

CORPORATE GOVERNANCE STATEMENT

General principles

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 De La Rue Group is run in order to achieve its objectives while complying with the required standards of accountability and probity.

Compliance with The UK Corporate Governance Code

In the period to 31 March 2012, as detailed below and in the Remuneration report on page 45, the Company complied fully with the requirements of The UK Corporate Governance Code (the "Code"). The Code is publicly available at www.fc.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 or good practice.

The Board approved the Code of Business Principles which strengthened, reinvigorated and replaced the existing Code of Conduct and defines the Group's business principles. This is discussed further in this section of the Annual Report and in the Corporate responsibility report on page 29. The document can be found on the Group's website.

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 as well as risk management systems. As part of the Board's process for reviewing the effectiveness of the system of internal control, it delegates certain matters to the Audit Committee including:

- The review of external and internal audit plans
- Consideration of internal and external audit reports on the system of internal control
- Any material control weaknesses and discussions with management on the actions taken on problem areas identified by Board and Audit Committee members, in internal audit reports or in external audit management letters

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 April 2012.

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

Board of Directors

Board diversity

The Board noted the publication in February 2011 of Lord Davies of Abersoch's report *Women on Boards*, and the subsequent consultation undertaken by the Financial Reporting Council in relation to potential changes to the Code.

Women are already well represented on the Board of De La Rue plc. Twenty two per cent of the Board is currently comprised of women and this figure will increase to 25 per cent after Nicholas Brookes' retirement at the conclusion of the forthcoming AGM. The Board understands the benefits of greater board diversity and its aspiration and expectation is to maintain the proportion of women on the Board 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 32.

Composition of the Board

Following the appointment of Philip Rogerson (1 March 2012) the Board comprises six 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 pages 34 and 35 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

Nicholas Brookes will retire as Chairman and as a Non-executive Director following the AGM on 26 July 2012. Philip Rogerson joined the Board as a Non-executive Director and Chairman designate on 1 March 2012. Philip Rogerson is a highly experienced chairman and non-executive director with considerable international experience and well proven leadership skills.

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.

Philip Rogerson was appointed a Director since the last AGM and, being eligible, will offer himself for election at the AGM.

The Board has a policy that each Director be required to submit themselves for annual re-election and accordingly all other Directors will retire and offer themselves for re-election.

The existing commitments of Directors appear on pages 34 and 35 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 Articles and any directions given by special resolution, the Directors may exercise all the powers of the Company.

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. On the recommendation of the Nomination Committee, Philip Rogerson was appointed a Non-executive Director and Chairman designate on 1 March 2012. He will succeed Nicholas Brookes as Chairman at the conclusion of the AGM on 26 July 2012. The Board also reviews the Group's internal talent review process in planning Executive Director and senior management succession.

Objectives of the Board

The Board agreed a number of specific areas for focus during 2011/12, including the following:

- Delivering value to shareholders and other stakeholders
- Strategic growth options and Improvement Plan
- Succession planning for the Chairman
- Risk management
- Adoption of practices to further enhance the effectiveness of the Board's procedures and working practices
- Remuneration strategy and policy and communication to shareholders to be led by the Chairman of the Remuneration Committee

Role and operation of the Board

The Board has a programme of fixed 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
- The control of risk through agreed evaluation and control procedures reviewed and revised annually
- To monitor 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. 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

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. In conjunction with the Executive Committee, comprising the business unit managing directors and other senior executives, the Chief Executive 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 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.

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 more fully in the Risk and risk management report on pages 25 to 28. 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 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.

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 2011/12 involved the use of an external independent facilitator. The Risk Committee was evaluated by the Board. The 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 by the external facilitator and presented to the Board and each relevant Committee as a tool for discussing and agreeing appropriate actions for the forthcoming year.

The Chairman and each Committee Chairman has 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 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 2012 and concluded that the Board, its Committees and individual Director performance were effective. Any areas for improvement are agreed by the Board.

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 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.

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 2011/12	Audit Committee	Board	Nomination Committee	Remuneration Committee
Number of meetings held	4	13	2	5
Nicholas Brookes	–	13	2	5
Colin Child	–	13	–	–
Tim Cobbold	–	13	2	–
Warren East	3	12	1	–
Sir Jeremy Greenstock	–	13	2	5
Sir Julian Horn-Smith	4	10	1	3
Victoria Jarman	4	13	2	–
Gill Rider	4	13	2	5
Philip Rogerson†	–	1/1*	–	–

†Appointed to the Board and Nomination and Risk Committees 1 March 2012

*Number of meetings held during the year while a serving Director

CORPORATE GOVERNANCE STATEMENT CONTINUED

Role of Non-executive Directors

The Non-executive Directors, all of whom are considered by the Board to be independent as at 31 March 2012, 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, Nicholas Brookes ceased to be independent after his appointment on 22 July 2004 as Chairman 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 and shareholders may contact the Senior Independent Director if they feel 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.

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 implications for the Company of the UK Bribery Act and on appropriate measures being adopted and implemented to address these. The Directors, especially Committee Chairmen, have the opportunity of attending appropriate training sessions.

The Board visits an operational site at least annually (Gateshead and Debden in 2011/12). 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.

Appointments and annual election

Following a decision by the Board in 2010, 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 such 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 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.

Corporate responsibility

Information on the Group's initiatives and commitment to corporate responsibility can be found in the Corporate responsibility report on pages 29 to 33.

Business ethics

De La Rue 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 De La Rue, by demonstrating complete integrity in the way the Group and its business partners behave.

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 these will be reflected in the way the Group competes for business and delivers its services.

All employees are required to follow the Code of Business Principles approved by the Board when performing their duties as employees or where they are representing De La Rue. In addition, all business partners worldwide must follow this Code of Business Principles when they are representing De La Rue.

More detailed policies and procedures supplement the Code of Business Principles. The main principles are that employees and, where relevant, business partners must:

- Not accept, offer or encourage bribes
- Comply with health and safety requirements and protection of the environment
- Comply with employment and data protection law
- Comply with competition/anti trust law
- Conduct business dealings with customers, suppliers and third parties honestly
- Avoid conflicts of interests in any business dealings
- Comply with the Company's Share Dealing Code

The policies have been reviewed and updated during the year and a programme of Code of Business Principles' refresher training will be rolled out during 2012/13. The Code of Business Principles is a key feature of the induction programme given to all new starters. Specific online training on competition law and working with third party partners (TPPs) is made available to relevant employees.

The policies and procedures related to the appointment and reappointment of and management of distributors, sales agents and sales consultants are regularly reviewed to drive continuous improvements of the management of bribery and corruption risks. The Group third party partner team continues to develop and refine the processes and procedures for the appointment of distributors, sales agents and consultants. All applications for appointment and reappointment of TPPs are managed by this central team which reports directly to the General Counsel and Company Secretary.

Due diligence undertaken on TPPs was extended during the year. An online training module focusing on anti bribery and corruption and other De La Rue policies was launched during the year for completion by TPPs, to create a consistent and auditable training platform.

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 have the appropriate balance of skills, experience, independence and that they discharged their responsibilities satisfactorily. Membership of these Committees is given in the Directors' biographies on pages 34 and 35. Further details of Committees and key activities performed during the year are given in this Annual Report.

Nomination Committee

The Committee consists of six 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 under the leadership of Sir Jeremy Greenstock during 2011/12 was succession planning and the recruitment of Philip Rogerson, our new Non-executive Director and Chairman designate, 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 45 to 52.

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 terms of reference and the composition of the Risk Committee were amended recently. Core responsibilities of the Risk Committee are to:

- Assist the Board by assessing and reporting on the effectiveness of the Company'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
- 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, heads of the principal functions, all business unit managing directors, 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 25 to 28.

Audit Committee

Warren East was appointed Chairman of the Audit Committee on 1 April 2009. He is the chief executive of a listed company with strong financial experience. In addition, Victoria Jarman had relevant financial experience with Lazard Corporate Finance and before that KPMG. All members of the Audit Committee are independent Non-executive Directors. The external auditors, Chairman, Chief Executive, Group Finance Director, General Counsel and Company Secretary 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 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 the 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 pages 27 and 29

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

- Reviewed the Company's TPP process
- The risk management assessment process

CORPORATE GOVERNANCE STATEMENT CONTINUED

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 is outsourced to Ernst & Young LLP. Internal audit continued to ensure that efforts were better aligned to the operational risks that De La Rue 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, management operate a system of self assessment internal control reviews, where management are required to detail and certify controls 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 the external auditors (KPMG Audit Plc (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 in July 2011. The resolution was passed and KPMG was reappointed for a further year.

KPMG's Senior Statutory Auditor has served as the Group's audit engagement partner for six years, one more than would usually be the case. The one year extension, which is permitted in certain circumstances, was considered necessary by the Audit Committee in order to preserve audit quality in the context of the issues facing the Group in 2010/11 and the changes in executive management. A new audit engagement partner will be responsible for the audit of the Group's 2013 Annual Report and Accounts.

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 prior to any commencement of work. During 2011/12 the amount of non audit fees paid to KPMG was £0.3m.

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 2012