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 year ended 29 March 2014 set on pages 66 to 106. 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 29 March 2014 and of the Group's profit for the year then ended
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union
- The Parent Company financial statements have been properly prepared in accordance with UK Accounting Standards
- 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 arriving at our audit opinion on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

	The risk	Our response
Revenue recognition in the Currency division – £342.7m Refer to pages 39 (Audit Committee report), 71 to 73 (accounting policy) and 74 (financial disclosures)	Reflecting the specialist nature of the Currency division's 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 included, among others, reading significant new contracts to obtain an understanding of contract terms, testing the design and operating effectiveness of controls designed to ensure that revenue is accurately recognised in the correct accounting period and specific testing of revenue transactions recorded around the year end To test revenue recognition we obtained appropriate evidence of customer acceptance on a sample basis and, in relation to revenue recorded under 'bill and hold' transactions we evaluated the underlying contractual arrangements and obtained third party documentation that demonstrates when the risks and rewards of ownership have been transferred to the customer to support the timing of revenue recognition We also assessed the adequacy of the Group's disclosure about significant judgements in relation to revenue recognition
Recoverability of work in progress – £22.2m Refer to pages 39 (Audit Committee report), 71 to 73 (accounting policy) and 83 (financial disclosures)	At the balance sheet date the Group has significant inventory, most notably 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 risk through allowances based on past experience and known issues	In this area our audit procedures included, among others, testing the Group's controls over the determination of these allowances, recalculating the historical experience factors used and assessing their appropriateness in light of current manufacturing quality, considering 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 assessed 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 We also assessed the adequacy of the Group's disclosures in relation to the significant judgements in relation to the carrying value of work in progress

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

	The risk	Our response
Warranty provisions – £11.7m Refer to pages 39 (Audit Committee report), 71 to 73 (accounting policy) and 93 (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 based on a mixture of specific events and expected but not identified issues based on past experience. The assumptions underpinning these provisions are inherently uncertain	In relation to provisions for specific known issues, our audit procedures included, among others, assessing the basis of the Group's calculations by reference to the status of discussions with the relevant customer (determined by inspecting relevant correspondence) and challenging 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 assessed the adequacy of the Group's disclosures in relation to the significant judgements in relation to warranty provisioning and related contingent liabilities
Post-retirement benefit obligation – £168.0m Refer to pages 39 (Audit Committee report), 71 to 73 (accounting policy) and 97 to 99 (financial disclosures)	The Group has material defined benefit pension schemes. Significant estimates are made in valuing these and small changes in the assumptions and estimates used to value the Group's net pension deficit would have a significant effect on the financial position of the Group	In this area our audit procedures included, among others, testing of the membership data and asset valuations used to determine the net deficit. In addition, with the support of our own actuarial specialists, we challenged the key assumptions, which were the discount rate, inflation rate and mortality/life expectancy, used to determine the Group's net deficit. This included a comparison of these key assumptions against externally derived data. We also considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions
Recoverability of assets within the CPS division and related impairment charge of £14.2m Refer to pages 39 (Audit Committee report), 71 to 73 (accounting policy) and 81 to 82 (financial disclosures)	Due to competition and weaker demand for the Group's products within the cash sorters market, there is uncertainty over the value of the Group's loss making CPS division Reflecting this, the Group has recorded an impairment charge of £3.2m against goodwill and £7.4m against product development costs and £3.6m against property, plant and equipment Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which determines the scale of the impairment charge recorded, this is one of the key judgemental areas that our audit has concentrated on	In this area our audit procedures included, among others, assessing the Group's budgeting procedures used to derive the forecasts considered within the impairment assessment and testing the integrity of the Group's discounted cash flow model used to determine the recoverable amount of the division as a whole. We challenged the assumptions and methodologies used by the Group, in particular those relating to the forecast revenue and profit margins. We compared the Group's assumptions to externally available information about potential market opportunities as well as our own assessments in relation to key inputs such as tender timetables, competition, cost inflation and discount rates. Our own specialists contributed to this work We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of this division. We also assessed whether the Group's disclosures reflected appropriately the outcome of its impairment testing

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 £3.5 million. This has been determined with reference to a benchmark of Group profit before taxation, which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the Group. Materiality represents 5.9 per cent of Group profit before tax and 4.7 per cent of Group profit before tax adjusted for the impairment charge of £14.2m as disclosed in note 9 of the financial statements.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £175,000 for income statement items, in addition to other audit misstatements we believed warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component audit teams at the reporting components in the following countries: UK (eight components, seven performed by the Group audit team), Kenya and Malta. In addition, specified audit procedures were performed by component auditors covering three components in the UK (two locations) and by the Group audit team over a further five components including two in the UK, two in the US and one in Brazil. These Group procedures covered 91 per cent of total Group revenue; 92 per cent of Group profit before taxation; and 88 per cent of total Group assets.

The audits undertaken for Group reporting purposes at all the key reporting components of the Group were all performed to local materiality levels. These local materiality levels were set individually for each component and agreed with the Group audit team and ranged from £0.1 million to £2.7 million.

Detailed instructions were sent to all the auditors in these locations. These instructions covered the significant areas that should be addressed by the component auditors (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. In addition to those components audited directly by the Group audit team, members of the Group audit team visited three components; two in the United Kingdom and Malta. Telephone meetings were also held with the auditors at these and other locations that were not physically visited.

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 year 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 38 to 40 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
- 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 71, in relation to going concern; and
- The part of the corporate governance report on pages 32 to 37 relating to the Company's compliance with the nine provisions of the 2010 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 61, 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/auditscopeukco2013a, 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

28 May 2014