

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.

The Company'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, 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 last made in March 2009.

The Board also approves the Company's Business Code of Conduct ('Code of Conduct') which defines the Company's business principles and which was updated in September 2007. This is discussed further in the Corporate Responsibility Report on page 41. These documents are set out on the Company'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 has conducted such a review during the year. Details are set out on pages 52 to 57. This does not extend to associated companies or joint ventures such as Camelot Group plc where the Company does not have management control.

Compliance with Section 1 of the Combined Code on Corporate Governance

In the year to 28 March 2009 the Company has complied throughout with the provisions and applied the principles of the Combined Code issued by the Financial Reporting Council in June 2006 (the 'Code') as detailed in this Report, and which made minor changes to the Combined Code 2003.

Board of Directors

Composition of the Board

Up to 28 March 2009 there were 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 Company'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 of the Board. The Chief Executive is responsible for running the business and implementing Board strategy and policy.

The Directors' biographies appear on page 47 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, details of which are set out in the Chairman's Statement on page 18. James Hussey, who for the past four years has been Managing Director of the Security Paper and Print Division, was appointed Chief Executive and an executive Director on 1 January 2009.

Simon Webb was appointed Group Finance Director Designate on 2 February 2009 and became Group Finance Director and an executive Director of the Board on 1 April 2009.

In accordance with the Company's Articles of Association, James Hussey and Simon Webb being eligible will offer themselves for election at the Annual General Meeting. Gill Rider and Warren East will retire by rotation and, being eligible, will offer themselves for re-election. Nicholas Brookes, having served for three three year terms, will retire and being eligible will offer himself for re-election.

The non-executive Directors hold letters of appointment which will be displayed at the Annual General Meeting, together with the Directors' service contracts and indemnification agreements. The Board agreed to reduce the terms of appointment for all non-executive Directors from three year appointments to two year appointments with effect from 1 April 2008.

The existing commitments of Directors appear on page 46 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 resolutions, the Directors may exercise all the powers of the Company.

Edward Peppiatt replaced Louise Fluker as General Counsel & 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 Company's internal talent review process in planning executive Director and senior management succession.

Objectives of the Board

The Board reviewed its objectives during 2008/2009 and confirmed them as:

- delivering value to shareholders and other stakeholders;
- maintaining the Company's reputation for integrity as the foundation of its relationship with stakeholders; and
- building long term success through innovation, quality and sound management.

Role and Operation of the Board

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; and
- 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 Company's website www.delarue.com. These include:

- establishing Committees of the Board and their terms of reference;
- determining the responsibilities of Directors, in particular those of the Chairman and Chief Executive;
- approving internal control processes;

- (in conjunction with the Audit Committee) approving the announcement of interim and final results;

- approving any interim dividend and recommending the final dividend to shareholders;

- approving the Annual Report, Remuneration Report and financial statements;

- approving the Group's strategy;

- approving the Group's annual budget;

- approving significant matters relating to capital expenditure, acquisitions and disposals or joint ventures by any Group Company;

- approving changes to the capital structure of the Company or other matters relevant to its status as a listed Company; and

- being informed about and taking any necessary decision on any matter which would have a material effect on the Company's financial position, liabilities, future strategy or reputation.

The Board delegates authority to run the business to the Chief Executive, except where certain matters are reserved to it or to the Committees of the Board. It annually reviews the delegated authorities. The Chief Executive in turn delegates responsibility to senior executives, in particular to strategic business unit managing directors. Operational control is exercised by the Operating Board which functions as a board of directors. The role and responsibilities of the Chairman, Chief Executive, Finance Director, senior independent non-executive Director and other Directors are also clearly defined. Full details are set out on the Company's website www.delarue.com.

The Board provides leadership of the Company 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 or 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.

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

All Directors can request additional information from management at any time. All Directors have direct access to the advice and services of the General Counsel & 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 meetings or 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 2009.

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 Company 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 indemnification of Directors and Officers is permitted 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.

Neither the insurance nor the indemnity provide cover where the Director or Officer has acted fraudulently or dishonestly.

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 2008/2009	Audit Committee	Board	Nomination Committee	Remuneration Committee
Number of meetings held	4	17	4	8
Mr N K Brookes	–	17	4	8
Mr D W A East	3	16	3	–
Sir Jeremy Greenstock	–	16	4	8
Mr K H Hodgkinson	4	14	4	8
Mr J A Hussey (appointed 1 January 2009)	–	4	1*	–
Mr S A King	–	17	–	–
Dr P M G Nolan	4	16	4	8
Mr L M Quinn (resigned 31 December 2008)	–	12	3	–
Ms G Rider (temporarily stepped down 26 February 2009)	4	14	–	7

*Appointed to Nomination Committee on 26 February 2009

Role of non-executive Directors

The non-executive Directors, all of whom are considered by the Board to be independent to 28 March 2009, 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 is the Company's senior independent non-executive Director until his retirement from the Board on 31 December 2009 when he will be succeeded by Sir Jeremy Greenstock. Shareholders may contact him if they feel their concerns are not being addressed through normal channels. Non-executive Directors confirm on appointment, and annually, and have done so this year, 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, 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 an external course covering such duties and responsibilities. Directors are briefed, where appropriate, by the Company's external advisers, on changes to legislation, regulation or market practice, as well as receiving briefings from individual businesses throughout the year. James Hussey and Simon Webb have received briefings from the Company's auditors and legal advisers. 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 (Malta in 2008). Directors are also encouraged to visit other sites and staff. The General Counsel & 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 & 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

All Directors are required to submit themselves for re-election at least every three years. New Directors are subject to election by shareholders at the first opportunity after their appointment (James Hussey and Simon Webb will stand for election at the 2009 Annual General Meeting), as are Directors whose role has changed since their previous election or who are subject to particular conditions, such as Nicholas Brookes who, since March 2006, is required to submit himself for re-election annually after serving nine years on the Board. Non-executive Directors were originally appointed for an initial period of three years with the expectation of a further three years subject to satisfactory performance. The Board agreed to reduce the terms of appointment for all non-executive Directors from three years to two years with effect from 1 April 2008. Additionally, any non-executive Director who has completed six years is required to submit himself for re-election annually thereafter. Philip Nolan will retire from the Board at the conclusion of the 2009 Annual General Meeting and Keith Hodgkinson will retire from the Board on 31 December 2009. The Board may invite a non-executive Director to serve a further term after a six year term 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 Annual General Meeting 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 Annual General Meeting.

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 Company's website and are also available on request. The Board is satisfied that the Committees discharged their responsibilities set out therein. Membership of these Committees is given in the Directors' biographies on pages 46 and 47. Further details of Committees and key activities performed during the year are given on pages 55 and 56.

Nomination Committee

The Committee consists of four independent non-executive Directors 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 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. The Committee has the power to employ the services of such advisers as it deems necessary in order to carry out its responsibilities. It generally retains appropriate executive search consultants, having prepared a job specification for the particular role to be filled. The principal activity of the Committee during 2008/2009 was succession planning following the disposal of Cash Systems and recruitment of a new Chief Executive, Finance Director and other senior management.

Remuneration Committee

Gill Rider was appointed to the Remuneration Committee in July 2006 and she has been the Committee Chairman since 26 July 2007 until she temporarily stood down from the Board on 26 February 2009. Philip Nolan is acting Chairman of the Committee. Details of the Committee and of the remuneration policy can be found in the Remuneration Report on pages 58 to 66.

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).

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Risk Committee

The Committee, chaired by the General Counsel & Company Secretary, meets and reports to the Board at least four times a year. Other members include the Chief Executive, Finance Director, heads of key functions and representatives from each strategic business unit. Any Director is entitled to attend any meeting.

Key areas of responsibility for the Risk Committee are to monitor the Group's risk exposure, promote risk awareness and provide an appropriate level of reporting (by exception) to the Board, which retains the overall responsibility, on the status of internal non financial risk management. The Committee is assisted by Group-wide committees which deal with specific areas of risk such as the Environmental, Health and Safety Steering Group and the Group Security Committee. The Risk Committee will work closely with Ernst & Young LLP, the internal auditors, in ensuring the focus of risk management is aligned with the internal audit programme, and a review of the relationship of the internal audit function, Risk Committee, Audit Committee and the Board is in progress.

Details of risk management and particular risks within the Group are set out on pages 34 to 37.

Audit Committee of the Board

All members of the Audit Committee are independent non-executive Directors. The Board considers that during 2008/2009 Keith Hodgkinson, chairman of the Audit Committee had sufficient recent and relevant financial experience for it to discharge its functions effectively. The external auditor, Chairman, Chief Executive, Finance Director, General Counsel & Company Secretary, Group Financial Controller and Head of Internal Audit attend each meeting at the invitation of the Committee Chairman. The Head of Internal Audit 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. The principal responsibilities include:

- the appointment of the external auditor and the 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 page 41.

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 Group internal audit function during the year. The internal audit function reviews internal financial controls in all key activities of the Group, typically over a three year cycle. It acts as a service to businesses by assisting with the continuous 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. Actions are agreed in response to its recommendations and these are followed up to ensure that satisfactory control is maintained. The internal audit programme is centrally co-ordinated. This is set and reviewed by the Audit Committee, together with reports from the external auditors on internal control matters noted as part of their audit work.

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

Ernst & Young LLP was appointed in 2007 to assist in the internal audit programme and to develop the approach to internal audit to ensure it was aligned to the risks that the Company face and to develop the audit process to include non financial risks for a more robust audit and assurance tracking process for key significant risks. The Audit Committee decided to outsource the internal audit function entirely to Ernst & Young LLP for 2009/2010 following the disposal of Cash Systems.

Independence of Auditors

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

The procedures relate to:

- selecting the statutory auditor and approving the audit fee;
- being satisfied that there are no relationships between the auditor and the Company (other than in the ordinary course of business);
- agreeing a policy on the employment of former employees of the auditor, then monitoring the implementation of this policy;
- commissioning non-audit work; and
- circumstances in which it is appropriate or inappropriate for incumbent auditors to be allowed to, or prohibited from, providing non-audit work.

De La Rue's procedures for procuring audit and consulting services from external sources are:

- **Audit-related services:** this covers regulatory and statutory reporting and formalities relating to shareholder and other circulars.
- **Non-audit related services:** the Audit Committee regularly reviews the nature and extent of non-audit services seeking to balance the maintenance of objectivity and value for money.

Incumbent auditors are prohibited from performing certain non-audit related services including remuneration consultancy and advice, the design, development or implementation of financial information or internal control systems. Certain other non-audit services interrelate closely with the auditing work because of the significant knowledge the incumbent auditors may possess of the particular area of the business or issue. Therefore a total ban on use of incumbent auditors might lead to loss of business knowledge that could adversely affect audit quality.

Whilst it may be cost effective for incumbent auditors to provide services, as a general principle all must be subject to competitive tender. The Finance Director determines how this applies. Non-audit related services may include:

- work related to disposals by the external auditors because of their knowledge of the business concerned; and
- corporation tax compliance work assessed on a case by case basis, depending on who is best suited to perform the work.

Incumbent auditors may, but only with the prior approval of the Chairman of the Audit Committee, provide some non-audit related services such as acquisition work where the selection criteria include detailed proposals, timescales, local resource and cost. During 2008/2009 the amount of non-audit fees paid to KPMG Audit Plc was £1.1m and was principally related to work performed in connection with the disposal of the Cash Systems' business including the vendor due diligence report, working capital adjustment, two Class I Circulars and the Prospectus for the 'B' Shares.

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. Thus 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 who may be providing services to De La Rue.

By order of the Board



Edward Peppiatt
Company Secretary
19 May 2009