

CORPORATE GOVERNANCE STATEMENT

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

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 the Combined Code, legislation or good practice. Revisions were made in September and November 2009.

The Board also approves the Code of Conduct which defines the Group's business principles and which was updated in September 2007. This is discussed further in this section of the Annual Report and in the Corporate Responsibility Report on page 32. These documents are set out on the Group's website www.delarue.com.

In accordance with the Turnbull Guidance on internal control, the Board confirms that there is an ongoing process for identifying, evaluating and managing the key risks including financial, operational and compliance controls and risk management systems. 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's governance policies include a process for the Board to review regularly the effectiveness of the system of internal control and risk management systems, and the Board concluded its latest review in April 2010. Details are set out in this Statement. This does not extend to associated companies or joint ventures such as Camelot Group plc where the Group does not have management control.

Compliance with Section 1 of the Combined Code on Corporate Governance

In the year to 27 March 2010 the Company has complied throughout with the provisions and applied the principles of the Combined Code issued by the Financial Reporting Council in June 2008 (the Code) except arguably for a brief period following the retirement of Keith Hodgkinson on 31 December 2009 in respect of the composition of the Audit Committee (provision C.3.1). The Audit Committee Chairman is the chief executive of a listed company and the Board on the recommendation of the Nomination Committee recently recruited a non-executive Director, Victoria Jarman, with financial expertise who is a member of the Audit Committee. Keith Hodgkinson, who retired from the Board during the year, ceased to be viewed as independent having served nine years on the Board from the date of his first election.

Board of Directors

Composition of the Board

Following the departure of Philip Nolan (23 July 2009) and Keith Hodgkinson (31 December 2009) and the appointment of Sir Julian Horn-Smith (1 September 2009) and Victoria Jarman (22 April 2010) 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 taking. 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. The Chief Executive is responsible for running the business and implementing Board strategy and policy.

The Directors' biographies appear on page 37 and 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 and that 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.

Board changes

During the year there were several changes of Directors and roles. Gill Rider temporarily stood down from the Board from 26 February 2009 until 30 June 2009 whilst the award of the contract for the UK passport was being considered by the Identity and Passport Service. Philip Nolan resigned as a Director at the conclusion of the 2009 Annual General Meeting (AGM) and Keith Hodgkinson resigned as a Director on 31 December 2009. Sir Julian Horn-Smith was appointed non-executive Director on 1 September 2009. Sir Jeremy Greenstock became senior independent non-executive Director on 1 January 2010. Victoria Jarman was appointed non-executive Director on 22 April 2010.

Simon Webb became Group Finance Director and an executive Director of the Board on 1 April 2009. The Company announced on 30 April 2010 the appointment of Colin Child as Group Finance Director and as an executive Director of the Company with effect from 1 June 2010. Simon Webb will leave the Board on 31 May 2010.

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

Sir Julian Horn-Smith and Victoria Jarman who were appointed Directors since the last AGM, and Colin Child, who will be appointed on 1 June 2010, will, being eligible, offer themselves for election at the AGM. The Board adopted the policy during the year that each Director be required to submit himself for annual re-election and accordingly all other Directors will retire and offer themselves for re-election.

The existing commitments of Directors appear on page 37 and the Board is satisfied that these commitments do not conflict with their ability to carry out effectively their duties as Directors of the Company.

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

Edward Peppiatt replaced Louise Fluker as Company Secretary on 1 April 2009.

Succession planning

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

Objectives of the Board

The Board has confirmed its objectives during 2009/2010 as follows:

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

Role and operation of the Board

The Board has a programme of fixed meetings during the year and it also met 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
- The control of risk through agreed evaluation and control procedures reviewed and revised annually
- Monitoring the composition of the Board through the Nomination Committee

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 www.delarue.com. 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 and (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

The Board delegates authority to run the business to the Chief Executive. The Chief Executive manages the Group's day to day activities and presents to the Board the strategic options for growth in shareholder value and, in conjunction with the Operating Board comprising business unit managing directors and other senior executives, sets 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 non-executive Director and other Directors are also clearly defined. Full details are set out on the Group's website www.delarue.com. The executive Directors and the Operating Board operate within clearly defined limits of authority delegated by the Board.

The Board provides leadership of the Group within a framework of prudent and effective internal controls, including financial, operational and compliance controls and risk management systems. These are required to identify and manage the risks and their potential effect whilst ensuring that material changes are reported to the Board in a timely fashion. The Board reviews the effectiveness of those controls and systems and is assisted by the Audit and Risk Committees.

The controls by their nature are designed to manage, rather than eliminate, risk and can only provide reasonable but not absolute assurance against material misstatement or loss. Details of the processes and controls are set out below. The Board reviews matters reserved to itself and the performance of management in achieving agreed goals and objectives at its meetings. 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 thereafter. 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.

Board evaluation and effectiveness review

The Board and each of the Nomination, Remuneration and Audit Committees carried out an evaluation of their performance during the year. The Risk Committee was evaluated by the Board. The process involved completion of questionnaires which focused on 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.

The Chairman and each Committee Chairman had discussions with each Director or Committee member based on the responses and each Director's own views regarding effectiveness of the Board or Committee as a whole and the individual Director's performance. The senior independent non-executive Director was 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 met in the absence of the executive Directors. The results were discussed by the Board and individual Committees and the final report highlighting any areas for improvement agreed by the Board in May 2010.

Conflicts of interests

Directors have a duty to avoid a direct or indirect interest which conflicts, or possibly 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 proposed. 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.

Indemnity

To the extent permitted by the Companies Act 2006 and the UKLA 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 GOVERNANCE STATEMENT continued

Details of attendance at Board and Committee meetings

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

Directors' Attendance 2009/2010	Audit Committee	Board	Nomination Committee	Remuneration Committee
Number of meetings held	4	14	6	7
Mr N K Brookes	–	14	6	7
Mr D W A East	4	11	4	–
Sir Jeremy Greenstock	–	12	6	7
Mr K H Hodgkinson (resigned 31 December 2009)	4	9	4	4
Mr J A Hussey	–	14	6	–
Dr P M G Nolan (resigned 23 July 2009)	2	4	2	2
Ms G Rider† (temporarily stood down 26 February 2009 and rejoined the Board 1 July 2009)	2	9	2	5
Sir Julian Horn-Smith* (appointed 1 September 2009)	–	7	1	3
Mr S Webb (appointed 1 April 2009)	–	14	–	–

†Appointed to the Nomination Committee 24 September 2009

*Appointed to Audit, Remuneration and Nomination Committees on 24 September 2009

Role of non-executive Directors

The non-executive Directors, all of whom are considered by the Board to be independent as at 27 March 2010, have an appropriate range of business, financial and international experience which is relevant to the Company's activities. None of the non-executive Directors holds a material shareholding in the Company. Nicholas Brookes ceased to be independent after his appointment on 22 July 2004 as Chairman under the Code but the Board considers that his contribution and objectivity in Board and Committee discussions were fully consistent with those of an independent Director.

Keith Hodgkinson, who retired from the Board on 31 December 2009, ceased to be viewed as independent during the year and was succeeded by Sir Jeremy Greenstock as the senior independent non-executive Director on 1 January 2010. Shareholders may contact the senior independent non-executive Director if they feel their concerns are not being addressed through normal channels.

Non-executive Directors confirm on appointment and any re-appointment 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.

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 Company'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. Directors are briefed, where appropriate, by the Company's internal and external advisers, on changes to legislation, regulation or market practice, as well as receiving briefings from individual businesses throughout the year. The Board received specific briefing on the key issues of the Companies Act 2006 and on its implementation during the year. The Directors, especially Committee Chairmen, have the opportunity of attending appropriate training sessions.

The Board visits an operational site at least annually (Westhoughton, Bolton in 2009). Directors are also encouraged to visit other sites and 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.

Appointments

Following a decision during the year by the Board, 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 two years with the expectation of three two 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 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.

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.

Business Ethics

De La Rue's reputation is based on security, integrity and trust. De La Rue has clear core values and principles which govern how the Group does business and which everyone within De La Rue must follow. The way De La Rue delivers this policy is reflected in the way the Group competes for business and delivers its services, focused on quality, value for money and the reliability and reputation of its employees.

All employees are required to follow the Code of Conduct approved by the Board when performing their duties as employees or where they are representing De La Rue. In addition all agents, sales consultants and distributors must also follow this Code of Conduct when they are representing De La Rue.

More detailed policies and procedures supplement the Code of Conduct. The main principles of the Code of Conduct are:

- Compliance with the law where either employees are employed or where they carry out business on behalf of De La Rue
- Compliance with competition/anti-trust law
- Compliance with export licensing or trade embargoes
- Business dealings with customers, suppliers and third parties must be conducted honestly and with integrity
- Avoiding conflicts of interests in any business dealings

The policies and procedures related to the appointment and management of sales agents and consultants were strengthened during the year in light of Lord Woolf's recommendations on the appointment and management of agents. The Group Third Party Partner Team was established and management processes and tools for the appointment of Third Party Partners (TPPs) were upgraded to eliminate any potential inconsistencies in the area. The Team also provides improved focus on training and communication to key relevant personnel on fundamental principles regulating TPPs and coordinates external due diligence where particular risks are identified. Advice was also sought from a number of external parties such as the Institute of Business Ethics and professional due diligence suppliers with regard to best practice in this area.

The Company announced on 18 November 2009 that it had received notification from the Serious Fraud Office that it had concluded its investigation into the Company which was initiated in 2007 and that no action will be taken against any company in the Group or against any current or former employee.

Committees of the Board

The Board has established Audit, Remuneration, Nomination, General Business and Risk Committees with appointed chairmen and fixed terms of reference which are reviewed annually. The terms of reference and duties of the Audit, Nomination, Remuneration and Risk Committees appear on the Group's website and are also available on request. The Board is satisfied that the Committees discharged their responsibilities satisfactorily. Membership of these Committees is given in the Directors' biographies on page 37. Further details of Committees and key activities performed during the year are given below.

Nomination Committee

The Committee consists of five independent non-executive Directors at the date of this report together with the Chairman 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 changes 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 2009/2010 was succession planning and the recruitment of new Directors.

Remuneration Committee

Gill Rider was appointed to the Remuneration Committee in July 2006 and she has been the Committee Chairman since 26 July 2007. She temporarily stood down from the Board on 26 February 2009. Philip Nolan acted as Chairman of the Committee until Gill Rider's return on 1 July 2009. Details of the Committee and of the remuneration policy can be found in the Remuneration Report on pages 47 to 53.

General Business Committee

The Committee meets when necessary to deal with routine matters arising between scheduled Board meetings. Only independent non-executive Directors may decide matters relating to the administration or the implementation of the Company's share schemes (other than for the purpose of allotting shares on exercise).

Risk Committee

The Board reviewed the terms of reference and the composition of the Risk Committee during the year. Core responsibilities of the Risk Committee are to:

- Assist the Board by assessing and reporting on the effectiveness of the Company's internal control systems for managing risks
- Assist the Board in fulfilling its responsibilities by providing a framework for managing risks throughout the Group
- Provide an appropriate level of reporting on the status of risk management within the Group
- Promote awareness of internal control issues and risk management
- 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, business unit managing directors and the Group Director of Business Continuity. Any Director is entitled to attend any meeting.

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 24 to 27.

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Audit Committee of the Board

Warren East succeeded Keith Hodgkinson as Chairman of the Audit Committee on 1 April 2009. All members of the Audit Committee are independent non-executive Directors other than Keith Hodgkinson, who retired from the Board on 31 December 2009 and who ceased to be viewed as independent having served on the Board for more than nine years from the date of his first election. Warren East is the chief executive of a listed company. The external auditors, Chairman, Chief Executive, Group Finance Director, General Counsel and Company Secretary, Group Financial Controller and the internal auditors Ernst & Young LLP attend each meeting at the invitation of the Committee Chairman. Ernst & Young LLP and KPMG Audit Plc each meet the Committee without executive Directors or employees of the Company being present.

The 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
- Approving and reviewing progress on audit plans across the businesses
- 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 policy, details of which are set out on pages 27 and 32

During the year, the Audit Committee reviewed the effectiveness of the internal audit function and of the external audit and KPMG Audit Plc's role in performing it.

Internal audit

The Board through the Audit Committee monitors the internal financial control systems through reports received from the internal audit function during the year. The Audit Committee decided to outsource the internal audit function entirely to Ernst & Young LLP for 2009/2010. The internal audit function is now more aligned to the risks that De La Rue faces with outputs providing assurance over selected key risks that could impact the ability of the Group to achieve its business goals and objectives. Internal audit acts as a service to businesses by assisting with the ongoing improvement of controls and procedures. There is a system of internal control reviews which includes a self-assessment programme covering both financial and IT controls and actions agreed are followed up by management to ensure that satisfactory control is maintained. The internal audit plan is set and reviewed by the Audit Committee, together with reports from the external auditors (KPMG Audit Plc) on internal control matters noted as part of their audit work.

The Group has continued to raise the profile of good internal financial controls. The fraud risk profiling programme, involving multi-disciplined teams, considers areas of potential risks and confirms controls needed for key financial processes to mitigate such risks.

Independence of auditors

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

The KPMG audit Partner is present at Audit Committee meetings to ensure full communication of matters relating to the audit. The overall performance of the auditor is reviewed annually. This activity also forms part of KPMG's own system of quality control. The Audit Committee has discussions with the auditor, without management being present, on the adequacy of controls and on judgmental 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.

The Audit Committee has a detailed policy specifying which services the external auditor is allowed to perform on behalf of the Group and the relevant procedures to be followed by the Group.

Briefly, the procedures cover:

- Selecting the statutory auditor and approving the audit fee
- Being satisfied that there are no relationships between the auditor and the Group (other than in the ordinary course of business)
- Commissioning non-audit work
- Circumstances in which it is appropriate for incumbent auditors to provide non-audit work

De La Rue has procedures for procuring audit and consulting services from external sources as follows:

- Audit-related services, covering regulatory and statutory reporting
- Non-audit related services, covering the nature and extent of non-audit services whilst seeking to maintain the balance between objectivity and value for money

The allocation of non-audit work is considered in accordance with the Group's policy on the engagement of external auditors and the commissioning of non-audit services. The policy sets out a pre-approved framework of services, where the auditors can apply their existing in-depth business knowledge and skill to bring both quality and efficiency benefits to the Group. The external auditors are prohibited from performing certain non-audit related services including remuneration consultancy and advice and the design, development or implementation of financial information or internal control systems. However, a total prohibition on use of incumbent external auditors might lead to loss of business knowledge that could adversely affect audit quality.

Whilst it may be cost effective for incumbent external auditors to provide services, as a general principle all services must be subject to competitive tender. The Group Finance Director determines how this applies.

Incumbent auditors may, but only with the prior approval of the Chairman of the Audit Committee, provide some non-audit related services, where the selection criteria include detailed proposals, timescales, local resource and cost. During 2009/2010 the amount of non-audit fees paid to KPMG Audit Plc was £0.2m and was principally related to work performed in connection with tax assurance services.

The external auditors have safeguards in place to avoid their objectivity and independence being compromised. 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 Plc 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.

By order of the Board



Edward Peppiatt
Company Secretary
24 May 2010