.5	(0.4)	0.5	–	1.6
Recognised in OCI and equity	–	–	–	–	–
At 30 March 2019	(2.1)	(1.8)	(1.1)	–	(5.0)
Recognised in the income statement	0.8	0.2	(0.8)	–	0.2
Recognised in OCI and equity	–	–	–	(12.3)	(12.3)
Exchange differences	(0.1)	(0.1)	–	–	(0.2)
At 28 March 2020	**(1.4)**	**(1.7)**	**(1.9)**	**(12.3)**	**(17.3)**

	Share options £m	Retirement benefits £m	Tax losses £m	Other £m	Total £m
Assets					
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)	(0.9)	(0.6)
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	5.8	20.0
Recognised in the income statement	(0.2)	(0.4)	5.0	2.2	6.6
Recognised in OCI and equity	(0.4)	(12.5)	–	(0.1)	(13.0)
Exchange differences	–	–	–	0.4	0.4
At 28 March 2020	**0.1**	**0.5**	**5.1**	**8.3**	**14.0**

Other deferred assets and liabilities include tax associated with provisions of £0.7m (FY 2019: £0.6m) and in respect of overseas tax credits £5.7m (FY 2019: £5.3m).

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 £6.9m (2018/19: £6.8m) in respect of losses amounting to £26.0m (2018/19: £25.5m) that can be carried forward against future taxable income. Similarly, the Group has not recognised deferred tax assets of £5.4m (2018/19: £6.8m) in respect of overseas tax credits that are carried forward for utilisation in future periods.

Unremitted foreign earnings totalled £161.8m at 28 March 2020 (2018/19: £168.8m). 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 £319m are carried forward at 28 March 2020 (2018/19: £320m). No deferred tax asset has been recognised in respect of these losses.

With respect to IFRS 16 (Leases), if tax deductions are based on the lease payments made rather than on deprecation on the right-of-use assets and finance costs on the lease liability, then deferred tax is recognised based on the right-of-use asset and lease liability balances. The deferred tax balances are recognised on a net basis where the criteria for offsetting the balances is met.

UK tax rate

The UK tax rate was due to reduce from 19% to 17% from April 2020, however this reduction was reversed in March 2020 so the rate will remain at 19%. The UK deferred tax assets and liabilities at 28 March 2020 have been calculated based on the rate of 19%, being the substantively enacted rate at the balance sheet date.

19 Trade and other payables

Accounting policies

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

Payments received on account relate to monies received from customers under contract, as per individual contract agreements, prior to commencement of production of goods or delivery of services. Once the obligation has been fulfilled the revenue is recognised in accordance with IFRS 15.

	2020 £m	2019 £m
Current liabilities		
Payments received on account	**38.2**	46.7
Trade payables	**45.4**	56.6
Social security and other taxation	**2.6**	4.7
Accrued expenses[1]	**37.7**	54.4
Other payables[2]	**9.4**	12.6
	133.3	175.0

Notes:
1 Accrued expenses include commissions £5.0m, rebate accruals £4.5m, wages and salaries £2.4 and freight accruals £1.9m.
2 Other payables include capex creditors £4.4m and interest payable £1.2m.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 16.

20 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 16.

	Currency	Nominal interest rate	Year of maturity	**Face value 2020 £m**	**Carrying amount 2020 £m**	Face value 2019 £m	Carrying amount 2019 £m
Current liabilities							
Unsecured bank loans and overdrafts	EUR	–	2020			–	–
Unsecured bank loans and overdrafts	GBP	2.62%	2020	**117.0**	**117.0**	119.1	119.1
Unsecured bank loans and overdrafts	USD	–	2020			–	–
Unsecured bank loans and overdrafts	Other	–	2020	**0.4**	**0.4**	0.6	0.6
Total interest bearing liabilities				**117.4**	**117.4**	119.7	119.7

The total interest bearing liabilities above is presented excluding unamortised pre-paid borrowing fees of £0.8m.

As at 28 March 2020, bank overdrafts of £154.7m (FY 2019: £182.8m) 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 28 March 2020, 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

21 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 30 March 2019	–	0.5	3.7	4.2
Exchange differences	–	–	–	–
Charge for the year	8.9	2.3	6.9	18.1
Utilised in year	(6.5)	(0.7)	(1.2)	(8.4)
Disposal of subsidiary	–	–	(0.3)	(0.3)
Released in year	–	(1.5)	(1.5)	(3.0)
At 28 March 2020	**2.4**	**0.6**	**7.6**	**10.6**
Expected to be utilised within 1 year	2.4	0.6	7.6	10.6
Expected to be utilised after 1 year	–	–	–	–

Restructuring provisions

Restructuring provisions relate to the reorganisation announced in May 2019 and other cost out programmes and primarily relate to redundancy and other employee related termination costs. These restructuring programmes are expected to complete by the end of FY 2021/22.

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. The charge in the period includes the recognition of an onerous contract provision relating to a significant customer contract and is based on management's best estimate of the expected economic outflow. An amount of £0.7m 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 gain on disposal recorded within exceptional items in FY 2020.

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.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of inventory has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

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.

22 Share capital

	2020 £m	2019 £m
Issued and fully paid		
103,997,862 ordinary shares of 4452⁄175p each (2018/19: 103,796,134 ordinary shares of 4452⁄175p each)	**46.7**	46.6
111,673,300 deferred shares of 1p each (2018/19: 111,673,300 deferred shares of 1p each)	**1.1**	1.1
	47.8	47.7

	2020		2019	
	Ordinary shares '000	**Deferred shares '000**	Ordinary shares '000	Deferred shares '000
Allotments during the year				
Shares in issue at 30 March 2019/31 March 2018	**103,796**	**111,673**	102,390	111,673
Issued under Savings Related Share Option Scheme	**48**	**–**	1,178	–
Issued under Annual Bonus Plan	**21**	**–**	149	–
Issued under Performance Share Plan	**133**	**–**	79	–
Shares in issue at 28 March 2020/30 March 2019	**103,998**	**111,673**	103,796	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.

23 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 28 March 2020, 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	
	2020 £m	2019 £m
Annual Bonus Plan	**0.2**	0.1
Performance Share Plan	**(0.6)**	0.4
Savings Related Share Option Scheme	**(0.2)**	0.2
	(0.6)	0.7

Note:
The FY 2020 Performance Share Plan above includes cash settled share based payments income of £11,356 (FY 2019 expense £7,381).

Notes to the accounts continued

23 Share based payments continued

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	10 July 2019	06 January 2020	25 June 2019	7 January 2020
Number of options granted	459,339	326,245	132,363	847,033
Exercise price	n/a	n/a	n/a	118.67
Contractual life (years)	9	10	8	3
Settlement	Share	Share	Share	Share
Vesting period (years)	3	5	1 or 2	3
Dividend yield	n/a	n/a	n/a	Nil
Risk free interest rate	n/a	n/a	n/a	0.55% pa
Share price volatility	n/a	n/a	n/a	40% pa
Share price at grant (pence)	298.0	206.89	301.60	139.40
Fair value per option at grant date	298.00	206.89	301.60	48.00

For the Savings Related Share Option Scheme (SAYE) an expected volatility rate of 40% (FY 2019: 30%) has been used for grants in the period. This rate is based on historical volatility over the last three years to 7 January 2020. 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 0.55% per annum for a period of three years (FY 2019: 0.77%).

Reconciliations of option movements over the period to 28 March 2020 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 65 to 86.

	2020 Number of awards '000	2019 Number of awards '000
Share awards outstanding at start of year	**27**	160
Granted	**132**	–
Forfeited	**(36)**	(6)
Vested	**(18)**	(127)
Outstanding at end of year	**105**	27

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 65 to 86.

	2020 Number of awards '000	2019 Number of awards '000
Share awards outstanding at start of year	**1,942**	1,946
Granted	**786**	854
Forfeited	**(1,123)**	(790)
Vested	**(67)**	(68)
Outstanding at end of year	**1,538**	1,942

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, 298.00p for the 10 June 2019 grants and 206.89 for the 6 January 2020 grants.

23 Share based payments continued

Savings Related Share Option Scheme

The scheme is open to all UK employees. Options are granted at the prevailing market price at the time of the grant (with a discretionary discount to the market price) to employees who agree to save between £5 and the maximum savings amount offered per month over a period of three or five years.

There are no performance conditions attaching to the options. After the three or five year term has expired, employees normally have six months in which to decide whether or not to exercise their options. A pre-vesting forfeiture rate of 5% has been assumed on new options granted in the year based on historic experience.

	2020		2019	
	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	**404.76**	**1,791**	410.18	2,856
Granted	**118.67**	**847**	372.67	849
Forfeited	**402.23**	**(976)**	391.94	(761)
Exercised	**344.40**	**(48)**	357.96	(1,153)
Expired	**359.34**	**(80)**	–	–
Outstanding at end of year	**252.67**	**1,534**	404.76	1,791

The range of exercise prices for the share options outstanding at the end of the year is 118.67p-520.26p (2019: 372.67p-705.7p). The weighted average remaining contractual life of the outstanding share options is 2.15 years (2019: 1.92 years).

During the period the weighted average share price on options exercised in the period was 426.5p.

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 28 March 2020 (30 March 2019: nil).

24 Analysis of net debt

The analysis below provides a reconciliation between the opening and closing positions in the balance sheet for liabilities arising from financing activities together with movements in cash and cash equivalents. Net debt is presented excluding unamortised pre-paid borrowing fees of £0.8m (FY 2019: £1.0m).

	At 30 March 2019 £m	Cash flow £m	**At 28 March 2020 £m**
Borrowing due within one year	(118.8)	1.5	**(117.3)**
Cash and cash equivalents	11.3	3.2	**14.5**
Net debt[1]	(107.5)	4.7	**(102.8)**

Note:

1 Net debt above is presented excluding unamortised pre-paid borrowing fees of £0.8m. Net debt also excludes £13.9m of lease liabilities recognised following the adoption of IFRS 16.

	At 1 April 2018 £m	Cash flow £m	At 30 March 2019 £m
Borrowings due within one year	(65.1)	(53.7)	(118.8)
Cash and cash equivalents	15.2	(3.9)	11.3
Net debt	(49.9)	(57.6)	(107.5)

Notes to the accounts continued

25 Leases

Accounting policies

The Group has lease contracts for various properties and ground leases in addition to other equipment used in its operations. Leases for property and ground leases range from 2 years to in excess of 100 years in certain cases. Leases for other equipment used in operations are typically for periods of 2 to 5 years. There are several lease contracts which include extensions and termination options and these are discussed below.

The Group also has certain leases that have terms of less than 12 months or lease or where equipment is of a low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions.

For further details on lease accounting see Accounting Policies on page 109.

Set out below are the carrying amounts of right-to-use assets recognised and the movement during the period:

	Land and buildings £m	Plant and equipment £m	Total £m
At 31 March 2019			
Additions (see page 110) – on transition to IFRS 16	12.6	0.7	13.3
Additions – change in lease assessment	2.2	–	2.2
Depreciation expense	(2.3)	(0.1)	(2.4)
Disposal of subsidiary	(0.4)	–	(0.4)
Exchange differences	0.2	–	0.2
At 28 March 2020	12.3	0.6	12.9

Set out below are the carrying amounts of lease liabilities and the movement during the period:

	Land and buildings £m	Plant and equipment £m	Total £m
At 31 March 2019			
Additions (see page 110) – on transition to IFRS 16	(13.6)	(0.7)	(14.3)
Additions – change in lease assessment	(2.2)	–	(2.1)
Accretion of interest	(0.6)	–	(0.6)
Lease payments	2.8	0.1	2.9
Disposal of subsidiary	0.4	–	0.4
Exchange differences	(0.1)	–	(0.1)
At 28 March 2020	13.3	0.6	13.9

The following amounts have been recognised in the income statement:

	2020 £m
Depreciation of right to use assets	**(2.4)**
Interest expense on lease liabilities	**(0.6)**
Expense relating to short term leases	**(0.2)**
Expenses relating to leases of low-value assets	**(0.1)**

The Group had total cash outflows for lease of £2.9m in 2020. The Group also had non-cash additions to right-of-use assets (£12.6m) and liabilities (£13.6m) in 2020. At 28 March 2020, there are no leases entered into which have not yet commenced.

The Group has certain leases that include extension or termination options. Management exercises judgement in determining whether these extensions and termination options are reasonably certain to be exercised (see page 110).

Set out below are the undiscounted potential future rental payment relating to period following the exercise date of extension and termination options that are not included in the lease term:

	Within five years £m	More than five years £m	Total £m
Extension options expected not to be exercised	0.2	1.5	1.7
Termination options expected to be exercised	0.2	–	0.2

26 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 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 net surplus/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. Any net pension surplus is recognised at the lower of the net surplus in the defined benefit pension valuation under IAS 19 and the asset ceiling.

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 28 March 2020 as the Group has an unconditional right to any surplus. No significant judgements were involved in making this determination. As the Group has assessed that it has an unconditional right to any surplus, it is also considered appropriate to record the full net surplus on an IAS 19 basis within non-current assets on the balance sheet. As the Group does not intend to recover the pension surplus from the pension scheme as a refund, it has been recognised gross of the potential withholding tax if the surplus was to be recovered in this way. Instead, a deferred tax liability has been recognised on the pension surplus, and is included within deferred tax liabilities (see Note 18).

On 31 May 2020, the Trustee and the Company agreed the terms for a schedule of contributions and a recovery plan, setting out a programme for clearing the UK Pension Scheme deficit (the "Recovery Plan"). The latest actuarial valuation of the UK Pension Scheme as at 31 December 2019, which was based on intentionally prudent assumptions, revealed a funding shortfall (technical provisions minus the value of the assets) of £142.6m. The Recovery Plan makes an allowance for post-valuation market conditions up to 30 April 2020 (at which point there is an estimated funding shortfall of £190m), including the impact of COVID-19 on financial markets to that date.

The £190m deficit is addressed by Recovery Plan payments (payable quarterly in arrears) of £15m per annum from 1 April 2020 until 31 March 2023 and then payments of £24.5m per annum from 1 April 2023 until 31 March 2029. This replaces the recovery plan agreed with the trustee in 2016 ("2015 Recovery Plan") where payments would have been £22.2 million between 1 April 2020 and 31 March 2021, £23.1 million between 1 April 2021 and 31 March 2022 and £23 million per annum thereafter until 31 March 2028. Additional contingent contributions in exceptional circumstances will become payable under the Recovery Plan by way of an acceleration of the contributions due in later years where: (i) the leverage ratio (consolidated net debt: EBITDA) is equal to or greater than 2.5x in either FY 2021/22 or FY 2022/23, up to a maximum of £4m in each financial year and £8m in total and/or (ii) the Company or any its subsidiaries take any action which will cause material detriment (defined in section 38 Pensions Act 2004) to the UK Pension Scheme, of £23.3m (£7.2m in FY 2020/21, £8.1m in FY 2021/22 and £8m in FY 2022/23) over the period up to 31 March 2023. In addition, the Company will pay contributions of £1.25m pa to the UK Pension Scheme to meet its expenses and will pay on behalf of the UK Pension Scheme both the PPF's scheme-based levy and risk-based levy up to 31 March 2029.

This agreement with the Trustee of the UK Pension Scheme is conditional on an amount in full settlement of the Capital Raising in the gross amount of at least £100m having been received by the Company by no later than 31 July 2020. If these criteria were not to be met then the Group's current obligations in respect of the UK Pension Scheme under the 2015 Recovery Plan would (subject to the outcome of a valuation as at 5 April 2018 which would then need to be completed) continue unaffected.

Notes to the accounts continued

26 Retirement benefit obligations continued

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. In addition during FY 2019/20 a past service credit of £8.7m relating to the resolution of a historical issue in respect to a change in revaluation rates for certain UK defined benefit pension deferred scheme members was recorded in the income statement within exceptional items. The Directors continue to assess any residual impact from these changes.

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. The Group estimated the impact of this in relation to the Scheme is £1.7m and this was charged to the income statement and recorded within exceptional items in FY 2018/19. 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 FY 2020 legal fees of £1.1m 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:

	2020 UK £m	**2020 Overseas £m**	**2020 Total £m**	2019 UK £m	2019 Overseas £m	2019 Total £m
Equities	**86.7**	**–**	**86.7**	101.8	–	101.8
Bonds	**112.4**	**–**	**112.4**	194.4	–	194.4
Diversified Growth Fund	**46.5**	**–**	**46.5**	185.9	–	185.9
Secured/fixed income	**210.5**	**–**	**210.5**	–	–	–
Liability Driven Investment Fund	**457.7**	**–**	**457.7**	440.9	–	440.9
Multi Asset Credit	**108.8**	**–**	**108.8**	74.2	–	74.2
Other	**24.3**	**–**	**24.3**	7.6	–	7.6
Fair value of scheme assets	**1,046.9**	**–**	**1,046.9**	1,004.8	–	1,004.8
Present value of funded obligations	**(977.6)**	**–**	**(977.6)**	(1,076.4)	–	(1,076.4)
Funded defined benefit pension schemes	**69.3**	**–**	**69.3**	(71.6)	–	(71.6)
Present value of unfunded obligations	**(4.5)**	**(1.8)**	**(6.3)**	(5.2)	(1.8)	(7.0)
Net surplus/(liability)	**64.8**	**(1.8)**	**63.0**	(76.8)	(1.8)	(78.6)

Amounts recognised in the consolidated income statement:

	2020 UK £m	**2020 Overseas £m**	**2020 Total £m**	2019 UK £m	2019 Overseas £m	2019 Total £m
Included in employee benefits expense:						
– Current service cost	**–**	**–**	**–**	–	–	–
Past service cost	**8.7**	**–**	**8.7**	(1.7)	–	(1.7)
– Administrative expenses and taxes	**(2.2)**	**–**	**(2.2)**	(2.7)	–	(2.7)
Included in interest on retirement benefit obligation net finance expense:						
– Interest income on scheme assets	**23.7**	**–**	**23.7**	25.6	–	25.6
– Interest cost on liabilities	**(25.3)**	**–**	**(25.3)**	(27.7)	–	(27.7)
Retirement benefit obligation net finance expense	**(1.6)**	**–**	**(1.6)**	(2.1)	–	(2.1)
Total recognised in the consolidated income statement	**(4.9)**	**–**	**(4.9)**	6.5	–	6.5
Return on scheme assets excluding assumed interest income	**44.4**	**–**	**44.4**	26.5	–	26.5
Remeasurement (losses)/gains on defined benefit pension obligations	**69.4**	**0.3**	**69.7**	(31.5)	0.2	(31.3)
Amounts recognised in other comprehensive income	**113.8**	**0.3**	**114.1**	(5.0)	0.2	(4.8)

26 Retirement benefit obligations continued

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

	2020 UK %	2020 Overseas %	2020 Total %	2019 UK %	2019 Overseas %	2019 Total %
Equities	**8**	**–**	**8**	10	–	10
Bonds	**11**	**–**	**11**	19	–	19
Diversified Growth Fund	**4**	**–**	**4**	18	–	18
Secured/fixed income	**21**	**–**	**21**	–	–	–
Liability Driven Investment Fund	**44**	**–**	**44**	44	–	44
Multi Asset Credit	**10**	**–**	**10**	8	–	8
Other	**2**	**–**	**2**	1	–	1

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 42%), index linked bond holdings (approximately 24%) and cash (approximately 34%). 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 75% of the funded obligations. The Multi Asset Credit Fund invests in a variety of debt instruments. Multi Asset Credit, Diversified Growth Funds, Secured income 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.

As required by IAS19, the Group has considered the extent to which the pension plan assets should be classified in accordance with the fair value hierarchy of IFRS13. Virtually all equity and debt instruments have quoted prices in active markets. 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, therefore are classified as Level 3.

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

Principal actuarial assumptions:

	2020 UK %	2020 Overseas %	2019 UK %	2019 Overseas % Discount rate
Discount rate	**2.40**	**–**	2.40	–
CPI inflation rate	**1.60**	**–**	2.05	–
RPI inflation rate	**2.60**	**–**	3.15	–

The financial assumptions adopted as at 28 March 2020 reflect the duration of the scheme liabilities which has been estimated to be broadly 16 years.

At 28 March 2020 mortality assumptions were based on tables issued by Club Vita, with future improvements in line with the CMI model, CMI_2019 (2019: CMI_2018) with a smoothing parameter of 7.5 and a long term future improvement trend of 1.25% per annum (2018/19: long term rate of 1.25% per annum). The resulting life expectancies within retirement are as follows:

		2020	2019
Aged 65 retiring immediately (current pensioner)	Male	**22.0**	22.0
	Female	**23.3**	23.3
Aged 50 retiring in 15 years (future pensioner)	Male	**22.9**	22.9
	Female	**24.6**	24.6

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.

Notes to the accounts continued

26 Retirement benefit obligations continued

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.£38m
0.25% increase in CPI inflation rate	Increase in liability of c.£16m
Increasing life expectancy by one year	Increase in liability of c.£44m

The liability sensitivities have been derived using the duration of the scheme based on the membership profile as at 5 April 2018 and assumptions chosen for the 2020 year end. The sensitivity analysis does not allow for changes in scheme membership since the 2018 actuarial valuation or the impact of the Scheme or Group's risk management activities in respect of interest rate and inflation risk on the valuation of the Scheme assets.

The largest defined benefit pension scheme operated by the Group is in the UK. Changes in the fair value of UK scheme assets:

	2020 £m	2019 £m
At 30 March 2019/31 March 2018	**1,004.8**	980.0
Assumed interest income on scheme assets	**23.7**	25.6
Scheme administration expenses	**(2.2)**	(2.7)
Return on scheme assets less interest income	**44.3**	26.5
Employer contributions and other income	**23.2**	22.5
Benefits paid (including transfers)	**(46.9)**	(47.1)
At 28 March 2020/30 March 2019	**1,046.9**	1,004.8

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

	2020 £m	2019 £m
At 30 March 2019/31 March 2018	**(1,081.6)**	(1,067.6)
Interest cost on liabilities	**(25.3)**	(27.7)
Past service cost	**8.7**	(1.7)
Effect of changes in financial assumptions	**29.7**	(46.4)
Effect of changes in demographic assumptions	**0.9**	15.2
Effect of experience items on liabilities	**38.6**	(0.6)
Benefits paid (including transfers)	**46.9**	47.1
At 28 March 2020/30 March 2019	**(982.1)**	(1,081.6)

(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 £5.8m (FY 2019: £7.8m).

27 Employee information

	2020 number	2019 number
Average number of employees		
United Kingdom and Ireland	**1,213**	1,628
Rest of Europe	**465**	504
The Americas	**58**	63
Rest of World	**615**	645
	2,351	2,840

	2020 £m	2019 £m
Employee costs (including Directors' emoluments)		
Wages and salaries	**111.8**	107.2
Social security costs	**10.5**	10.4
Share incentive schemes	**(0.4)**	0.6
Sharesave schemes	**(0.2)**	0.4
Pension costs	**7.7**	7.8
	129.4	126.4

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 65 to 86.

28 Capital commitments

	2020 £m	2019 £m
Capital expenditure contracted but not provided		
Property, plant and equipment	**2.3**	22.7
Other commitments	**492.5**	559.6
	494.8	582.3

Other commitments 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 until March 2028. Based on the terms of the agreement the Group had a capital commitment of approximately £626.9m over 10 years from the date of sale. The contract is assessed to be at market rates.

29 Contingent liabilities

SFO investigation

On 23 July 2019, the Group announced that the SFO had opened an investigation into the Group and its associated persons in relation to suspected corruption in the conduct of its business in South Sudan. As announced by the Company on 16 June 2020, the SFO subsequently informed the Company of its decision to discontinue such investigation. No provision was included in the Balance Sheet at 28 March 2020 for any potential economic outflow under the SFO investigation as the recognition criteria under IAS 37 were not met at this time.

Bathford Paper Mill

During 2017 an employee at the Paper Mill in Bathford suffered a serious injury. The investigation and prosecution by the enforcing authorities Health and Safety Executive has concluded in the period and the Group incurred a fine which was not material. Accrual for the fine was included in the balance sheet at 28 March 2020 and has been paid after year end.

Arbitration proceedings

De La Rue International Limited has commenced arbitration proceedings in London against Pastoriza SRL, a company which provided agency and sales consultancy services to the Group in the Dominican Republic from 2016 to 2019. The proceedings were commenced in connection with the termination of an agency agreement and the sales consultancy agreement entered into between De La Rue International Limited and Pastoriza SRL. Pastoriza SRL has contested jurisdiction of the arbitration and has otherwise not engaged in the arbitration. An arbitration award may still be granted to De La Rue International Limited in Pastoriza SRL's absence.

Notes to the accounts continued

29 Contingent liabilities continued

In response to De La Rue International Limited terminating the agency agreement and the sales consultancy agreement, Pastoriza SRL commenced a commercial lawsuit in the Dominican Republic for a claimed amount of approximately US$8million (plus monthly interest). De La Rue International Limited has filed documentary evidence to the courts in the Dominican Republic. The points disputed by De La Rue International Limited in respect of Pastoriza SRL's claim include whether the courts of the Dominican Republic should have jurisdiction in relation to the claim. The hearing on the claim scheduled for 30 March 2020 was postponed (without a new date being set) due to the ongoing COVID-19 pandemic.

As at 17 June 2020, the Group had not received any further information on the outcome of the arbitration proceedings in London and no new date had been set for the proceedings in the Dominican Republic. The Group does not consider it probable that an economic outflow will occur under this claim and accordingly under IAS 37 no provision has been made in the 2020 Financial Statements in respect of the proceedings in the Dominican Republic.

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.

30 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 £30.9m (FY 2019: £17.6m) for the purchase of security ink and other consumables. At the balance sheet date there were creditor balances of £2.5m (FY 2019: £4.1m) 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

	2020 £m	2019 £m
Salaries and other short term employee benefits	**2.9**	2.7
Retirement benefits:		
– Defined contribution	**0.4**	0.4
Share based payments	**–**	–
Dividends received	**–**	–
Termination benefits	**1.1**	–
	4.4	3.1

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.

31 Subsequent events

The Group has commenced an equity raise process to raise gross proceeds of at least £100m, which is subject to a shareholder vote to be held on or around 6 July 2020. At the same time, the Group has entered into the following agreements with its lenders and with the Pension Trustees.

Revolving Facility Agreement Amendment

The Group has entered into an amendment and restated agreement dated 17 June 2020 in respect of the Revolving Facility Agreement (the "Revolving Facility Agreement Amendment"). The Revolving Facility Agreement Amendment has a number of conditions which must be satisfied prior to the amendments to the Revolving Facility Agreement becoming effective, including proceeds of an equity raise in the gross amount of at least £100,000,000 being received by the Company by no later than 31 July 2020 (the "Equity Raise Condition"). Once effective, the Revolving Facility Agreement Amendment will make a number of amendments to the Revolving Facility Agreement including:

(1) an extension of the maturity date to 1 December 2023;
(2) an amendment to the financial covenants pursuant to which the Company must ensure that the ratio of EBIT to Net Interest Payable in FY 2020/21, FY 2021/22 and FY 2022/23 will not be less than 2.4 to 1, 2.8 to 1, and 3.0 to 1 respectively;
(3) amendments to increase the margin by 150 basis points; and
(4) being subject to certain restrictions on making payments to Shareholders for a period of 18 months of the effective date of the amendments to the Revolving Facility Agreement.

In addition, it is the intention of the Group and the Lenders that, once the amendments to the Revolving Facility Agreement are effective, the Group shall cease to utilise the Uncommitted Bonding Facility Agreements provided by the Lenders and shall instead utilise the committed letter of credit line in the Revolving Facility Agreement (as amended by the Revolving Facility Agreement Amendment). The Group has the ability to elect to re-allocate up to £50m (in increments of £25m) of the cash loan tranche to the committed letter of credit tranche under the Revolving Facility Agreement (with the option to subsequently re-allocate such amounts back to the cash loan tranche).

31 Subsequent events continued

In the event that the Equity Raise Condition is not satisfied, the Company has 45 days to agree an alternative financing plan with the Lenders (or a longer period agreed between the Company and the Lenders) (the "Alternative Plan Period") and in the absence of such agreement, an immediate event of default will arise under the Revolving Facility Agreement. During the Alternative Plan Period, utilisations under the Revolving Facility Agreement will be restricted subject to certain conditions.

Deficit Reduction Plan Amendment Agreement with Pension Trustees

The Group has entered into an amendment agreement dated 31 May 2020 in respect of the Deficit Reduction Plan (the "Deficit Reduction Plan Amendment Agreement"), with a reduction in the payments to be made under the Deficit Reduction Plan, subject to a number of conditions which must be satisfied prior to the amendments to the Deficit Reduction Plan Amendment Agreement becoming effective. For further details see note 26.

SFO investigation

On 16 June 2020, the Group has announced that it was informed by the SFO, that the SFO decided to discontinue its investigation into De La Rue and its associated persons. The SFO investigation was first announced on 23 July 2019. For further details see note 29.

32 Subsidiaries and associated companies as at 28 March 2020

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	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
	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		

Notes to the accounts continued

32 Subsidiaries and associated companies as at 28 March 2020 continued

Country of incorporation and operation		Activities	De La Rue interest %
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 Limitadac	Non-trading	100
	De La Rue Cash Systems Limitadac	Trading	100
	Rua Boa Vista, 254, 13th Floor, Suite 41, Centro, Sao Paulo, 01014-907,		
	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	60
	ABC Towers, 6th Floor, ABC Place, Waiyaki Way, Nairobi, Kenya		
Nigeria	De La Rue Commercial Services Limited	Trading	100
	7th Floor, Marble House, 1 Kingsway Road, Ikoyi, Lagos, Nigeria		
Senegal	De La Rue West Africa SARL	Trading	100
	VDN Keur Gorgui Imm Hermes 1, 2e Etage No 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

Notes:
* Ordinary shares held directly by De La Rue plc.
a Ordinary shares, cumulative preference shares and deferred shares.
b Common stock.
c Quotas.

As part of the sale of the International Identity Solutions business to HID announced on 14 October 2019, the Group sold the following subsidiaries: De La Rue Services Limited; De la Rue Caribbean Limited, De La Rue Angola Limitada and De La Rue Kenya Limited.

33 Non-controlling interest

The Group has two subsidiaries with material non-controlling interests. The are De La Rue Lanka Currency and Security Print (Private) Limited, whose country of incorporation and operation is Sri Lanka and De La Rue Kenya EPZ Limited, whose country of incorporation and operation is Kenya. De La Rue Kenya EPZ Limited was 100% owned until 16 April 2019, see further disclosure below. The accumulated non-controlling interest of the subsidiary at the end of the reporting period is shown in the Group balance sheet. The following table summarises key information relating to this subsidiary, before intra-group eliminations:

	2020 £m	**2020 £m**	2019 £m
	De La Rue Lanka Currency	**De La Rue Kenya EPZ Limited**	De La Rue Lanka Currency
Non-current assets	**13.2**	**7.2**	15.2
Current assets	**22.0**	**20.5**	16.9
Non-current liabilities	**(0.5)**	**–**	(0.4)
Current liabilities	**(8.7)**	**(14.6)**	(7.0)
Net assets (100%)	**26.0**	**13.1**	24.6
Revenue	**6.1**	**3.3**	4.8
Profit for the year	**2.4**	**2.2**	3.4
Non-controlling interest percentage	**40%**	**40%**	40%
Profit allocated to non-controlling interest	**0.9**	**0.8**	1.4
Dividends paid to non-controlling interest	**0.6**	**–**	0.5
Cash flows from operating activities	**6.0**	**1.6**	1.1
Cash flows from investment activities	**(0.3)**	**(1.8)**	(0.7)
Cash flows from financing activities	**(0.6)**	**–**	(0.5)
Net increase in cash and cash equivalents	**5.1**	**(0.2)**	(0.1)

Transactions with non controlling interests

On 16 April 2019 the Group commenced a commercial partnership with the Government of Kenya on our currency and secure printing site in Nairobi, Kenya. Under the terms of the agreement, the National Treasury of Kenya has taken a 40% stake in De La Rue's wholly owned subsidiary De La Rue Kenya EPZ Limited, for a consideration of £5 million.

The £5m was received in advance in September 2017 and was reported in FY 2019 within advanced payments on the balance sheet as at 30 March 2019.

De La Rue have a long history of supporting governments in Africa with currency and identity solutions and this commercial partnership enhances our position in East Africa. Management believes the transaction provides an opportunity to create greater long term value for shareholders and this joint venture fits with our strategy of expanding into key growth markets through long term partnerships and local investment.

De La Rue continues to operate and manage the business day to day and appoints three of the five directors on the commercial partnership's Board. In applying the definitions of control identified in IFRS 10, it has been determined that the Group retains outright control over De La Rue Kenya EPZ Limited and as such the results of the subsidiary are fully consolidated in to the Group's financial statements.

The Group recognized an increase in non controlling interests of £4.2m and an increase in equity attributable to owners of the parent of £0.8m. The effect on the equity attributable to the owners of De La Rue plc during the period is summarised as follows:

	2019/20 £m	2018/19 £m
Consideration received	**5.0**	–
Carrying amount of non controlling interests disposed of	**(4.2)**	–
Excess of consideration received recognised in the transactions with non controlling interests reserve within equity	**0.8**	–

Company balance sheet
at 28 March 2020

	Notes	2020 £m	2019 £m
Fixed assets			
Investments in subsidiaries	4a	**123.2**	155.0
		123.2	155.0
Current assets			
Debtors receivable within one year	5a	**33.1**	40.5
Cash at bank and in hand		**1.9**	1.7
		35.0	42.2
Creditors:			
Amounts falling due within one year	6a	**(17.4)**	(6.4)
		(17.4)	(6.4)
Net current assets		**17.6**	35.8
Total assets less current liabilities		**140.8**	190.8
Net assets		**140.8**	190.8
Capital and reserves			
Share capital	7a	**47.8**	47.7
Share premium account		**42.2**	42.1
Capital redemption reserve		**5.9**	5.9
Retained earnings		**44.9**	95.1
Total shareholders' funds		**140.8**	190.8

The loss for the year of the Company was £32.5m (FY 2019: profit £0.8m).

Approved by the Board on 17 June 2020.

Kevin Loosemore
Chairman

Clive Vacher
Chief Executive Officer

Company statement of changes in equity
for the period ended 28 March 2020

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
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 capital issued	0.1	0.1	–	–	0.2
Loss for the financial year	–	–	–	(32.5)	(32.5)
Dividends paid	–	–	–	(17.3)	(17.3)
Other movements	–	–	–	0.3	0.3
Employee share scheme:					
– value of services provided	–	–	–	(0.7)	(0.7)
Balance at 28 March 2020	47.8	42.2	5.9	44.9	140.8

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 the revised Financial Reporting Standard 102 for the triennial review 2017. This did not result in any impact to the Company's accounting policies. 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.

Critical accounting estimates and judgement

Impairment of subsidiary

During the period, the Company booked an impairment in its subsidiary of £31.3m based on an equity valuation of £123.7m. The impairment was calculated based on an equity value calculated by management with support from external experts. Management calculated two equity values one assuming the proposed capital raising referred to in the strategic report was successful (the funded scenario) and one that it was not (the unfunded scenario). The judgements made in assessing the impairment to record were:

- The probability weightings to be applied to the funded and unfunded scenarios;
- The discount rate used; and
- The terminal growth rate of 3% used in the funded scenario.

Management based its probability weightings for the likelihood of the funded and unfunded scenarios occurring based on the best information it had available to them. Management noted that increasing/decreasing the weighting to the unfunded scenario by 5% (and increasing/decreasing the weighting to the funded by the same amount) would have increased/decreased the impairment by £1.15m.

The post-tax discount rate of 12.5% (comparable rate on a pre-tax basis would be in the range of 14.2 to 15.4%) used in the impairment calculation was based on advice from external experts. Management ensured it was comfortable with the discount rate by reviewing the inputs used in the discount rate calculation and ensuring that they were within a reasonable range for comparable companies. Management noted that increasing the post-tax discount rate to 13% would have decreased the equity valuation to £96.7m. Decreasing the post-tax discount rate to 12% would have increased the equity valuation to £153.7m.

A terminal growth rate of 3% was assumed in the funded scenario. The Directors consider a 3% terminal growth rate reasonable, as currency circulation is expected to continue to grow at a modest rate in the long term with growth in the Currency division further enhanced by the Group's Polymer growth and Security Features on Polymer strategy. In addition, continued growth in Authentication is expected at a rate that supports a terminal growth rate of 3%. In addition the Directors consider that a 3% terminal growth rate can be supported by the ability to maintain operating margins in later years. The combination of these factors led the Directors to be comfortable with a 3% terminal growth rate. The directors noted that decreasing the terminal rate in funded scenario from 3% to 2% would have reduced the equity valuation to £85m.

The Directors note that the equity valuation of £123.7m is at a significant premium to the market capitalisation as at the balance sheet date of 28 March 2020. However, the Directors considered that the market capitalisation as at 28 March 2020 was low due to the impact of stock market performance following COVID-19 concerns. Subsequent, to year end the Group's market capitalisation has risen substantially to a level as at 12 June of around £127m.

The Directors also noted that the Group's 6 month market capitalisation average was around £105m.

The Directors therefore concluded that the equity valuation of £123.7m based on management's calculation was in line with the market capitalisation as at 12 June 2020 and the average 6 month market capitalisation.

Consequently, the Directors were satisfied that notwithstanding the premium of the equity valuation to market capitalisation as at 28 March 2020, recording an impairment based of an equity valuation of £123.7m was appropriate.

Based on management's careful assessment of the assumptions and judgements made in the impairment calculation, it was concluded that the impairment recorded was appropriate.

The accounts have been prepared as at 28 March 2020, being the last Saturday in March. The comparatives for the 2018/19 financial period are for the period ended 30 March 2019.

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 26 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 23 to the consolidated financial statements.

Taxation

The charge for taxation is based on the result for the year 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 65 to 86.

	2020 Number	2019 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 4 to the consolidated financial statements.

3a Equity dividends

For details of equity dividends, see note 10 to the consolidated financial statements.

4a Investments

Investments are stated at deemed cost in the balance sheet, less provision for impairment.

	2020 £m	2019 £m
Investments comprise:		
Investments in subsidiaries	155.0	154.5
Cost at 28 March 2020 and 30 March 2019	155.0	154.5
Additions	(0.5)	0.5
Impairment	(31.3)	–
Cost at 28 March 2020 and 30 March 2019	123.2	155.0

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 30 March 2019 were recharged to subsidiaries and recorded via the intercompany loan account.

For further details on the impairment, see the 'Critical accounting estimates and judgements' section on page 162 of Account Policies.

For details of investments in Group companies, refer to the list of subsidiary and associated undertakings on pages 157 and 158.

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.

	2020 £m	2019 £m
Amounts due within one year		
Amounts owed by Group undertakings	33.1	40.5

6a Other creditors

	2020 £m	2019 £m
Amounts falling due within one year		
Bank overdrafts	**17.1**	6.0
Accruals and deferred income	**0.3**	0.4
Other creditors	**17.4**	6.4

7a Share capital

For details of share capital, see note 22 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 23 to the consolidated financial statements and the Directors' remuneration report on pages 65 to 86.

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 30 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. Amortisation of acquired intangible assets and exceptional items are excluded as they are not considered to be representative of underlying business performance. The measures the Group uses along with appropriate reconciliations to the equivalent IFRS measures where applicable are shown in the following tables.

The Group's policy on classification of exceptional items is also set out below:

The Directors consider items of income and expenditure which are 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 revenue

Adjusted revenue excludes "pass through" revenue relating to non-novated contracts following the paper and international identify solutions business sales. The following amounts of "pass through" revenue have been excluded: Paper £33.5m (FY 2018/19: £48.2m) and Identify Solutions: £6.6m (FY 2018/19: £nil).

	2019	**2020**
Revenue on an IFRS basis	564.8	**466.8**
– exclude pass-through revenue	(48.2)	**(40.1)**
Adjusted revenue	516.6	**426.7**

Adjusted operating profit

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

	2018 £m	2018[1] Excluding paper £m	2019 £m	**2020 £m**
Operating profit from continuing operations on an IFRS basis	123.0	131.5	31.5	**42.8**
– Amortisation of acquired intangible assets	0.7	0.7	0.7	**0.9**
– Exceptional items	(60.9)	(75.3)	27.9	**(20.0)**
Adjusted operating profit from continuing operations	62.8	56.9	60.1	**23.7**

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.

	2018 £m	2018 excluding paper £m	2019 £m	**2020 £m**
Profit attributable to equity shareholders of the Company from continuing operations on an IFRS basis	95.4	101.8	19.4	**34.4**
– Exceptional items	(60.9)	(75.3)	27.9	**(20.0)**
– Amortisation of acquired intangibles	0.7	0.7	0.7	**0.9**
– Tax on amortisation of acquired intangibles	(1.2)	(1.2)	0.3	**(0.2)**
– Tax on exceptional items	9.7	12.9	(4.2)	**(2.5)**
Adjusted profit attributable to equity shareholders of the Company from continuing operations	43.7	38.9	44.1	**12.6**
Weighted average number of ordinary shares for basic earnings	101.9	101.9	102.9	**104.0**

	2018 pence per share	2018 pence per share excluding paper	2019 pence per share	**2020 pence per share**
Basic earnings per ordinary share continuing operations on an IFRS basis	93.7	n/a	18.8	**33.1**
Basic adjusted earnings per ordinary share for continuing operations	42.9	38.2	42.9	**12.1**

Adjusted EBITDA and adjusted EBITDA margin[1]

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 £426.7m which excludes the Portal pass through revenue of £40.1m in 2020 (FY 2019: £48.2m). The EBITDA margin on an IFRS basis is a percentage against the reported revenue of £466.8m (FY 2019: £564.8m).

As previously noted, the Group has adopted the modified retrospective approach available within the new IFRS 16 accounting standard and therefore have not restated the comparative disclosures for the impact of IFRS 16, which came into effect from 1 January 2019. The statutory results have been split out to show the IFRS 16 impact to aid comparison period on period.

	2018 £m	2018 excluding paper £m	2019 £m	**Pre the impact of IFRS 16 2020 £m**	**Impact of IFRS 16 £m**	**2020 £m**
Profit before interest and taxation from continuing operations on an IFRS basis	123.0	131.5	31.5	**42.3**	**0.5**	**42.8**
– Depreciation[2]	21.9	18.9	16.7	**14.5**	**2.4**	**16.9**
– Amortisation	3.3	3.3	3.2	**3.9**	**–**	**3.9**
EBITDA on an IFRS basis	148.2	153.7	51.4	**60.7**	**2.9**	**63.6**
– Exceptional items	(60.9)	(75.3)	27.9	**(20.0)**	**–**	**(20.0)**
Adjusted EBITDA	87.3	78.4	79.3	**40.7**	**2.9**	**43.6**
EBITDA margin on an IFRS basis	30.0%	n/a	9.1%	**13.0%**	**n/a**	**13.6%**
Adjusted EBITDA margin	17.7%	17.0%	15.4%	**9.5%**	**n/a**	**10.2%**

Notes:
1 Adjusted EBITDA margin is a percentage against adjusted revenues.
2 FY 2020 includes IFRS16 Right-of-use asset depreciation of £2.4m.

Non-IFRS measures continued

Cash Conversion

Cash conversion is the ratio of adjusted operational cash flow divided by the adjusted operating profit. This metric has not been included as a key measure of performance in FY 2020 and in the setting of Directors' remuneration, as it was replaced with an average net debt target.

Return on capital employed (ROCE)

ROCE is the ratio of the operating profit before exceptional items and adjusting items over capital employed.

	2019 £m	**2020 £m**
Adjusted operating profit	60.1	**23.7**
– Property, plant and equipment	115.0	**114.6**
– Intangible assets	33.4	**31.0**
– Right of use assets	–	**12.9**
– Investments	7.3	**8.0**
– Inventories	42.3	**53.9**
– Trade and other debtors	114.4	**67.1**
– Contract assets	24.9	**18.3**
– Derivative financial assets	4.0	**14.5**
– Trade and other creditors	(175.0)	**(133.3)**
– Contract liabilities	(6.0)	**(0.3)**
– Derivative financial liabilities	(6.7)	**(14.0)**
Capital Employed	153.6	**172.7**
ROCE = EBIT/Average Capital Employed		
EBIT	60.1	**23.7**
Average Capital Employed	133.6	**163.2**
ROCE	45%	**14%**

Five year record

Income statement

	2016 £m	(restated) 2017 £m	2018 £m	2019 £m	**2020 £m**
Revenue	454.5	461.7	493.9	564.8	**466.8**
Operating profit					
– Adjusted operating profit	70.4	70.7	62.8	60.1	**23.7**
– Amortisation of acquired intangible assets	–	(0.1)	(0.7)	(0.7)	**(0.9)**
– Exceptional items – operating	(3.6)	(0.4)	60.9	(27.9)	**20.0**
Profit before interest	66.8	70.2	123.0	31.5	**42.8**
Interest expense	(4.8)	(4.6)	(3.8)	(4.5)	**(6.1)**
Interest income	–	–	–	0.6	**1.0**
Retirement benefit obligation net finance expense	(7.1)	(7.4)	(5.6)	(2.1)	**(1.6)**
Profit before taxation	54.9	58.2	113.6	25.5	**36.1**
Taxation	(6.3)	(8.7)	(16.8)	(4.8)	**–**
Profit after taxation from continuing operations	48.6	49.5	96.8	20.7	**36.1**
Profit/(loss) from discontinued operations	(31.0)	(6.4)	(1.8)	(2.4)	**(0.3)**
Equity non-controlling interests	(1.2)	(1.6)	(1.4)	(1.3)	**(1.7)**
Profit for the year attributable to equity shareholders	16.4	41.5	93.6	17.0	**34.1**
Dividends	(25.3)	(25.4)	(25.4)	(25.7)	
Retained (loss)/profit for the period	(8.9)	16.1	68.2	(8.7)	
Basic earnings per ordinary share continuing operations	46.8p	47.2	93.7	18.8	**33.1**
Basic earnings per ordinary share discontinued operations	(30.6p)	(6.3)	(1.8)	(2.3)	**(0.3)**
Diluted earnings per share continuing operations	46.2p	46.6	92.8	18.8	**32.8**
Diluted earnings per share discontinued operations	(30.2p)	(6.2)	(1.8)	(2.3)	**(0.3)**
Adjusted basic earnings per ordinary share continuing operations	48.1p	47.1	42.9	42.9	**12.1**
Dividends per ordinary share	25.0p	25.0p	25.0p	25.0p	**n/a**

	£m	**£m**	**£m**	**£m**	**£m**
Balance sheet					
Non-current assets	226.5	242.9	169.0	174.2	**233.2**
Net current liabilities[1]	(35.0)	(16.2)	(43.2)	(13.0)	**(19.2)**
Net debt	(106.1)	(120.9)	(49.9)	(107.5)	**(102.8)**
Non-current liabilities	(231.0)	(248.6)	(96.6)	(82.9)	**(22.8)**
Equity non-controlling interests	(6.6)	(7.9)	(8.9)	(9.9)	**(15.5)**
Total equity attributable to shareholders of the Company	(152.2)	(150.7)	(29.6)	(39.1)	**72.2**

Note:
1 Excludes amounts included in net debt.

Shareholder's 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: Miss J C Hyde

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 6 August 2020 at De La Rue House, Jays Close, Viables, Basingstoke, Hampshire RG22 4BS. In response to the current COVID-19 crisis, the UK Government has established stay at home guidelines prohibiting large public gatherings. Consequently, this year's meeting will be run as a closed meeting and shareholders will not be able to attend in person. Shareholders attempting to attend will be refused entry on the day.

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

Consolidation of shares

Where registered shareholdings are represented by several individual share certificates, shareholders may wish to have these replaced by one consolidated certificate. The Company will meet the cost for this service. Share certificates should be sent to the Company's registrar together with a letter of instruction.

Internet

The Group has a wide range of information that is available on its website www.delarue.com including:

- Finance information – annual and interim reports, financial news and events
- Share price information
- Shareholder services information
- Press releases both current and historical

Capital gains tax

March 1982 valuation

The price per share on 31 March 1982 was 617.5p.

Shareholders are advised to refer to their brokers/financial advisers for detailed advice on individual capital gains tax calculations.

Share dealing facilities

Computershare Investor Services PLC

Computershare, the Company's registrar, provides a simple way to sell or purchase De La Rue plc shares.

Internet share dealing

Available 24 hours a day/seven days a week with real time pricing in market hours. Commission is charged at 1%, subject to a minimum charge of £30, with no set-up or annual management fees. Further information can be obtained by logging on to: www.computershare.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.

Analysis of shareholders at 28 March 2020

	Shareholders		Shares	
By range of holdings	Number	%	Number	%
0 – 1,000	3,841	74.50	1,231,170	1.18
1,001 – 5,000	993	19.26	2,050,885	1.97
5,001 – 10,000	106	2.06	742,758	0.71
10,001 – 100,000	134	2.60	5,063,398	4.87
100,001 – 500,000	51	0.99	11,913,668	11.46
500,001 and above	31	0.60	82,995,983	79.81
Total	**5,156**	**100.00**	**103,997,862**	**100.00**

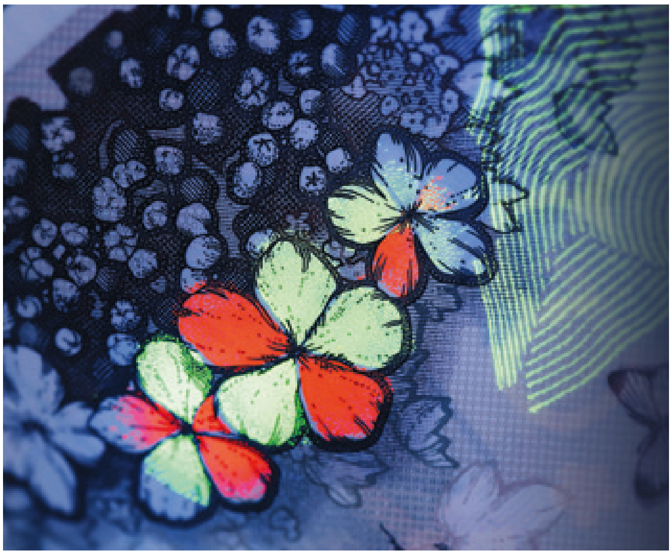
Glossary

Images featured in this year's report

Banknotes
Specialist Technology:
Safeguard® with Gemini™
Client:
Royal Bank of Scotland
Featured:
Inside front cover
and pages 14 to 15

Banknotes
Specialist Technology:
Safeguard® window
Client:
The Central Bank of Samoa
Featured:
Inside front cover
and page 35

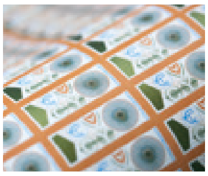
Banknotes
Specialist Technology:
Safeguard®
Client:
Eastern Caribbean Central Bank
Featured:
Page 4



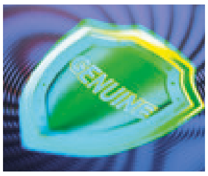
Banknotes
Specialist Technology:
Safeguard® with Gemini™ under UV
Client:
Ulster Bank
Featured:
Front cover

Polymer
Specialist Technology:
Safeguard® Integrate
Client:
General
Featured:
Page 4

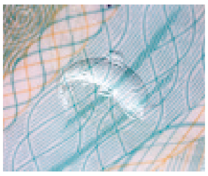
Security Features
Specialist Technology:
Safeguard® with Gemini™
Client:
General
Featured:
Page 4



GRS
Specialist Technology:
Tax Stamps
Client:
Cyprus
Featured:
Page 5



Brand Protection
Specialist Technology:
Pure™ Holographic Label; 'Genuine Shield'
Client:
Brand Protection
Featured:
Page 5



ID Secure Components
Specialist Technology:
Polycarbonate datapage
Client:
ID Security Feature
Featured:
Pages 5 and 6

Banknotes
Specialist Technology:
Paper banknotes
Client:
Central Bank of Kenya
Featured:
Page 6

Banknotes
Specialist Technology:
Gemini™
Client:
Central Bank of The Gambia
Featured:
Page 7

Banknotes
Specialist Technology:
Safeguard®
Client:
Danske Bank
Featured:
Page 8

GRS
Specialist Technology:
Tax Stamps
Client:
Austria
Featured:
Page 8

Brand Protection
Specialist Technology:
Pure™ Holographic Label; 'Secure Globe'
Client:
Brand Protection
Featured:
Page 9

ID Secure Components
Specialist Technology:
PureImage™ Thread
Client:
Central Bank of The Gambia
Featured:
Page 9

Glossary continued

Banknotes

Specialist Technology:
Safeguard®

Client:
Bank of England

Featured:
Page 12

Banknotes

Specialist Technology:
Kinetic StarChrome® Thread

Client:
Central Bank of Kenya

Featured:
Page 13

ID Secure Components

Specialist Technology:
ID Holographic Laminate – DLR ID Protect™

Client:
ID Security Feature

Featured:
Page 15

Brand Protection

Specialist Technology:
Pure™ Holographic Labels Coloured Knot

Client:
Brand Protection

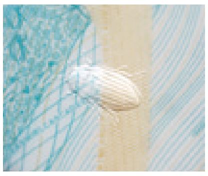
Featured:
Page 17

Banknotes

Specialist Technology:
Ignite™ Thread

Client:
Bangladesh Bank 100 Taka

Featured:
Page 17



ID Secure Components

Specialist Technology:
Polycarbonate datapage

Client:
ID Security Feature

Featured:
Page 17

GRS

Specialist Technology:
Tax Stamps

Client:
UK HMRC

Featured:
Page 40

Banknotes

Specialist Technology:
Safeguard® Illuminate

Client:
General

Featured:
Page 41

Security Features

Specialist Technology:
Safeguard® with Gemini™

Client:
General

Featured:
Page 4

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