

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 on Corporate Governance published in June 2008 (the Combined Code), legislation or good practice. In June 2010, the Financial Reporting Council introduced changes to the Combined Code, which will now be known as The UK Corporate Governance Code, to help company boards become more effective and more accountable to their shareholders. The Board has carefully considered the changes made to the Combined Code and intends to comply fully.

The Board approved the Code of Business Principles which strengthened, reinvigorated and replaced the existing Code of Conduct during the year 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 28. The document can be found on the Group's website.

The Company has complied with the provisions of the Combined 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, 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 2011, having particular regard to the events of the year and the forthcoming implementation of the UK Bribery Act. Amongst the changes made as a result of the review, the Company has taken the following actions:

- A number of new management appointments
- Reinforcement of the Company's absolute focus on quality, including upgrades in processes and the introduction of independent monitoring of paper testing
- A review of the process of appointment and reappointment of and arrangements with overseas agents which will result in the processes being enhanced to cater for the new requirements of the UK Bribery Act
- A formal review of the Group's risk assessment and risk management procedures

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

Compliance with Section 1 of the Combined Code on Corporate Governance

In the year to 26 March 2011, the Company was subject to the Combined Code. The Board confirms that the Company has complied throughout with the provisions and applied the principles of the Combined Code save in respect of the separation of the roles of Chairman and Chief Executive for a brief period when Nicholas Brookes took on the role of Executive Chairman from 12 August 2010 to 31 December 2010 while the Company was without a Chief Executive, pending a new appointment.

Board of Directors

Composition of the Board

Following the appointment of 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, except for a brief period between 12 August 2010 to 31 December 2010 when the Chairman took on the role of Executive Chairman until a new Chief Executive was appointed. 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 33 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

Victoria Jarman joined the Board as a Non-executive Director on 22 April 2010.

Simon Webb left the Board on 31 May 2010 and James Hussey stepped down as Chief Executive on 12 August 2010.

Colin Child was appointed Group Finance Director and an Executive Director with effect from 1 June 2010. Colin Child took on the additional role of Chief Operating Officer for the period from 12 August 2010 to 31 December 2010.

Tim Cobbold was appointed an Executive Director and Chief Executive on 1 January 2011.

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.

Tim Cobbold 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 reelection and accordingly all other Directors will retire and offer themselves for reelection.

The existing commitments of Directors appear on page 33 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.

Corporate governance statement continued

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 agreed a number of specific areas for focus in the coming year as a result of the 2010 review as follows:

- Delivering value to shareholders and other stakeholders
- Strategic growth options and competitive landscape
- Succession planning
- Risk 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. 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 divisional 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 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 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

The Board and each of the Nomination, Remuneration and Audit Committees completed an evaluation of their performance in May 2011. 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 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 results are discussed by the Board and individual Committees and the final report highlighting any areas for improvement agreed by the Board.

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. 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 2010/11	Audit Committee	Board	Nomination Committee	Remuneration Committee
Number of meetings held	4	33	6	10
Nicholas Brookes	–	33	6	10
Colin Child (appointed 1 June 2010)	–	31/31*	–	–
Tim Cobbold† (appointed 1 January 2011)	–	6/6*	1/1*	–
Warren East	4	25	5	–
Sir Jeremy Greenstock	–	27	5	9
Sir Julian Horn-Smith	3	26	5	8
James Hussey (resigned 12 August 2010)	–	9/9*	1/1*	–
Victoria Jarman (appointed 22 April 2010)	4	33	6	–
Gill Rider	3	30	6	10
Simon Webb (resigned 31 May 2010)	–	2/2*	–	–

† Appointed to the Nomination and Risk Committees 1 January 2011

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

Role of Non-executive Directors

The Non-executive Directors, all of whom are considered by the Board to be independent as at 26 March 2011, 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. Under the Combined 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 was appointed the Senior Independent Director on 1 January 2010. 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 issues of the UK Bribery Act 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 (Overton in 2010). 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

Following a decision by the Board in 2010, all Directors are required to submit themselves for annual reelection. 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 reelection.

The Board, having carried out the effectiveness and evaluation process, considers the performance of each of the Directors standing for election and reelection 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 reelection 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 27 to 31.

Corporate governance statement continued

Business ethics

De La Rue delivers high profile 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 for 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 and procedures related to the appointment and reappointment of and management of distributors, sales agents and consultants were strengthened during the year to further improve 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 Third Party Partners (TPPs) are managed by this central team which reports directly to the General Counsel and Company Secretary.

Due diligence undertaken on TPPs will be extended during 2011/12. An online training module dedicated to issues surrounding working with TPPs was launched during the year for mandatory completion by relevant employees involved in this activity.

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 33. Further details of Committees and key activities performed during the year are given in this Annual Report.

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 2010/11 was succession planning and the recruitment of a new Group Finance Director and Chief Executive.

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 42 to 50.

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 in 2009. 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 divisional managing directors and the Group Director of Business Continuity. 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 20 to 23.

Audit Committee of the Board

Warren East is Chairman of the Audit Committee having been appointed 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
- 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 procedures and arrangements, details of which are set out on pages 22 and 28

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 control systems through reports received from the internal audit function during the year. The internal audit function is outsourced to Ernst & Young LLP. For 2010/11, the focus of internal audit continued to ensure that efforts were better aligned to the risks that De La Rue faces whilst maintaining an emphasis on reviewing the adequacy and effectiveness of general finance and IT controls across the Group on a cyclical basis. 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.

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 Audit Plc 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 Audit Plc for a further year as the Company's auditor be proposed to shareholders at the AGM in July 2010. The resolution was passed and KPMG Audit Plc was reappointed for a further year.

The Audit Committee places great emphasis on the objectivity of the Group's auditors, 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. This activity also forms part of KPMG's own system of quality control. 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 of auditors

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 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.

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 2010/11 the amount of non audit fees paid to KPMG Audit Plc was £0.3m.

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.

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
24 May 2011