

Corporate Governance

The Board is committed to complying with the highest standards of corporate governance.

The Board and all Directors recognise that they are accountable to shareholders and responsible for complying with their legal and fiduciary obligations.

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 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, in legislation or good practice. It was last amended in March 2002.

The Board also approves the Company's Business Code of Conduct which defines the Company's business principles.

This statement explains how the relevant principles and the provisions of the Combined Code on Corporate Governance are applied by the Company. This does not extend to associated companies, such as Camelot Group, where we do not have management control.

The Company's auditors, PricewaterhouseCoopers, have reviewed whether the statement reflects compliance with the specified provisions of the Combined Code as required by the Financial Services Authority and their comments on this can be found in the Auditors' Report on page 35.

Principles of Business Conduct

The Company's reputation is based on security, integrity and trust. All employees are required to comply with the Company's Business Code of Conduct. The Code defines the core values and principles governing how De La Rue does business. It covers areas such as complying with local laws and regulations (such as insider dealing or competition law), ethical dealings with governments, customers, suppliers and third parties, protecting the Group's assets, and avoiding conflicts of interest. More specific issues such as health and safety and the environment are also covered. There is a process whereby employees who have any concerns about the application of the Business Code or business practices within the Company may raise them ultimately with the Company Secretary.

All current and new employees are required to receive a personal copy of the Code. Policies and guidelines are also posted on the Company's intranet and managers must ensure that their staff are properly briefed.

Board of Directors

The main functions of the Board are to lead and control the Company ensuring a clear division between the management of the Board and the executive Directors' responsibility for managing the Company's business. The Board comprises the non-executive Chairman, the Chief Executive, the Finance Director and four non-executive Directors ensuring a balance exists so that no individual or small group can dominate decision taking. The Directors' biographies appear on page 25.

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. Nicholas Brookes is the Company's senior independent non-executive Director. During the year no new Director has joined the Board who has not previously been a member of a board of a company which is fully quoted on the London Stock Exchange.

While the Company has no formal external training programme, all new Directors are provided with a full induction programme into the activities of the business and are provided with a comprehensive information pack on joining the Company. Directors are briefed, where appropriate by the Company's external advisers, on changes to legislation or regulation or market practice. At least once a year the Board generally visits one site outside head office and Directors are encouraged to visit other sites and staff.

All Directors are required to submit themselves for re-election at least every three years.

The Board generally meets 10 times a year; during 2001/2002 there were 10 meetings. The Board requires regular reports from management on key issues for which there is a prescribed timetable. Details are set out on page 31.

The Board has also reserved certain matters to itself to reinforce its control of the Company. These include compliance with statutory and regulatory requirements and the approval of interim and final results. In addition, any matter which would have a material effect on the Company's financial position, liabilities, future strategy or reputation must be referred to the Board. Other matters are delegated to Board Committees, details of which are provided below.

Directors receive agendas and Board papers generally five days before each Board meeting; minutes are circulated as soon as possible thereafter. There is also a defined procedure for dealing with urgent matters between Board meetings.

All Directors can request additional information at any time. They are also entitled to independent professional advice, at the Company's expense, under an agreed procedure. No such advice was sought during the year. 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.

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. Membership of these Committees is given in the Directors' biographies on page 25. Further details are given below.

Audit Committee

The Committee meets at least three times a year and receives regular reports from external auditors, reviews the interim and final financial statements and monitors the internal and external auditing process before submission to the Board. In addition, the Chief Executive, Finance Director, Financial Controller and representatives of the auditors, PricewaterhouseCoopers, also attend. For part of the proceedings PricewaterhouseCoopers attend alone with members of the Committee.

Remuneration Committee

Details of the Committee and of the remuneration policy can be found in the Remuneration Report on pages 32 to 35.

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Nomination Committee

The Committee meets when necessary and makes recommendations to the Board to fill vacancies for executive and non-executive Directors. The Committee reviews the composition of the Board and Committees 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.

General Business Committee

The Committee meets when necessary to deal with routine matters arising between scheduled Board meetings. Only non-executive Directors are able to make decisions on 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 Finance Director, meets at least four times a year. Other members include the heads of key functions and representatives from each division. The core responsibilities are to:

- assist the Board by providing a framework for managing risk throughout the Company;
- provide an appropriate level of reporting of the status of risk management within the Company to the Board;
- enable any corrective actions to be taken.

The Risk Committee is also responsible for promoting awareness of risk management.

There are also various other Group-wide committees which deal with managing different areas of risk such as:

- Environmental Steering Group.
- Health & Safety Steering Group.
- Information Security Committee.

The key elements of risk are rated according to exposure and are then benchmarked through a combination of self audit and surveys by external specialists. Insurance premiums are allocated according to the scores. Benchmarking thus enables closer monitoring of non-financial risk as well as providing an incentive to improve risk management.

The Board delegates to the Chief Executive powers for the day-to-day management of the Company and to assist him in fulfilling his responsibilities he has established Executive and Management Committees.

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.

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. In 2001/2002 arrangements were made for shareholders to vote electronically.

At the Annual General Meeting the Chairman announces details of proxy voting after each item of business. He 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.

Relationship with Local Communities

Individual businesses are free to participate in their local communities by supporting local charities or good causes or encouraging their employees so to do.

Independence of Auditors

Both the Audit Committee and the auditors themselves have safeguards in place to avoid the possibility of the auditors' objectivity and independence being compromised.

In terms of audit and consulting services procured from external sources, De La Rue's procedures 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 on an ongoing basis. PricewaterhouseCoopers also provide assistance to the internal audit team in auditing the Company's Group-wide information systems to ensure compliance with best practice and that a consistent approach is applied across the Group.
- Acquisitions and disposals: work related to disposals is usually undertaken by the external auditors due to their knowledge of the business concerned. The selection criteria for acquisition support include: detailed proposals, timescales, local resource and cost. The external auditors are not, therefore, always used for this work.
- Tax and remuneration: this is assessed on a case by case basis, depending on who is best suited to perform the work. The selection criteria are similar to those for acquisition support.
- General consulting: In recognition of increasing public and investor concern over the potential effects of consulting services on auditors' independence, the external auditors have not performed any significant general consulting work in recent years.

These safeguards, which are monitored by the Audit Committee, are regularly reviewed and updated to ensure they remain appropriate.

The auditors report to the Audit Committee on the actions they take to comply with the professional and regulatory requirements and best practice designed to ensure their independence as external auditors. This includes, for example, the rotation of key members of the PricewaterhouseCoopers audit team and ensuring that complete confidentiality is maintained between different parts of the firm who may be providing services to De La Rue.

Compliance with Section 1 of the Combined Code on Corporate Governance

As required by the Listing Rules of the Financial Services Authority, the Company has complied throughout 2001/2002 with Section 1 of the Combined Code provisions on internal control by establishing the procedures necessary to implement the guidance issued by the Internal Control Working Party of the Institute of Chartered Accountants in England and Wales issued in September 1999 (the Turnbull Committee report) and reporting in accordance with that guidance.

The Board is responsible for the Company's system of internal

control and for reviewing its effectiveness. Through the Risk and Audit Committees (details of which are set out on pages 29 and 30), there is an established process for identifying, evaluating and managing any significant risks which are faced by the Company. 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, and is regularly reviewed by the Board. The Board has conducted a review of the effectiveness of the Group's system of internal controls in the year. The review process used by the Board includes:

- discussions with management on risk areas identified by management and/or the audit process and any changes from the previous review;
- the review of internal and external audit plans;
- the review of significant issues arising from internal and external audits; and
- the review of significant Group risks reported by the Risk Committee.

The procedures for internal control and internal financial control are set out in manuals distributed to all business units which are required to follow them and are also made available on the Company's intranet. Divisional managing directors, to whom general managers of each business report, are responsible for establishing and maintaining these procedures. A summary of the key procedures is provided to senior managers.

In addition, the Board received during the year other reports on such matters as security, health and safety, environmental issues and fire risks.

The Directors acknowledge their responsibility for the Group's system of internal financial control, including taking reasonable steps to ensure that the systems are being maintained. Internal control systems 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 financial control. The controls by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The key features of these procedures are outlined below. The Group treasury department acts as a service centre to manage the Group's cash and borrowings, including interest rate and currency exposures, operating within clearly defined guidelines approved by the Board. Financial instruments used by the department are also subject to Board approval.

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 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 Directors also monitor the internal financial control systems using reports received from management during the year. There is a system of internal control reviews which includes a self-assessment programme covering both financial and IT controls. The internal audit programme is centrally co-ordinated. These are 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 Board considers that it has complied throughout the financial year with the Code provisions set out in Section 1 of the Combined Code.

By order of the Board



Louise Fluker
Company Secretary
28 May 2002