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Independent auditor's report

to the members of De La Rue plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of De La Rue plc for the period ended 25 March 2017 set out on pages 102 to 154. 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 25 March 2017 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;

— the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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.

Overview	
Materiality: Group financial statements as a whole	£2.3 million (2016: £2.3 million) 3.9% of group profit from continuing operations before tax normalised to exclude exceptional items (2016: 3.9% of group profit before tax, continuing and discontinued, normalised to exclude exceptional items)
Coverage	95% (2016: 92%) of the selected benchmark

Risks of material misstatement		**vs 2016**
Recurring risks	Revenue recognition in the Currency division	◀▶
	Valuation of inventory in the Currency division	▲
	Classification of exceptional items	▼
	Warranty provisioning	▲
	Post-retirement benefit obligations	◀▶
Event driven risk	Acquisition accounting	New risk

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2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows. In the prior period we identified the presentation of discontinued operations and assets held for sale as an event driven risk.

	The risk	Our response
Revenue recognition in the Currency division £350.6 million; (2016: £353.3 million) *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 110 (financial disclosures).*	**Accounting treatment** Certain customer contracts in the Currency division include specific terms, for example, complex acceptance criteria or 'bill and hold' clauses where the customer asks the division to store finished products on its behalf. Due to these contractual complexities there is a risk that revenue may be recorded in the incorrect reporting period.	Our procedures included: **Accounting analysis:** reading selected new contracts to obtain an understanding of their key terms, in particular those relevant to the timing of revenue recognition, and assessing management's related revenue recognition policy. **Control design and re-performance:** evaluating and testing the key controls designed to ensure that revenue is recognised in the correct accounting period. **Testing application:** testing, on a sample basis, revenue recognition on contracts with complex acceptance conditions. In relation to revenue recorded under 'bill and hold' transactions we evaluated the underlying contractual arrangements and obtained customer documentation that demonstrates when the risks and rewards of ownership have been transferred. For selected revenue transactions recorded before and after the year end, confirming that they are recorded in the correct accounting period. **Assessing transparency:** assessing the adequacy of the Group's disclosure about significant judgements in relation to revenue recognition.
Valuation of inventory in the Currency Division £53.2 million; (2016: £54.7 million) *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 122 (financial disclosures).*	**Subjective estimate** 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.	Our procedures included: **Control design and re-performance:** evaluating and testing the Group's controls over the determination of inventory allowances. **Our business knowledge:** assessing the adequacy of estimates used by reference to historical experience, current manufacturing quality and specific issues such as current and recent customer complaints. **Personnel interviews:** challenging judgements through interviews with the quality control and sales functions in relation to quality performance levels and overall customer satisfaction. **Independent re-performance:** sample re-performance of management's calculations of inventory valuation allowance. Re-performance of the allocation of costs to work in progress and finished goods inventory and assessing the allocation approach. **Tests of detail:** testing the net realisable value by reference to the selling prices relevant for each product. **Assessing transparency**: assessing 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.

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	The risk	Our response
Acquisition accounting £7.2 million intangible assets *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 147 (financial disclosures).*	**Subjective valuation** On 6 January 2017, the Group completed the acquisition of the Authentication business of DuPont Electronics & Communications for a cash consideration of $25m. The determination of separately identifiable intangible assets arising on business combinations is inherently judgemental and valuation of these assets is complex and sensitive to underlying assumptions around future cash flows and discount rates.	Our procedures included: **Assessing base data and valuer credentials:** assessing the credentials of the third party engaged by management to support this valuation and considering the appropriateness of the base data used in the valuation, such as historical customer churn rates. **Our experience:** assessing the appropriateness and completeness of the separate intangible assets identified by applying our professional experience to the information obtained from our inspection of purchase agreements and board minutes and inquiries. **Evaluating assumptions**: assessing, with support from our own valuation specialists in specific areas, the Group's valuation analysis which was the basis for the determination of the fair value of the intangible assets. We critically challenged the key assumptions, and in particular evaluated the reasonableness of assumptions underlying the future trading forecasts, growth rates and the discount rate applied in the valuations. In performing this assessment we had regard to the performance of the existing business and trading forecasts for operations acquired, including considering the historical accuracy of forecasts. **Assessing transparency:** assessing the adequacy of the Group's disclosures regarding the judgements applied in identifying and valuing the acquisition-related intangibles.
Classification of exceptional items £4.5 million; (2016: £29.6 million) *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 113-114 (financial disclosures).*	**Presentation appropriateness** The Group discloses separately 'exceptional items' which the directors consider to be items of income or expense which are important to identify to shareholders to aid their understanding of the 'underlying' business performance. Determining which items are 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.	Our procedures included: **Assessing principles:** assessing, using our professional experience, the appropriateness of the Group's policy on determination of exceptional items. **Assessing application and balance:** assessing whether the application of the stated policy is appropriate and has been applied consistently with regard to the need for balance based on our understanding of the Group's activities and results for the period. Challenging whether other items should be disclosed as exceptional. **Assessing transparency:** assessing the adequacy of the Group's disclosures around the definition and composition of exceptional items.
Warranty provisioning £7.0 million; (2016: £5.9 million) *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 135 (financial disclosures).*	**Subjective estimate** As noted with inventory valuation in the Currency division, 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.	Our procedures included: **Control design and re-performance:** evaluating and testing the Group's controls over the determination of warranty provisions. **Tests of detail:** in relation to known issues, assessing the Group's risk assessment, considering the status of discussions with the customer (including inspecting correspondence) and then testing and challenging the basis of the Group's calculations including the rectification or remediation cost estimates. In performing these we have regard to past experience in addressing such matters. In relation to potentially unidentified issues, assessing the Group's methodology for determining the level of provision required taking into account key assumptions such as historical accuracy of provisioning, the levels of expense incurred over time together with current quality experience. **Assessing transparency**: assessing the adequacy of the Group's disclosures in relation to the significant judgements in relation to warranty provisioning and related contingent liabilities, if relevant.

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	The risk	Our response
Post-retirement benefit obligations Gross liabilities £1,204.7 million; (2016: £1,072.2 million) *Refer to page 66 (Audit Committee Report), page 109 (accounting policy) and page 140 (financial disclosures).*	**Subjective valuation** Small changes in the assumptions and estimates used to value the Group's post-retirement benefit obligation (before deducting scheme assets) would have a significant effect on the Group's post-retirement deficit.	Our procedures included: **Assessing valuer credentials:** assessing the credentials of the third party engaged by management to support this valuation. **Benchmarking assumptions:** challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy, against externally derived data. **Assessing transparency:** assessing the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.

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

Materiality for the Group financial statements as a whole was set at £2.3 million (2016: £2.3 million), determined with reference to a benchmark of Group profit from continuing operations before tax, normalised to remove the impact of separately identified exceptional items (as disclosed in note 4 of the financial statements) of which it represents 3.9% (2016: 3.9% of group profit before tax, continuing and discontinued, normalised to exclude exceptional items).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £115,000 (2016: £115,000), in addition to any other identified misstatements that warranted reporting on qualitative grounds.

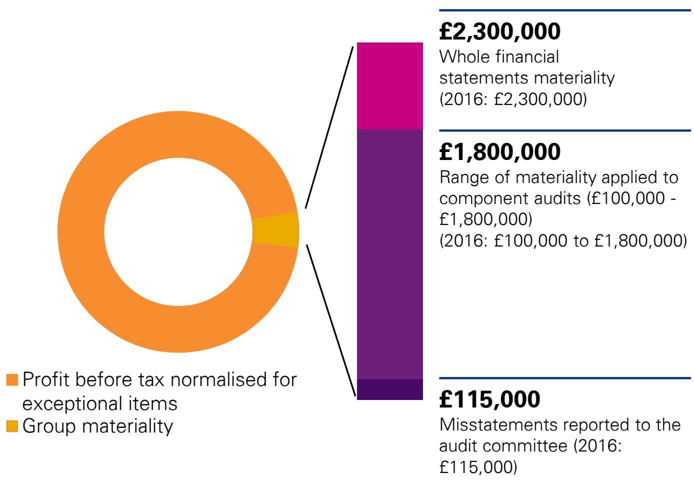
Of the group's 59 (2016: 70) reporting components, we subjected 12 (2016: 12) to audits for group reporting purposes and six (2016: six) to specified, risk-focused, audit procedures.

The graphs to the right demonstrate how components within the scope of our work accounted for, as percentages of, the group's results from continuing operations.

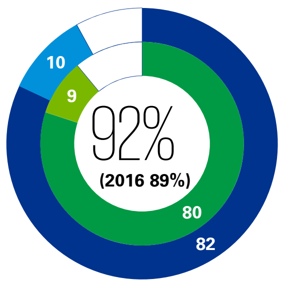
The components for which we performed specified risk-focused audit procedures were not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed. For the remaining components, we performed analysis 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.

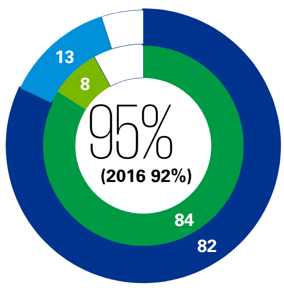
Materiality



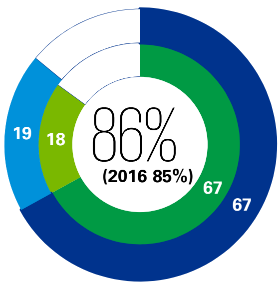
Group revenue



Group profit from continuing operations before exceptional items and tax



Group total assets



Full scope for group audit purposes 2017
Specified risk-focused audit procedures 2017
Full scope for group audit purposes 2016
Specified risk-focused audit procedures 2016
Residual components

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The Group audit team approved the component materiality levels used, which ranged from £0.1 million to £1.8 million (2016: £0.1 million to £1.8 million), having regard to the mix of size and risk profile of the Group across the components. The work on six of the 18 components (2016: six of the 18 components) was performed by component auditors and the rest by the Group audit team.

The Group audit team visited four (2016: three) component locations in the UK, and Kenya (2016: in the UK), to assess the audit risk and strategy. Telephone conference meetings were held with all component auditors and file reviews were conducted remotely or during the visit to the component location. 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.

4. 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; and

— the information given in the Strategic Report and the Directors' Report for the financial period is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

— we have not identified material misstatements in those reports; and

— in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

— the directors' statement of the longer-term viability on page 37, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to March 2020; or

— the disclosures on page 107 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the 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 position and performance, business model and strategy; or

— the Audit Committee Report on pages 65 to 68 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' statements, set out on pages 37 and 107, in relation to going concern and longer-term viability; and

— the part of the Corporate Governance Report on pages 50 to 73 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 96, 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

23 May 2017

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