Corporate governance

The Board is collectively accountable to its 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 whilst complying with the required standards of accountability and probity.

The Company's corporate governance arrangements are described in the following sections:

Corporate Governance Framework

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 2005.

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 February 2004. This is discussed further in the Corporate Responsibility Report on pages 14 to 15. 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 established 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 page 24. This does not extend to associated companies or joint ventures such as Camelot Group plc where we do not have management control.

Compliance with Section 1 of the Combined Code on Corporate Governance

In the year to 26 March 2005 the Company has complied with the provisions and applied the principles of the Combined Code issued by the Financial Reporting Council in July 2003 (the "Code") except as described below.

A4.1 The Nomination Committee comprised a majority of independent non-executive directors, as required by the Code except for a period between July 2004 and January 2005 when there were only two who were members at the same time as both the Chairman and the Chief Executive were also members. The Board considered it appropriate for the Chief Executive to be a member of the Committee. However the Committee met only once when this was so when Philip Nolan also attended the meeting. He was appointed formally to the Committee thereafter. The work carried out by the Nomination Committee during 2004/05 is described on page 23.

2006/2007 is the first financial year for which De La Rue must produce an Operating and Financial Review in accordance with The Companies Act 1985 (Operating and Financial Review and Directors' Report etc) Regulations 2005.

Board of Directors

Composition of the Board

During April and May 2004 and between the 2004 AGM and 1 March 2005 there were an equal number of independent non-executive directors compared to the non-executive Chairman and executive directors. As at the date of this report there are four independent non-executive directors, two executive directors and the non-executive Chairman. 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 but 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 18. 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. Philip Nolan was appointed a non-executive Director of Providence Resources plc on 5 May 2004. Stephen King was appointed as a non-executive Director of Weir Group plc on 3 February 2005. The Chairman was appointed a director of Axel Johnson Inc on 16 March 2005 and Michael Jeffries was appointed chairman of VT Group plc on 16 May 2005. The Board was satisfied that these commitments do not conflict with their ability to carry out effectively their duties as directors of the Company.

Objectives of the Board

The Board's objectives are:

// 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. These include:

// establishing Committees of the board and their terms of reference;
// determining the responsibilities of directors and in particular as between 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;
// 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. The Chief Executive in turn delegates responsibility to senior executives and in particular divisional managing directors. Operational control is exercised by the Operating Board which functions as a board of directors. The Finance Director's role and responsibilities are also clearly defined. A matrix of delegated authorities is reviewed and approved by the Board annually.

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. Details of the process are set out below.

The Board reviews matters reserved to itself and the performance of management in meeting 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. Details are set out above.

Directors receive agendas and Board papers generally five days before each Board meeting; minutes are circulated as soon as possible thereafter. The Board reviews progress on implementing actions arising from the Board and its Committee meetings each month. There is also a defined procedure for dealing with urgent matters between Board meetings.

All Directors can request additional information from management at any time. All Directors have direct access to the advice and services of the 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 implementation of any issues identified during the previous review. 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 or individual Committees which then produced an implementation plan to address any issues raised.

The chairman of the Audit Committee was also responsible for ensuring that the effectiveness of the external audit process and internal audit function was reviewed following a similar procedure.

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:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of Meetings held	14	4	9	4
Sir Brandon Gough (retired 22.07.04)	5	–	–	–
Nicholas Brookes	13	–	2*	3
Leo Quinn	14	–	–	2
Sir Jeremy Greenstock (appointed 01.03.05)	1	–	–	–
Keith Hodgkinson	14	4	9	3
Stephen King	14	–	–	–
Ian Much (retired 30.05.04)	3	–	–	–
Michael Jeffries	14	4	9	4
Philip Nolan	12	3	7	1

* Nicholas Brookes resigned from the Remuneration Committee upon his appointment as Chairman.

Role of Non-Executive Directors

The non-executive Directors, all of whom are considered by the Board to be independent, have an appropriate range of business, financial and global 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. Michael Jeffries succeeded Nicholas Brookes as the Company's senior independent non-executive Director and shareholders may contact him if they feel their concerns are not being addressed through normal channels. He is also responsible for reviewing the performance of the Chairman.

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 properly to discharge their duties. In the very few instances when a director has not been able to attend Board or Committee meetings, he has made known his views on pertinent matters to the Board.

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, such as Leo Quinn, who has not previously been a director of a listed company is required to attend an external course covering such duties and responsibilities. Nicholas Brookes, following his appointment as Chairman, has undertaken visits to major operations of the Company and met key managers throughout the Group, especially in Cash Systems Division.

Directors are briefed, where appropriate by the Company's external advisers, on changes to legislation or regulation or market practice as well as receiving briefings from individual businesses throughout the year. Directors have the opportunity of attending appropriate training sessions especially for Committee chairmen.

At least once a year the Board generally visits one site outside head office and Directors are encouraged to visit other sites and staff. The Company Secretary through 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 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. Additionally, new Directors are subject to election by shareholders at the first opportunity after their appointment, as are directors whose role has changed since their previous election, such as Nicholas Brookes. Non-executive Directors are appointed for an initial period of three years with the expectation of a further three years subject to satisfactory performance. The Board may invite a non-executive Director to serve a third three year term after a detailed review at the end of the second term. Non-executive Directors' letters of appointment are available for inspection at the Company's registered office and at the Annual General Meeting together with executive Directors' service contracts.

The Board, following the effectiveness and evaluation process carried out, 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 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 available on request. Membership of these Committees is given in the Directors' biographies on page 18. Further details of Committees are given below.

Nomination Committee

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 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 and will invariably retain appropriate executive search consultants, having prepared a job specification of the role.

The principal activity of the Committee during 2004/5 was to ensure that a suitable chairman was appointed to succeed Sir Brandon Gough after the 2004 Annual General Meeting. Sir Brandon resigned from the Nomination Committee in March 2004 and did not participate in the appointment of his successor. Nicholas Brookes, as a potential candidate and member of the Nomination Committee, did not participate in any proceedings. The Committee co-opted Philip Nolan. The Committee considered the job specification, specific qualities, amount of time required of a non-executive chairman and needs of the Company at the current time. It decided that it was in the best interests of the Company to appoint a new chairman from existing non-executive Directors, provided the internal candidate met the job specifications, in order to maintain continuity with a recently appointed Chief Executive and Finance Director in post for just over a year. The Committee concluded that Nicholas Brookes would be the most suitable candidate as new chairman and this recommendation was endorsed by the Board. In these circumstances the Committee concluded it was not necessary to use external consultants for this appointment.

The Committee also produced a draft specification for a new non-executive Director to enhance the composition of the Board, having carried out a review. After the Board had accepted the recommendations and the proposed process, the Committee, now chaired by Nicholas Brookes, appointed search consultants to assist in the recruitment which led to the appointment of Sir Jeremy Greenstock in March 2005.

The Committee consists of a majority of independent non-executive Directors except for a limited period during the year until the appointment of Philip Nolan in January 2005 as stated on page 21.

Remuneration Committee

Nicholas Brookes resigned as Chairman of the Committee on 21 July 2004 before becoming Chairman. Michael Jeffries was appointed Chairman of the Committee in his place. Details of the Committee and of the remuneration policy can be found in the Remuneration Report on pages 26 to 32.

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 Committee chaired by the Company Secretary, meets and reports to the Board at least four times a year. Other members include the heads of key functions and representatives from each division. Any Director is entitled to attend any meeting.

The core responsibilities are to:

// identify and evaluate key risks (excluding matters relating to financial reporting and systems which are the remit of the Audit Committee);

// assist the Board by providing a framework for managing risk throughout the Company;
// provide an appropriate level of reporting on the status of risk management to the Board including insurance, health and safety, fire, environment, business continuity, security and legal;
// ensure any corrective actions are taken;
// promote awareness of risk management;
// review the management processes and systems to monitor and manage key risks;
// investigate and manage such matters as the Audit Committee may from time to time request.

The Committee is assisted by other Group-wide committees which deal with managing specific areas of risk such as:

// Environmental, Health and Safety Steering Group;
// Group Security Committee;
// Human Resources.

Risk Management

De La Rue's reputation is based on security, integrity and trust. Business risks are categorised as external or strategic risks compared to risks which are more internal and operational in nature. Strategic risks are managed by the Board; operational risks are monitored by the Board with the assistance of the Committees of the Board, the main ones being the Audit and Risk Committees. The main general risks identified as key by the Board are outlined below:

// Damage to Reputation – which might arise from a failure of controls in areas such as financial controls or reporting, breach of legislation or security failures or a failure in strategy or implementation of strategy;
// Environment, Health and Safety (discussed in more detail on pages 15 to 17.
// Security – loss of high value items such as banknotes and travellers cheques during shipment or some other security breach;
// Managing market expectations and ensuring that there are robust financial reporting systems.

Internal Control and Internal Financial Control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Management is responsible for implementing the controls which are designed to meet the particular needs of the Group, and the risks to which it is exposed, with procedures intended to provide effective internal control. Divisional managing directors, to whom general managers of each business report, are responsible for establishing and maintaining these procedures.

A summary of the key policies and procedures is provided to senior managers.

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.

The processes used by the Board and, on its behalf, by the Risk and Audit Committees, details of which are set out in this report, have been in place throughout the year, and include:

// reviewing monthly finance, operational and development reports;
// reviewing internal and external audit plans;
// reviewing significant issues identified by internal and external audits;
// reviewing significant Group risks reported by the Risk Committee;
// reviewing annual compliance statements in the form of self-audit questionnaires;
// reviewing reports on other such matters as security, health and safety, environmental issues and fire risks; and
// discussions with management on risk areas identified by management and/or the audit process and any changes from the previous review.

The financial control framework includes the following key features:

// an annual strategic planning process;
// an annual budget;
// a system of monthly reporting by each operating subsidiary which involves comparison of actual results with the original budget;
// monthly reporting of performance to the Board.

The main control procedures which address the financial implications of the major business risks are centred on strict approval procedures, which were revised following a review during the year and which apply to all subsidiaries. These include:

// executive Directors' approval of all major non-routine revenue expenditure;
// Board approval of all major capital expenditure;
// Board approval of all acquisitions and disposals;
// a system of authorisation limits which cascades throughout the Group;
// Board consideration of any matter having a material effect on the Group.

The operation of the Group Treasury department is discussed in the Financial Review on page 13.

Audit Committee of the Board

All members of the Audit Committee are independent non-executive Directors. The Board considers that at least one member of the Audit Committee, namely the Committee Chairman, has sufficient recent and relevant financial experience for it to discharge its function effectively. The external auditor, Chairman, Chief Executive and Group Finance Director, Group Financial Controller and Head of Internal Audit attend each meeting at the invitation of the Committee chairman. The internal auditors and PricewaterhouseCoopers LLP each meet the Committee without executive directors or employees of the Company being present.

The Committee receives comprehensive reports from senior management and the internal and external auditors. Its key responsibilities are to:

// approve and review the appointment of the external auditor;
// monitor the effectiveness of and receive regular reports from the internal audit function;
// ensure the adequacy of the systems and standards of internal financial control within the Group;
// review reports on actions taken to address financial risk identified by management and/or the internal audit process.

During the year principal activities of the Committee included:

// reviewing the interim and full year financial results;
// reviewing and approving the audit plans for the following year for the external and internal auditors;
// reviewing and monitoring the external auditor's independence and objectivity;
// reviewing the effectiveness of the external audit process;
// reviewing and approving the external auditor's audit fees and letter of engagement;

// reviewing reports on the effectiveness of the Group's Whistleblowing Policy, details of which are set out on page 14.

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.

Independence of Auditors

The 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 auditors 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;
// 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. In addition to the annual appointment of auditors by the shareholders, the Audit Committee reviews the auditors' performance, the extent to which the auditors keep the Audit Committee and management of the Company informed about material issues affecting the Company and any significant developments in accounting policies and standards which may have a material effect on the Company's financial position.

// 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 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 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:
– assistance to the internal audit team in auditing the Company's group-wide information systems to ensure compliance with best practice and application of a consistent approach across the Group;
– work related to disposals by the external auditors because of their knowledge of the business concerned;
– corporation tax compliance work assessed on a case by case basis, depending on who is best suited to perform the work.

Incumbent auditors may not, without 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. The external auditors are not always used for this work. During 2004/2005 the amount of consulting related non-audit fees paid to PricewaterhouseCoopers LLP was 36 per cent of the audit fee and principally related to taxation services and work on IFRS.

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 the professional and regulatory requirements and best practice designed to ensure their independence. Thus key members of the PricewaterhouseCoopers LLP 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.

Relationship with Shareholders

The Company places a high priority on communications with and accountability to shareholders. A general interim statement and a fully audited annual report and accounts are sent to shareholders and posted on the Company's website as are presentations to institutional investors.

The Chairman and Senior Independent non-executive Director are available to meet key shareholders to discuss strategy, governance and other matters. Nicholas Brookes and Michael Jeffries met key shareholders during the year and communicated their views to the Board. Key institutional shareholders have been consulted about the introduction and design of the proposed Deferred Bonus and Matching Share Plan.

All shareholders are entitled to attend the Annual General Meeting and receive a Notice of Meeting which is posted at least 20 working days before the Annual General Meeting. Shareholders can also vote electronically.

At the Annual General Meeting the Chairman announces details of proxy voting after each item of business. Proxy votes are also available to shareholders at the Annual General Meeting and through the Company's website. The Chairman also provides a trading update. The Chairmen of the Board Committees are also present. Shareholders may question the Board on these and other matters relating to the Group's business. Directors also have an opportunity to meet shareholders informally after the meeting.

The share register is actively monitored. During the year meetings take place with individual institutional shareholders and analysts and presentations are made at the time of major events. The views of shareholders and analysts' and brokers' reports are reported to the Board and from time to time a survey of institutional shareholders' views is carried out by an external consultant.

By order of the Board

Louise Fluker

Louise Fluker
Company Secretary
24 May 2005