

# Risk and risk management

## How we manage risk

While collective responsibility and engagement across the entire business are required for the effective management of risk, the Board has overall responsibility for risk management.

The Risk Committee, comprising members of De La Rue's Executive Leadership Team, supports the Board and is accountable for identifying, mitigating and managing risk. Further details of this Committee can be found on page 38.

A formal risk identification process takes place to evaluate and manage the significant risks faced by the Group in accordance with the requirements of the UK Corporate Governance Code.

The Group risk register identifies the risks faced by the business, their potential impact and likelihood of occurrence and the key controls and management processes established to mitigate these risks. Each of the Group's business units and central functions also maintains a risk register.

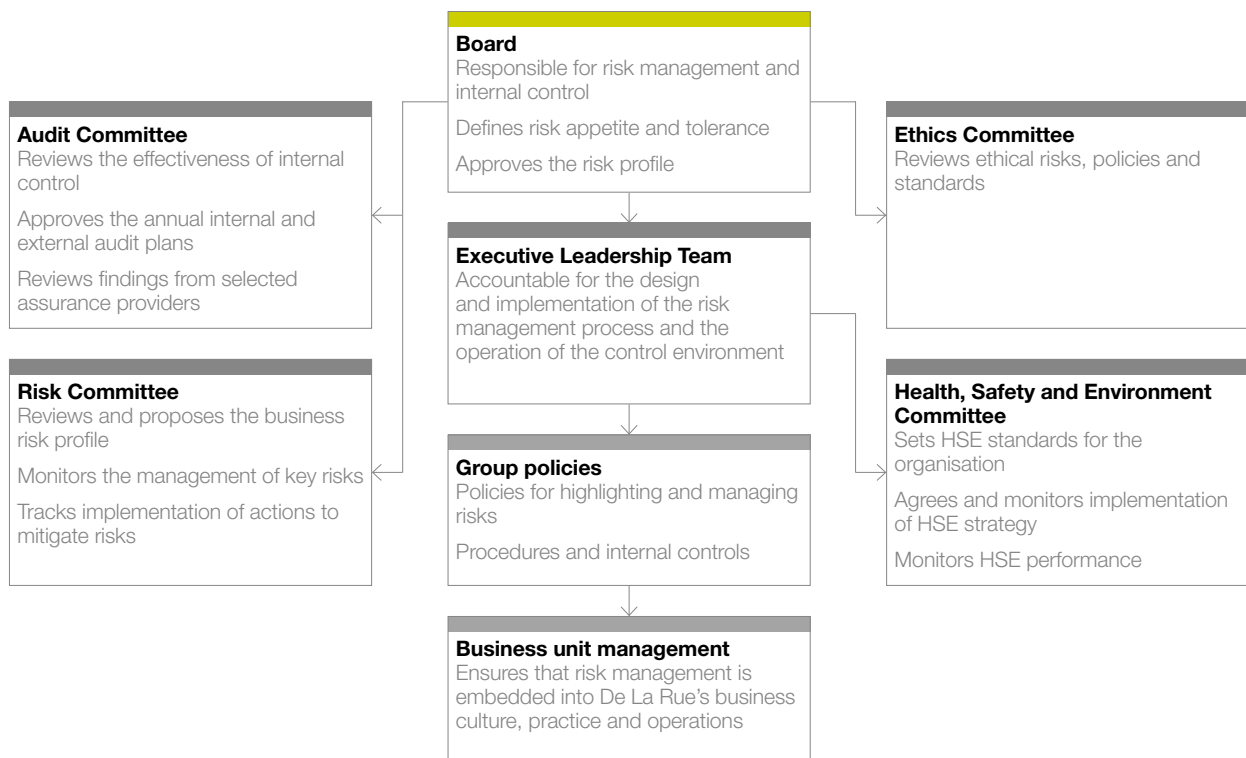
The Risk Committee meets twice each year to review the management of risk arising out of the Group's activities and to monitor the status of key risks and the actions in place to address these risks at Group and business unit level.

Management is responsible for implementing and maintaining controls which are designed to mitigate the risks to which the business is exposed. 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. See page 35 for further information regarding internal controls.

## Principal risks and uncertainties

The following pages set out the principal risks and uncertainties facing the Group. These are not listed in any order of materiality. There may be, in addition, other risks which are currently believed to be immaterial which could become material to the Group. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results. Due to the very nature of risk, mitigating factors stated cannot be viewed as assurance that the actions taken or planned will be wholly effective.

## De La Rue's risk management framework



# Risk and risk management continued

## Principal risks and uncertainties

Risk	Exposure	Impact	Mitigation
<b>Strategic risks</b>			
Failure to maintain competitive and technologically advanced products and services	The Group operates in competitive markets and our products and services are characterised by continually evolving industry standards and changing technology, driven by the demands of our customers	Failure to maintain technical innovation and intellectual property may result in loss of market share and lower margins	<p>We maintain sustained levels of investment in research and development to ensure a pipeline of ideas generation</p> <p>Our product roadmaps, which are developed by our marketing functions, ensure that our innovation delivers to customers' needs</p> <p>We centralise our materials science expertise at our Technology Centre in Overton and our software science team in Gateshead. These teams deliver through defined technology management processes, which include regular pipeline and portfolio reviews</p> <p>We continue to invest in new technologies to enable us to advance our R&amp;D capabilities</p>
Strategy and organisational change execution	In order to ensure that De La Rue remains positioned for continued success and growth, there were changes to the Executive Leadership Team, a strategy review and the commencement of an organisational redesign in 2014/15	There is the potential for any change initiative to fail to deliver anticipated benefits due to implementation failure	<p>A new Executive Leadership Team is in place, and their introduction to the business is assisted by an induction and development programme. Both the new strategy and organisational design to support the strategy execution have been concluded and are now being implemented</p> <p>Detailed execution plans have been produced with clearly defined accountability and responsibility for measurement by the Executive Leadership Team and the senior leadership teams</p> <p>Effective Group wide communication and updates keep employees informed of progress</p>
<b>Financial risks</b>			
The timing and size of substantial contract awards can be uneven and unpredictable	Political and other factors can delay government procurement decisions for sensitive products like banknotes and passports	The timing and size of contract awards can be uncertain and delays in awards may result in volatility in the order book and our operating performance	<p>Close and regular contact is maintained with customers so that any changes in timing and requirements are recognised promptly</p> <p>The Group monitors its sales activity, order pipeline and forward order book in order to ensure that our production planning is optimised to deliver on time and in full to our customers</p> <p>Any delays in order confirmation are monitored on a weekly basis to ensure that the supply chain remains flexible and is able to accommodate required production planning changes</p>
Failure to win or renew a material contract	While the Group operates globally and has a diversified geographic, product and customer profile, it relies heavily on a small number of medium and longer term material contracts	Failure to win or renew a key contract could restrict growth opportunities and/or have a material impact on the Group's financial performance and reputation	<p>Our track record of delivering product innovation and our commitment to quality, when combined with a commercial approach to tendering, places us in a good position to win or renew strategic or significant contract opportunities. Securing the new Bank of England contract for 2015 to 2025 attests to the strength of our approach</p> <p>The business is focused on retaining its key contracts as and when they fall due for renewal and on winning new opportunities as they arise</p>
<b>Operational risks</b>			
Financial loss and/or damage to reputation as a result of failing to deliver product to the customers either on time or to specification	Each of our contracts requires a unique product to be specified and delivered. Some of these contracts demand a high degree of technical specification. On a contract by contract basis we will be required to deliver to exacting quality standards	A shortfall in quality management may expose us to additional cost to remake and/or to warranty costs in the event of the need to remake	<p>The Group has an established quality management system operating across all of our production sites. Our major sites are all certified to ISO9001 quality management standards</p> <p>In 2013, an operational excellence programme was introduced to further drive continuous improvement across our manufacturing sites. This programme continues to drive enhancements to the operation of our quality management system</p>
Supplier failure	The Group has close trading relationships with a number of key suppliers	Loss or failure of a key supplier, the inability to source critical materials or poor supplier performance in terms of quality or delivery could disrupt the Group's supply and ability to deliver on time and in full	<p>Our exposure is reduced by the fact that the Group can source many of its components from within the De La Rue supply chain</p> <p>Where external supply is required, either at the request of the customer or where the Group does not have the required manufacturing capability, the Group has established procedures for identifying possible risks for each supplier. Key suppliers are managed through a supplier relationship management programme that includes checks on their financial strength, ability to deliver to our quality standards and security and business continuity arrangements. Key suppliers are audited on a rotational basis</p> <p>As a contingency, alternative suppliers are pre-qualified wherever possible and where necessary we retain higher levels of stocks</p>
Product security	Loss of product or high security components from a manufacturing site could occur as a result of negligence or theft. Loss of product while in transit, particularly during transhipment, through the failure of freight companies or through the loss of an aircraft or vessel as a result of an accident or natural disaster, is also possible	There is the potential for reputational and financial damage in the event of the loss of product or high security components. Under contracts with its customers, the Group may be liable for those losses	Robust physical security and materials control procedures at production sites reduce the risk of an inadvertent loss or theft during manufacturing. Movements of security materials between Group sites and onward delivery to customers are conducted applying stringent operational procedures, using carefully selected carriers and suitably screened personnel. All movements are risk managed and monitored globally on a 24/7 basis. The Group maintains a comprehensive global insurance programme

## Principal risks and uncertainties continued

Risk	Exposure	Impact	Mitigation
<b>Operational risks continued</b>			
Health, safety or environmental failure	All of De La Rue's activities are subject to extensive internal health, safety and environmental (HSE) procedures, processes and controls. Nevertheless, there is a risk that failure of process could result in a serious incident	Failure of HSE management process could lead to a serious injury or an environmental breach	<p>The Group operates a robust HSE management system which is internally audited and certified to the OHSAS18001 and ISO14001 standards in all major facilities</p> <p>All of De La Rue's activities are subject to extensive internal HSE procedures, processes and controls</p> <p>The Group HSE Committee regularly reviews HSE performance which is also monitored monthly by the supply chain leadership and reported to the Board monthly</p> <p>Each manufacturing facility has clear HSE action plans which are prioritised, monitored and subject to review by local senior management to ensure that health and safety standards are maintained</p>
Loss of a key site	There are a number of manufacturing sites across the business which are exposed to business interruption risks	The total loss of any one of these key sites could have a major financial impact, particularly where the site forms a single source of supply for the business	<p>De La Rue is accredited to ISO22301:2012 Business Continuity standard for its Head Office and Debden banknote production operations</p> <p>The business has a high degree of interoperability between sites for banknote production and security printing. We aim to minimise risk by adopting the highest standards of risk engineering in our production processes</p> <p>In recognition of increasing customer requirements regarding business continuity standards, we continue to enhance our business continuity resilience in line with the ISO standard across all of our major facilities</p>
<b>Legal / regulatory risks</b>			
Breach of legal and regulatory requirements	It is possible that employees or overseas representatives of De La Rue acting either individually or in collusion with others could act in contravention of the Group's stringent requirements in relation to bribery and corruption, anti-competitive behaviours and management of third party partners (TPPs)	Major reputational and financial damage to the business	<p>De La Rue is accredited to the Banknote Ethics Initiative. This accreditation provides governments and central banks with assurance in respect of maintenance of high ethical standards and business practices</p> <p>The ethical tone of the business is articulated in the Code of Business Principles which is supported by underlying policies. These are regularly reviewed and enforced robustly. Non-compliances are dealt with through disciplinary procedures where necessary</p> <p>Particular focus is given to ongoing awareness raising and training on anti-bribery and corruption and competition law. Our policies and processes are independently audited</p> <p>The Group has a process for the appointment, management and remuneration of TPPs which operates independently of the sales function. The behaviours of TPPs are strictly monitored and the TPP process is overseen by the General Counsel and Company Secretary who reports directly to the Board on these matters</p> <p>The Group's whistleblowing policy and procedure forms an integral part of the compliance framework</p>
<b>Information risks</b>			
Information security risk	The confidentiality and integrity of our customer, employee and business data could be affected by factors that include human error, ineffective design or operation of key data security controls or through breakdown of IT control processes	Any compromise of the confidentiality of information could impact our reputation with current and potential customers	<p>The Group maintains accreditation to the ISO27001 Information Security standard in respect of its corporate information systems</p> <p>A strict control environment exists to enforce disciplined information security practices and behaviours. There are a number of key technical controls in place to manage this risk including network segregation, access restrictions, system monitoring, security reviews and vulnerability assessments of infrastructure and applications</p> <p>The Group keeps all aspects of information security arrangements under regular review and employees undertake mandatory information security e-learning</p>
Systems and IT disaster recovery	Given the nature of the business there is a reliance on availability of key IT systems and applications. The business operates a complex system and application portfolio	System or application failure could lead to production issues or disruption of service to customers, resulting in financial penalties and damage to reputation	<p>Our data centres are resilient and secure. Disaster recovery plans are in place to assist in prompt recovery from any significant system outages</p> <p>The top 75 applications, as highlighted in the business impact analysis assessments, have near full resilience between our primary and secondary data centres. These applications benefit from a 30 minute Recovery Time Objective and a one hour Recovery Point Objective. All disaster recovery processes are fully tested annually</p> <p>All data centres benefit from physical security controls and highly sensitive information and systems are segregated and are hosted in physical caged environments, only accessible to security cleared personnel. All data centre facilities are subject to annual physical and logical security audits</p>