

# Corporate governance statement

## Compliance with the UK Corporate Governance Code

In the period to 30 March 2013, as detailed below and in the risk and risk management report and the remuneration report on pages 27 to 30 and 48 to 58 respectively, the Company complied fully with the requirements of the UK Corporate Governance Code (June 2010) (the Code). We explain in the report below and in the risk and risk management report and remuneration report how we have applied the provisions of the FSA Listing Rules, the Disclosure and Transparency Rules and the Code. The Code is publicly available at [www.frc.org.uk](http://www.frc.org.uk)

The Group's corporate governance procedures, which are approved by the Board, define the matters reserved to the Board, the terms of reference of various Committees of the Board and the functions delegated to these Committees, as well as defining the jobs of the Chairman, Chief Executive, Group Finance Director and Non-executive Directors. The Company reviews and amends its corporate governance policies to reflect changes to legislation and good practice.

## Business ethics

The Group delivers high profile security print products to customers across the world, offering them security, confidence and efficiency. It is essential that the Group maintains the trust and confidence of its customers, and everyone it deals with, both inside and outside the Group, by demonstrating complete integrity in the way the Group and its business partners behave.

The Group has clear core values and principles which govern how the Group does business and which everyone within the Group must follow. The way the Group delivers these will be reflected in the way the Group competes for business and delivers its services.

Regular external audits are undertaken of the Group's anti bribery and corruption policies and processes. These audits have confirmed that the Group is following best practice and compares well with similar companies, reflecting the work undertaken in this area in recent years.

An Ethics Committee has been established, consisting of the Non-executive Directors of the Company. Further information on this Committee is set out on page 45 and the terms of reference of the Ethics Committee are on the Group's website.

Further information on the Group's ethical framework can be found on pages 31 to 32.

## The Board

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 firmly committed to complying with the highest standards of corporate governance, which is the system of internal principles, controls and processes it approves and by which the Group is run in order to achieve its objectives while complying with the required standards of accountability and probity.

The core objectives of the Board are:

- Delivering value to shareholders and other stakeholders
- Maintaining the Company's reputation for integrity as the Company's foundation of its relationship with stakeholders, shareholders, customers, staff and suppliers
- Building long term success through innovation, quality and sound management

## Board composition and responsibilities

The Board comprises five independent Non-executive Directors, the Non-executive Chairman and two Executive Directors. The Board has concluded that its composition throughout the year was and remains appropriately balanced.

There is a clear division between the management of the Board and the Executive Directors' responsibility for managing the Group's business. However, no individual or small group can dominate decision making. The roles of the Chairman and Chief Executive are separated and clearly defined.

The Chairman is primarily responsible for the working and leadership of the Board and he provides continuity, experience and governance to the Board process. In particular the Chairman will act in such a way as to ensure that:

- The Board takes balanced and objective decisions in the performance of its agreed role and functions
- The Board sets a strategy for the future of the business and recruits and retains the people in the Group it needs to implement that strategy
- High standards of probity throughout the Group are established
- Shareholders are kept properly informed on all important matters

The Chief Executive is responsible for running the business and implementing Board strategy and policy. In particular the Chief Executive has operational responsibility to:

- Maintain a senior management team with the appropriate knowledge, experience, skills, attitude and motivation to achieve the Company's objectives
- Exercise personal leadership and develop, on an ongoing basis, a management style which encourages excellent and open working relationships at all levels within the Group
- Ensure through the Group Finance Director, the implementation, control and coordination of the Group's financial and funding policies approved by the Board
- In conjunction with the Executive Committee, comprising business unit managing directors and other senior executives, present strategic options for growth in shareholder value
- Set the operating plans and budgets required to deliver the agreed strategy

The role and responsibilities of the Chairman, Chief Executive, Group Finance Director, Senior Independent Director and other Directors are also clearly defined. Full details are set out on the Group's website. The Executive Directors and the Executive Committee operate within clearly defined limits of authority delegated by the Board.

## Board changes

Nicholas Brookes retired as Chairman and as a Non-executive Director on 26 July 2012. He was succeeded by Philip Rogerson, who joined the Board as Chairman designate on 1 March 2012. Sir Julian Horn-Smith resigned from the Board on 31 December 2012.

Andrew Stevens joined the Board as a Non-executive Director on 2 January 2013. As he was appointed a Director since the last AGM he will, being eligible, offer himself for election at the AGM.

Sir Jeremy Greenstock will retire from the Board following the AGM in July 2013.

The Non-executive Directors hold letters of appointment which will be displayed at the AGM, together with the Executive Directors' service agreements and Directors' indemnification agreements.

## Role and operation of the Board

The Board has a programme of meetings during the year and it also meets on an ad hoc basis as required. The Board's core procedures are set out in the terms of reference for the Board, its Committees and Directors and include the control of risk.

The Board has also reserved certain matters to itself to reinforce its control of the Group. Full details are set out on the Group's website. These include:

- Determining the responsibilities of Directors, in particular those of the Chairman and Chief Executive
- Approving internal control processes
- Approving the final and interim financial statements
- Approving, in conjunction with the Audit Committee, the recommendation of dividends
- Approving appointments to, and removals from, the Board and the terms of reference and membership of Board Committees
- Approving the Group's strategy and annual budget
- Authorisation of authority levels, financial and treasury policies and any acquisition or disposal

Subject to the provisions of relevant statutes, the Company's articles of association and any directions given by special resolution, the Directors may exercise all the powers of the Company.

#### Role of Non-executive Directors

The Non-executive Directors, all of whom are considered by the Board to be independent as at 30 March 2013, have an appropriate range of business, financial and international experience which is relevant to the Company's activities and which allows them constructively to assist in the development of strategy. None of the Non-executive Directors holds a material shareholding in the Company. Under the Code, Philip Rogerson ceased to be independent after his appointment as Chairman on 26 July 2012 but the Board considers that his contribution and objectivity in Board and Committee discussions were fully consistent with those of an independent director.

Sir Jeremy Greenstock is the Senior Independent Director until his retirement from the Board at the conclusion of the 2013 AGM when he will be succeeded by Warren East. Shareholders may contact the Senior Independent Director if they consider that their concerns are not being addressed through normal channels. Non-executive Directors confirm on appointment, and any reappointment, that they are able to allocate sufficient time to enable them to discharge their duties properly. Directors who have been unable to attend Board or Committee meetings have made known their views on pertinent matters before the meeting.

Non-executive Directors are expected to participate actively in Board discussions involving the following key elements:

- Strategy: constructively challenge and contribute to the development of strategy
- Performance: review the performance of management in meeting agreed goals and objectives
- Risk: ensure that the financial and other information is accurate and appropriate to enable the Non-executive Directors to fulfil their roles and that financial controls and systems of risk management are robust and defensible
- People: contribute to the development of appropriate levels of senior management (including Executive Directors) and succession planning

#### Board evaluation and effectiveness review

A performance evaluation of the Board and each of the Nomination, Remuneration and Audit Committees is carried out annually. The performance evaluation for 2013 involved the use of an external independent facilitator, Linstock Limited.

The 2013 effectiveness review process involved completion of online questionnaires which focused on Board composition, expertise and dynamics, Board support and process, structure, behaviours and key issues, such as strategy and succession, against delivery of the Board's objectives and addressing 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 and presented to the Board and each relevant Committee as a basis for discussing and agreeing appropriate actions for the forthcoming year. The Risk Committee was evaluated by the Board.

The Chairman and each Committee Chairman has 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 in the absence of the Chairman. The Chairman and the Non-executive Directors also meet in the absence of the Executive Directors.

The Board and individual Committees considered the output from the review in May 2013 and concluded that the performance of the Board, its Committees and individual directors were effective. Any areas for improvement are agreed by the Board.

#### Commitment

The Directors' biographies and other appointments appear on pages 36 and 37. The Board's policy is that the Chairman and Executive Directors should accept appointments to the boards of other companies only with the prior approval of the Board. Non-executive Directors must seek the agreement of the Chairman and confirmation by the Board before accepting additional commitments that may affect the time they devote to their role. The Board is satisfied that these commitments do not conflict with their ability to carry out effectively their duties as Directors of the Company.

#### Board diversity

The Board recognises and understands the importance and benefits of gender diversity and currently has two female Non-executive Directors (25 per cent of the Board). The Board expects to maintain the proportion of women Directors to at least the current level, while maintaining flexibility to ensure that all appointments are made on merit, regardless of gender.

The Group's equality and diversity policy is discussed further in the corporate responsibility report on page 34.

#### Succession planning

The Board reviews its composition at least annually, assessing the skills profile, diversity, type and number of Non-executive Directors required to enable the Board to perform effectively. The Board also reviews the Group's internal talent review process in planning Executive Director and senior management succession.

#### Induction and training

All new Directors receive an induction on joining the Company, for which the Chairman is responsible. This covers such matters as the strategy, operation and activities of the Group (including key financial data, and business, social and environmental risks to the Group's activities), corporate governance matters such as the role of the Board and individual Committees, and the Group's corporate governance procedures as outlined in this report. They are advised on the duties and obligations of directors of a listed company. Site visits and meetings with senior management are also arranged. Any newly appointed Director, who has not previously been a director of a listed company, is invited to attend external training covering such duties and responsibilities.

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Directors are briefed, where appropriate, by the Company's external advisers and functional management on changes to legislation, regulation or market practice. Briefings from individual businesses are also received throughout the year. The Directors have the opportunity of attending appropriate training sessions.

The Board visits at least one operational site each year (Malta and Overton in 2012/13). Directors are also encouraged to visit other sites and meet with staff. The General Counsel and Company Secretary, in conjunction with the Chairman, ensures that there is proper communication between the Board and its Committees and senior management and that Non-executive Directors receive appropriate information. The Chairman reviews and the General Counsel and Company Secretary facilitates induction and other professional development as required.

Directors may take independent professional advice at the Company's expense, although no such advice was sought during the year.

## Board protocol

The Board timetable ensures that the Board receives regular reports and presentations from the Executive Directors, operational managing directors and key functions.

Directors receive agendas and Board papers generally five days before each Board meeting; minutes are circulated as soon as possible after the meeting. The Board reviews progress on implementing actions arising from the Board and its Committee meetings each month.

There is also a defined procedure for dealing with urgent matters between Board meetings.

Any Director can request additional information from management at any time. All Directors have direct access to the advice and services of the General Counsel and Company Secretary who is responsible for ensuring that Board procedures are followed. The Board decides the appointment and removal of the Company Secretary.

## Appointments and annual election

All Directors are required to submit themselves for annual re-election. New Directors are subject to election by shareholders at the first opportunity after their appointment. Non-executive Directors are appointed for an initial period of three years with the expectation of two such three year terms subject to satisfactory performance.

The Board may invite a Non-executive Director to serve a further term after six years following a detailed review at the end of this period, subject to re-election.

The Board, having carried out the effectiveness and evaluation process, considers the performance of each of the Directors standing for election and re-election at this year's AGM to be fully satisfactory and is of the opinion that they have demonstrated ongoing effectiveness and continued commitment to the role.

The Board strongly supports their election and re-election and recommends that shareholders vote in favour of the resolutions at the AGM.

## Conflicts of interests

Directors have a duty to avoid a direct or indirect interest which conflicts, or may conflict, with the interests of the Group unless that conflict has been authorised by the Board. Such conflict may arise by reason of a situation or a specific transaction. The Board has established a process to review at least annually and, if thought appropriate, authorise any conflict of interest and has carried out such review 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.

## Indemnity

To the extent permitted by the Companies Act 2006 and the FSA Listing Rules the Company indemnifies certain officers so that 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.

## Corporate responsibility

Information on the Group's initiatives and commitment to corporate responsibility can be found in the corporate responsibility report on pages 31 to 35.

## Details of attendance at Board and Committee meetings

The number of Board meetings and Committee meetings attended by each Director during the year was as follows:

Directors' attendance 2012/13	Board	Audit Committee	Ethics Committee	Nomination Committee	Remuneration Committee
Number of meetings held	10	4	1	1	3
Nicholas Brookes (resigned 26 July 2012)	4 (5)	–	–	–	–
Colin Child	10 (10)	–	–	–	–
Tim Cobbold	10 (10)	–	–	1 (1)	–
Warren East	9 (10)	4 (4)	1 (1)	1 (1)	2 (2)
Sir Jeremy Greenstock	8 (10)	2 (2)	1 (1)	1 (1)	2 (3)
Sir Julian Horn-Smith (resigned 31 December 2012)	6 (8)	1 (4)	–	0 (1)	1 (2)
Victoria Jarman	10 (10)	4 (4)	1 (1)	1 (1)	2 (2)
Gill Rider	10 (10)	4 (4)	1 (1)	1 (1)	3 (3)
Philip Rogerson	9 (10)	–	1 (1)	1 (1)	3 (3)
Andrew Stevens (appointed 2 January 2013)	2 (2)	–	0 (1)	–	0 (1)

## Note

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

## Committees of the Board

The Board has established Audit, Remuneration, Nomination, General Business, Ethics and Risk Committees with appointed Chairmen and fixed terms of reference which are reviewed annually. The terms of reference and duties of the Board and its Committees appear on the Group's website and are also available on request. The Board is satisfied that the Committees have the appropriate balance of skills, experience and independence and that they discharged their responsibilities satisfactorily. Membership of these Committees is given in the Directors' biographies on pages 36 and 37. Further details of Committees and key activities performed during the year are given elsewhere in this annual report.

### Ethics Committee

The Board established the Ethics Committee in September 2012 comprising all Non-executive Directors and chaired by the Chairman with the Chief Executive Officer in attendance. The General Counsel and Company Secretary is secretary to the Committee and advises on governance.

The main responsibilities of the Ethics Committee are to:

- 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 Group's policies and procedures for the identification, assessment, management and reporting of ethical risk
- Oversee the development and adoption of, and compliance with, the Group's ethical due diligence policies and procedures covering business relationships, including third party partners and mergers, acquisitions and major new projects
- Oversee the investigation of any material irregularities of an ethical nature and review subsequent findings and recommendations

The Ethics Committee will bring an impartial viewpoint and best practice from other industries and underlines the Group's commitment to ensuring that business ethics are a fundamental and enduring part of the Group's culture.

### Nomination Committee

The Committee consists of five independent Non-executive Directors at the date of this report together with the Chairman (who chairs the Committee) and the Chief Executive.

The Committee meets at least once a year and otherwise as necessary and makes recommendations to the Board with regard to any vacancies for Executive or Non-executive Directors or other changes to the composition of the Board that are considered necessary. The Committee has the power to employ the services of such advisers as it deems necessary in order to carry out its responsibilities. The Committee also reviews the time commitment required of Non-executive Directors at least once a year. The Board, as a whole, approves the appointment and removal of Directors and retains appropriate executive search consultants, having prepared a job specification for the particular role to be filled. The principal activity of the Committee during the year was succession planning and the recruitment of Andrew Stevens, our new Non-executive Director, following a rigorous recruitment process in conjunction with an external search consultant.

### Remuneration Committee

Gill Rider was appointed to the Remuneration Committee in July 2006 and she has been the Committee Chairman since 26 July 2007. Details of the Committee and of the remuneration policy can be found in the remuneration report on pages 48 to 58.

### Risk Committee

Core responsibilities of the Risk Committee are to:

- Assist the Board by assessing and reporting on the effectiveness, and promoting awareness of, the Group's internal control and risk management systems
- Assist the Board in fulfilling its responsibilities by reviewing the framework for managing risks throughout the Group
- Provide an appropriate level of reporting on the status of risk management within the Group
- Provide an appropriate level of reporting to the Board, which retains the overall responsibility, on the status of internal risk management

The Committee, chaired by the General Counsel and Company Secretary, meets and reports to the Board at least twice a year. Other members of the Committee include the Chief Executive, Group Finance Director, heads of the principal functions, all divisional managing directors, the Group Director of Risk and Internal Audit and the Group Director of Security. Any Director is entitled to attend any meeting. At the year end, following review by the Audit Committee of internal financial controls and of the processes covering these controls, the Board evaluates the results of the risk management procedures conducted by senior management.

The Committee is assisted by Group wide committees which deal with specific areas of risk such as the Health, Safety and Environment Committee and the Security Committee.

Details of risk management and particular risks within the Group are set out on pages 27 to 30.

### Internal controls

The Company has complied with the provisions of the Code relating to internal control, which require the Board to review the effectiveness of internal controls and to have in place an ongoing process for identifying, evaluating and managing the key risks including financial and non financial, operational and compliance controls and risk management systems. Further details are contained in the risk and risk management report on pages 27 to 30.

This process has been in place throughout the year and up to the date of approval by the Board of the annual report and accounts. The Board concluded its latest review in May 2013.

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

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## Report of the Audit Committee of the Board

I am pleased to present the report of the Audit Committee for the period.

The role of the Audit Committee is to review and report to the Board on the Group's financial reporting, internal control and risk management processes and the independence and effectiveness of the external auditor KPMG Audit Plc (KPMG).

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

The following report details the Committee's responsibilities and key tasks during the period.

### Warren East

Chairman of the Audit Committee

29 May 2013

### Composition of the Audit Committee

Warren East was appointed Chairman of the Audit Committee on 1 April 2009. He has been the chief executive of a listed company and therefore has strong financial experience. In addition, Victoria Jarman is a chartered accountant and is chair of the audit committee at Hays plc and has relevant financial experience. All members of the Audit Committee are independent Non-executive Directors. At the invitation of the Committee Chairman, meetings are attended by the Chairman, Chief Executive, Group Finance Director, General Counsel and Company Secretary, Group Director of Risk and Internal Audit and the external and internal auditors. The internal and external auditors each meet the Committee without Executive Directors or employees of the Company being present.

The Audit Committee provides an independent overview of the effectiveness of the internal financial control systems and financial reporting processes. Its principal responsibilities include:

- The appointment of the external auditor and the agreement of terms of engagement at the start of each audit and the external audit fee
- Approving and reviewing progress on audit plans across the businesses and the effectiveness of internal audit
- Reviewing the integrity of the interim and full year financial statements
- Reviewing and monitoring the external auditor's independence and objectivity
- Reviewing reports on the effectiveness of the Group's whistleblowing procedures and arrangements, details of which are set out on page 31

During the year, the Audit Committee met on four occasions and dealt with the following additional matters:

- A review of the Group's business continuity arrangements
- Plans to further develop the Group's internal control framework
- Appointment of a new internal audit service provider

### 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 year. The internal audit function has been outsourced to Ernst & Young LLP since 2009. As part of the regular review process, during 2012/13, it was decided to put the contract for the provision of internal audit services out to tender. Following the tender exercise, PricewaterhouseCoopers LLP was appointed as our outsourced internal audit provider with effect from the start of 2013/14.

Internal audit continued to ensure that efforts were better 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. 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 KPMG on internal control matters noted as part of their audit work.

### Auditors

The Audit Committee assesses annually the qualification, expertise and 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.

KPMG have been the Company's auditors since 11 October 2006. The Audit Committee considers that the relationship with the auditors is working well and remains satisfied with their effectiveness. During the year, the Audit Committee considered the tenure, performance and audit fees of the external auditor, and the level of non audit work undertaken, and recommended to the Board that a resolution for the reappointment of KPMG for a further year as the Company's auditor be proposed to shareholders at the AGM.

Following completion of the 2011/12 audit KPMG's audit engagement partner was rotated. The new audit engagement partner undertook a thorough introduction programme to ensure he was fully familiar with the Group's business.

The Audit Committee places great emphasis on the objectivity of the Group's auditors, KPMG, in reporting to shareholders.

The KPMG audit partner is present at Audit Committee meetings to ensure communication of matters relating to the audit. The Audit Committee has 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.

#### Independence and objectivity of auditors

The Audit Committee has a detailed policy covering:

- Choosing the statutory auditor 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 prohibited from providing non audit work
- De La Rue's procedures for procuring non audit services from external sources, which specifically prohibits KPMG 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)

It may be cost effective for KPMG to perform certain non audit services, in particular where the skills and experience required make KPMG 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 the specific prior approval of the Chairman of the Audit Committee. The selection criteria include detailed proposals, timescales, local resource, cost and the safeguards put in place by KPMG. In addition, any individual assignment to be undertaken by KPMG where the fee is likely to be in excess of £50,000 must be approved by the Audit Committee Chairman prior to any commencement of work. During 2012/13 the amount of non audit fees paid to KPMG was £0.1m.

The safeguards KPMG put in place avoid compromising their objectivity and independence. They 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 KPMG 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.

A copy of the corporate governance statement will be made available on the Group's website.

By order of the Board

**Edward Peppiatt**  
Company Secretary  
29 May 2013