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

Opinion and conclusions arising from our audit

Our opinion on the financial statements is unmodified

We have audited the financial statements of De La Rue plc for the period ended 28 March 2015 set on pages 70 to 110. In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 March 2015 and of the Group's profit for the period then ended
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- The Parent Company financial statements have been properly prepared in accordance with UK Accounting Standards
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Our assessment of risks of material misstatement

In our audit report for the period ended 29 March 2014 we included recoverability of assets within the CPS division and related impairment charge of £14.2m as one of the risks of material misstatement that had the greatest effect on our audit. Following the decision to impair these assets in full last year this risk of material misstatement is no longer significant to our audit opinion and has therefore been removed.

In arriving at our audit opinion on the financial statements for the period ended 28 March 2015 the risks of material misstatement that had the greatest effect on our audit were as follows:

	The risk	Our response
Revenue recognition and cut off in Currency – £317.9m Refer to pages 40 (Audit Committee report), 76 (accounting policy) and 78 (financial disclosures)	Reflecting the specialist nature of the Currency products, many customer contracts include specific terms that impact the timing of revenue recognition on those contracts. For example, a number of customer contracts have complex acceptance conditions and some allow for 'bill and hold' arrangements where the customer asks the division to store finished products on its behalf. Reflecting these contractual complexities, there is a risk that revenue may be misstated	In this area our audit procedures include reading significant new contracts to obtain an understanding of contract terms, and in particular those relevant to the timing and quantum of revenue recognition, testing the design and operating effectiveness of controls designed to ensure that revenue is recognised in the correct accounting period and testing of specific revenue transactions recorded before and after the year end To test revenue recognition on contracts with complex acceptance conditions we obtain appropriate evidence of customer acceptance on a sample basis. In relation to revenue recorded under 'bill and hold' transactions we evaluate the underlying contractual arrangements and obtain third party documentation that demonstrates when the risks and rewards of ownership have been transferred to the customer We also assess the adequacy of the Group's disclosure about significant judgements in relation to revenue recognition
Post-retirement benefit obligation – £236.7m Refer to pages 40 (Audit Committee report), 77 (accounting policy) and 102 (financial disclosures)	The Group has material defined benefit pension schemes. Small changes in the assumptions and estimates used to value the Group's post-retirement benefit obligations would have a significant effect on the financial position of the Group	In this area our audit procedures include testing of the membership data provided to support triennial valuations and testing of asset valuations used in determining the net deficit In addition, with the support of our own actuarial specialists, we challenge the key assumptions used to determine the Group's net deficit, which are the discount rate, inflation rate and mortality/life expectancy. This includes a comparison of these key assumptions against externally derived data We also consider the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions
Estimation of warranty provisions – £18.8m Refer to pages 40 (Audit Committee report), 77 (accounting policy) and 97 (financial disclosures)	As noted above, the Group's products are complex and produced to exacting standards. Product quality issues can be identified subsequent to delivery to customers. Accordingly, at any point in time the Group may be in dialogue with customers over potential product quality issues The Group holds provisions for the potential costs associated with these risks. The assumptions underpinning these provisions are inherently uncertain	In relation to provisions for specific known issues, our audit procedures include challenging the basis of the Group's calculations by reference to management's risk assessment, the status of discussions with the relevant customer (determined by inspecting relevant correspondence) and the cost estimates for rectification work. In performing these procedures we have regard to past experience in addressing such matters In relation to unidentified issues, we assess and challenge the Group's methodology for determining the level of provision required taking into account the key assumptions such as historical accuracy of provisioning, the levels of expense incurred over time together with current information on product quality experience and an assessment of the risk of bias within these calculations We also assess the adequacy of the Group's disclosures in relation to the significant judgements in relation to warranty provisioning and related contingent liabilities, if relevant

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

	The risk	Our response
Valuation of inventory in Currency – £42.7m Refer to pages 40 (Audit Committee report), 76 (accounting policy) and 86 (financial disclosures)	At the balance sheet date the Group has significant inventory, including work in progress on customer banknote orders. Production of banknote paper, printed banknotes and other security products is a complex process reflecting the tight specifications set by customers and the many embedded security features which are often bespoke to each product Accordingly, there is a risk that work in progress will fail quality control checks at a later stage in production and need to be scrapped or reworked. The Group provides for this through allowances based on past experience and known issues but there is a risk that this allowance will be misstated Finished goods inventory is valued at the lower of cost and net realisable value. Due to the bespoke nature of each product, fluctuations in production efficiency and spoilage rates could affect the allocated cost and carrying amount of inventory	In this area our audit procedures include testing the Group's controls over the determination of inventory allowances, recalculating the historical experience factors used and assessing their appropriateness in light of current manufacturing quality. We also consider the adequacy of the Group's allowances for specific issues by reference to current and recent customer complaints and assessing the risk of bias within these calculations In performing these procedures we assess information obtained from the quality control and sales functions in relation to quality performance levels and overall customer satisfaction respectively to identify possible emerging trends In addition, audit procedures include testing of the approach to the allocation of costs to work in progress and finished goods inventory and assessing the net realisable value by reference to the selling prices relevant for each product We also assess the adequacy of the Group's disclosures in relation to the significant judgements in relation to the carrying value of inventory including work in progress
Classification of exceptional items – £18.8m Refer to pages 40 (Audit Committee report), 77 (accounting policy) and 80 (financial disclosures)	The Group discloses separately 'exceptional items' which the Directors consider to be items of income or expenses which are important to identify to shareholders to aid their understanding of the 'underlying' business performance Determining which items should or should not be disclosed as exceptional is judgemental Accordingly, there is a risk that inappropriate selection and disclosure of exceptional items may result in the Group not meeting its' objective of giving a view of company performance that is fair, balanced and understandable	In this area our audit procedures include assessing the basis of the Group's determination of exceptional items as compared with internal policy, past practice and market norms and considering whether the amounts disclosed have been determined appropriately and consistently with due regard to the need to be balanced Based on our understanding of the Group's activities, both planned and actual, and results of the business for the period, taking the risk of management bias into account, we assess the classification of items as exceptional and challenge whether any additional items should be disclosed as exceptional We also assess the adequacy of the Group's disclosures around the exceptional items, especially announced restructuring activity, and the basis of selection of exceptional items

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

The materiality for the Group financial statements as a whole was set at £2.5 million. This has been determined with reference to a benchmark of Group profit before taxation, normalised to remove the impact of separately identified exceptional items (as disclosed in note 3 of the financial statements) of £57.7 million, of which it represents 4.3 per cent.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £125,000 for income statement items, in addition to other audit misstatements that warranted reporting on qualitative grounds.

Of the Group's 70 reporting components, we subjected 12 to audits for Group reporting purposes and seven to specified, risk-focused, audit procedures. The latter were not individually financially significant enough to require an audit for Group reporting purposes, but did include specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the following percentages of the Group's results:

	Audit	Specified Procedures	Total Coverage
Group revenue	76%	11%	87%
Group profit before tax (normalised to remove the impact of separately identified exceptional items)	83%	4%	87%
Group total assets	72%	11%	83%

For the remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these. The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £0.1 million to £2.0 million, having regard to the mix of size and risk profile of the Group across the components. The work on six of the 19 components was performed by component auditors and the rest by the Group audit team.

The Group audit team visited five component locations in the UK and Malta, to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors and the other location that was not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

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

In our opinion:

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

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

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

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

- We have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- The Audit Committee report on pages 39 to 41 does not appropriately address matters communicated by us to the Audit Committee

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

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

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 75, in relation to going concern; and
- The part of the corporate governance report on pages 30 to 38 relating to the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review

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

Scope of report and responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 66, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

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

27 May 2015