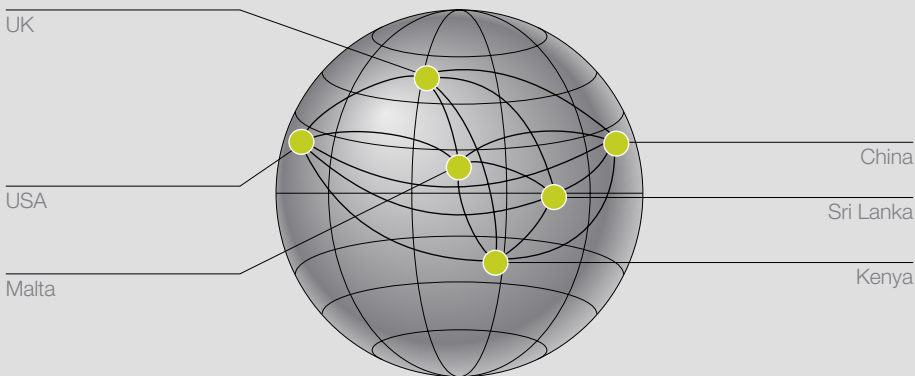




## Innovation at work



The entire network of De La Rue sites is working together to ensure that we have effective business continuity capability for our customers

### Ensuring business continuity

The business continuity management system operated at the Group head office in Basingstoke, UK and at the banknote manufacturing site in Debden, UK has been certified to ISO 22301.

The management system defined by the ISO standard gives De La Rue a robust preparedness by ensuring we have identified contingency for our critical activities. This protects against and reduces the impact of a disruptive event, while ensuring our business continues with minimal impact to our customers.

The award of this certification is a significant achievement for De La Rue, understood to be the first company in the banknote industry to achieve this standard.

# Risk and risk management

The UK Corporate Governance Code requires the Board to maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets and at least annually to conduct a review of the effectiveness of the Group's system of internal control.

During the year, the Board carried out its annual review which covered all material controls including financial, operational, legal and technology controls and risk management systems. The Board also received information about the Group's operations throughout the year, enabling it to evaluate regularly the nature and extent of the risks to which the Group is exposed.

## Committed to effective risk management

Effective risk management requires collective responsibility and engagement across the entire business.

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. It relies on the Audit and Risk Committees to assist in this process. Details of these committees are set out in the Audit Committee report and corporate governance report on pages 37 to 40.

In addition to risk management being a Board level responsibility, members of De La Rue's senior management team, operating through the Risk Committee, are accountable for identifying, mitigating and managing risk in their areas of responsibility.

Management is responsible for implementing the controls which are designed to address the particular needs of the Group, and the risks to which it is exposed, with procedures intended to provide effective internal control.

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.

## System of internal control

Our system of internal control is built on the pillars of effective governance, risk management, internal control and assurance. These are more fully described below:

### Governance

- An organisation and management structure which operates across the business to enable the delivery of products and services to our customers and operational control of business activities
- The Board and its various committees define financial authorities and operational responsibilities which are designed to enable effective decision making and organisational control
- Annual strategic planning and budgeting processes
- Group central functions: finance, human resources, company secretariat and legal, health, safety and environment, security and global information services, which have responsibility to manage and improve standards in their respective areas of responsibility across all our operations
- Annual objective setting and performance reviews
- A Group policy framework which contains the core policies with which employees are required to comply, for example the Code of Business Principles, Group finance manual and other key finance, operational, people, legal and information services policies
- Defined delegation of authorities that cascades throughout the Group
- A system of monthly financial and operational reporting by each operating unit which involves comparison of actual results with the original budget and the updating of a full year forecast

### Risk management

- 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
- A Group risk register which 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 actions at Group and business unit level

## Internal control

- A control environment which defines the detailed financial, operational, compliance, security, people and information security controls to be applied by all business operations
- Each site operates a control environment to satisfy legal, regulatory, Group and customer requirements
- Operational processes that govern the way in which we operate such as the quality management process, the technology management process, health and safety standards and security requirements

## Assurance

- Annual control self assurance declarations, which require attestation that controls are being operated as required, are completed by all De La Rue operations
- Other internal assurance providers – health, safety and environment, quality, security and business continuity – conduct reviews across De La Rue operations to evaluate compliance with required standards
- External audit conducts statutory audits across our operations as required
- Audits by external authorities and customers are conducted for purposes such as achieving or maintaining ISO accreditations and to ensure compliance of individual manufacturing sites with customer requirements
- An outsourced internal audit function, which is subject to the controlling direction of the Audit Committee, provides the Audit Committee with an assessment of the Group's system of internal control, through reviewing how effectively key risks are being managed, and assists management in the effective discharge of their responsibilities by carrying out appraisals and making recommendations for improvement
- The operation of a 24/7 whistleblowing hotline to enable reporting of breaches of ethical or policy requirements
- The Audit Committee assists the Board in discharging its responsibility to review the system of internal control

# Risk and risk management continued

## Principal risks and uncertainties

The following pages set out the principal risks affecting the Group and are not listed in any order of materiality. In addition there may be other risks which are currently believed to be immaterial, which could turn out to be 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 risks, mitigating factors stated should not be viewed as assurances that actions taken or planned will be wholly effective.

Risk	Exposure	Mitigation/Comment
<b>Strategic risks</b>		
Failure to maintain competitive and technologically advanced products and services	<p>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</p> <p>Technological revolution or failure to innovate may result in loss of market share and lower margins</p>	<p>The Group regularly reviews its research and development portfolio as part of the strategic planning process and progress against individual research and development projects as part of its technology management process</p> <p>Continued investment in innovation, research and development and design capabilities during 2013/14 included the opening of our technology centre housing a state of the art materials science research centre, and the award of the Queen's Award for Enterprise: Innovation for Optiks™ super wide security thread</p>
<b>Commercial risks</b>		
The timing and frequency of substantial contract awards can be uneven	<p>The timing of contract awards can be uncertain. Delays in awards may result in volatility in the order book and our operating performance and failure to optimise capacity</p> <p>Political factors can also delay government procurement decisions for sensitive products like banknotes and passports</p>	<p>Close and regular contact is maintained with customers so that any changes in requirements are recognised promptly</p> <p>Sales activity, order pipeline and forward order book are monitored to ensure that 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 supply chain remains flexible and is able to accommodate required production planning changes</p>
Failure to win or renew a material contract	Failure to win or renew a material contract could restrict growth opportunities and/or have an adverse impact on the Group's financial performance and reputation	<p>Relationships with current and previous customers, together with detailed country plans, ensure we are aware of opportunities as they arise. Our sales and commercial management teams focus on tender responses which are governed through a 'stage gate' process that includes financial, technical, production, commercial and contractual reviews</p> <p>Our track record of delivering product innovation and our continuing commitment to quality and customer service, when combined with a commercial approach to tendering, places us in a good position to win or renew strategic or significant contract opportunities. The business maintains focus on retaining key contracts as and when they fall due for renewal</p>
<b>Operational risks</b>		
Financial loss and/or damage to reputation as a result of failing to deliver product to customer 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 and any shortfall in quality management may expose us to additional cost to remake and/or warranty costs	<p>An established quality management system operates across all of our production sites which are all certified to ISO9001 quality management standards</p> <p>As part of the Improvement Plan, an operational excellence programme was introduced to further drive continuous improvement across our manufacturing sites</p>
Supplier failure	<p>The Group has close trading relationships with a number of key suppliers</p> <p>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>	<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, established procedures for identifying possible risks for each supplier are in place. Key suppliers are managed through a supplier relationship management programme that includes checks on their creditworthiness, ability to deliver to our quality standards and security and business continuity arrangements. 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>

## Principal risks and uncertainties continued

Risk	Exposure	Mitigation/Comment
<b>Operational risks cont.</b>		
Product security	There is potential for reputational and financial damage in the event of the loss of materials from a manufacturing site as a result of negligence or theft. Loss of product while in transit, particularly during transshipment, 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. The Group may be contractually 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. A comprehensive global insurance programme is maintained
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, in the worst case, lead to a serious injury or an environmental breach	The Group operates a robust HSE management system which is internally audited and certified to the OHSAS18001 and ISO14001 standards in all major facilities. The Group HSE Committee regularly reviews HSE performance which is also monitored monthly by the supply chain leadership. The Board also receives monthly reports. 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
Loss of a key site	There are a number of key manufacturing sites across the business. 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>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, particularly to reduce risks from fire hazards and the use of flammable solvents</p> <p>In 2013, De La Rue was accredited to ISO22301 Business Continuity standard for its head office and Debden banknote production operations (see case study on page 20)</p> <p>In recognition of increasing customer requirements on business continuity standards, we continue to enhance business continuity resilience across all of our major facilities in line with the ISO standard</p>
<b>Legal / regulatory risks</b>		
Breach of legal and regulatory requirements	It is possible that employees acting either individually or in collusion with others could act in contravention of legal or regulatory requirements in relation to bribery and corruption and competition, resulting in major reputational and financial damage to the business	<p>In February 2014, De La Rue was formally accredited as a Banknote Ethics Initiative member following a detailed audit of our ethics and compliance processes completed by independent auditors</p> <p>The ethical standards of the business are articulated in the Code of Business Principles which is supported by underlying policies, regularly reviewed and enforced robustly. Non-compliances are dealt with through disciplinary procedures where necessary</p> <p>Particular focus is given to the operation and development of our anti-bribery and corruption and competition law control frameworks, supported by delivery of relevant training</p> <p>Overseen by the General Counsel and Company Secretary, the Group has a process for the appointment, management and remuneration of third party partners which operates independently of the sales function. The Group's whistleblowing policy and procedure forms an integral part of the compliance framework</p>
<b>Information risks</b>		
Cyber 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>All aspects of information security arrangements are regularly reviewed. There are a number of 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 maintains accreditation to ISO22701 Information Security standard in respect of its corporate information systems provision</p>
Loss of core IT systems availability	Outages and interruptions could affect the Group's ability to conduct day to day operations. These could be caused by physical damage to the main data centres or malicious cyber activities	Our data centres are resilient and secure. Disaster recovery plans are in place to assist in prompt recovery from any significant system outages or interruptions. Business continuity arrangements, including business impact assessments and regular testing, are kept under regular review and are subject to independent external verification