Managing our risks

Risk	Mitigation
Global and regional economic conditions The Global economy represents a mix of both opportunities and risks for Colt. The recent growth in the US and UK, fluctuating oil prices, the fragile recovery in the European Union, the slowing of emerging economies, Russian sanctions and recession in Japan could singularly or together have the ability to create headwinds globally and impact multiple regions. Further, volatility could adversely affect Colt's results by muting the confidence of Colt's customers across its global footprint. Adverse economic conditions also increase the risk of asset impairment and impact short-term investments; however, they may also create opportunities as our customers seek to reduce costs and outsource their ICT operations.	The Group cannot completely mitigate this risk. However, the following mitigations are key: • The recent acquisition of KVH represents a strategic move to diversify Colt's operations across multiple economic regions and reduce its historical dependence on the EU market. It also places Colt closer to China and India, two of the largest emerging market economies. • The Group's financial planning processes provide ongoing management of cost versus revenue performance. • Investments are restricted to AAA money market funds that do not have sovereign debt exposure and deposits with approved counterparties. • Rigorous customer and supplier due diligence processes. • Established appraisal, prioritisation and monitoring processes in relation to business growth initiatives.

Risk	Mitigation
Infrastructure operations As Colt serves its customers through multiple technologies and across multiple geographies, there is an inevitability that technical faults and outages can occur. Accordingly, we have established incident processes that address these 24×7. In contrast, this risk refers to a major or prolonged disruption in the form of a critical physical loss, damage, failure or limitation of capacity to one or more of Colt's data centres, network, network management centres, nodes or key IT systems. Such a failure could disrupt our business or customers' business. This could have an adverse impact on the Group's reputation, business and financial condition including asset carrying values and operating results.	Colt has established processes to effectively deal with this risk and reduce exposure, including: • A network designed with resilience built in. • Dedicated teams and supplier services to manage and maintain the infrastructure and equipment to ensure failures are minimised. • Infrastructure monitoring and fault resolution by our Operations Centre. • A business continuity and crisis management capability.

Risk	Mitigation
Changes in laws and regulation The communications industry is highly regulated in all the countries where Colt provides services. Regulation also affects the competitive landscape by impacting, for example, Colt's cost of inputs including "interconnect", and the profitability of its on-network business. In addition, Colt is required to respond to a number of new regulatory developments including environment laws, new EU security regulations and tax changes by national governments in response to the fragile European economy. The Group is therefore subject to uncertain and changing regulatory issues that could potentially affect the way it operates in different jurisdictions, and impact on its results.	Colt has in-house legal and regulatory capability that ensures risks and opportunities are understood and managed, and that compliance is maintained. With regard to environmental and security regulation, Colt does the following: • We maintain certification against the ISO 14001 Environmental Management Standard. • We work actively with the regulators and the business to address EU Article 13 and ND1643 security regulation requirements.

Managing our risks

CONTINUED

Risk	Mitigation
Information security The security risk profile of Colt's IT environment is changing as key technologies converge and new cloud technologies are adopted. Similarly, the sophistication of cyber criminals is increasing. If the Group fails to invest in and maintain an adequate information security organisation, with associated processes and tools, there is a risk of security breaches and consequent reputation damage. Further, an inadequate information security capability may impact our ability to secure revenues as customers and regulators demand more security assurance over our services.	Mitigating actions to reduce exposure to this risk include: • Security policy framework with supporting security baseline standards for many technologies. • Alignment, and increasingly certification, to ISO 27001. During 2014 Colt has increased the scope of its certification to include a number of its network services, and the remainder of its data centres. • A robust Cyber Security Incident Response Team (CSIRT), supported by a number of state-of-the-art malicious software detection tools. • We include security requirements as standard when developing all new services and systems.

Risk	Mitigation
Service model and customer intimacy Colt is focused on delivering an exceptional customer experience across its portfolio of products and services. Customers' expectations vary and are dependent on the service offered. Our increasing service focus requires a greater degree of customer intimacy and a shift to a more industrialised, measurable and formalised approach to meeting customer requirements across our portfolio. Any failure to assess and change portfolios, skillsets, culture, organisation, processes and systems accordingly could result in reputational risk that could also impair growth.	Colt is actively pursuing a number of initiatives to drive its exceptional customer experience agenda, including: • The reorganisation into lines of business is bringing greater focus on the service portfolios and delivering end-to-end accountability. • The focus on key vertical industries ensures we deliver appropriately tailored service propositions to the industry. • A go-to-market realignment with the lines of business drives more effective customer service. • Automation and operational change programmes bring greater agility and quality control to our service delivery. • An ongoing programme to up scale and mature Colt's customer shared services capabilities. • Improved performance management monitoring to identify and respond to service issues. • Instigated the Colt Academy programme to help develop our people, skills and culture appropriately (detailed on page 36).

Risk	Mitigation
Changes in technology and competitive risk Colt's lines of business are subject to unique and diverse technology and competitive risks. Across networking and telephony, competitors are driving technology integration to achieve a lower cost to serve which has increased margin and price risks. The industry also anticipates more disruptive "Voice over IP" and wireless propositions as the use of traditional technologies declines. The continued increase in the number of connected devices, mobile data growth and the rise of "big data" all increase demand for bandwidth, which has served to offset the above-mentioned price pressures. In IT services, the pace of change is even faster as competitors explore disruptive propositions in the cloud and "as-a-service" spaces. Similarly, as organisations respond to the cloud and the implications on their computing infrastructure, this brings risks and opportunities to Colt's data centre services model. Failure to adequately innovate, manage, monitor and respond to any of these aspects could have an adverse effect on Colt's business and financial condition, including asset carrying values, and operating results.	Colt has established effective business planning processes as well as business development strategies to proactively counter this risk. As such, we see this risk as a potential opportunity. Mitigating actions include: • A proactive innovation and prototyping capability that aims to establish disruptive propositions for Colt to take to market. • An established technology and architecture board to evaluate and prioritise responses to industry and technology changes. • Portfolio development capabilities to drive proactive and reactive commercial propositions.

Risk	Mitigation
Geopolitical risks with particular emphasis on Colt's shared service centres Colt generally operates in countries that have a low geopolitical risk profile; however, there are exceptions: • Shared Services – We operate our shared service centres (SSC) in India (Gurgaon and Bangalore), Spain (Barcelona) and Romania (Sibiu). While India has the highest risk profile, we recognise that all these centres represent concentration points where many processes, critical to the effective daily operations of Colt, are located. • KVH Japan – While Japan is considered low risk from a political perspective, it has significant natural disaster risk, with exposure to earthquakes, volcanoes and tsunamis. Physical loss, damage, network isolation or restriction of timely access to the Group's SSCs or KVH assets in Japan could disrupt Colt's business, or our customers' businesses. This could have an adverse impact on the Group's business, financial condition, operating results and reputation.	Mitigating actions to reduce the exposure include: • General – Physical risk assessments are performed across Colt and security teams have communications and response processes for emerging geopolitical threats. • Shared Services – We operate multi-site operations in India and Spain and are working on establishing the same in Romania, to ensure continuity of operations in the event of localised disruptions or loss. We also have dedicated business continuity specialists in India and Spain and at Group level to test these processes. India, the larger SSC, is accredited against the international business continuity standard ISO 22301. • KVH Japan – Business continuity and crisis management plans have been established and tested. All KVH data centres sited outside AAA rated (low earthquake risk) areas have been constructed and reinforced to withstand seismic activity and JMA Intensity 6 earthquakes.

Managing our risks

CONTINUED

Risk	Mitigation
Supply chain The Group is reliant on a number of key IT software, service and communications equipment suppliers to ensure a consistent and effective supply chain and to meet its business plan commitments. Any financial or operating weakness of key IT software suppliers, service suppliers or communications equipment suppliers, which affects their availability, consistency and/or reliability of delivery could affect the Group's performance.	Mitigating actions to reduce the exposure include: • Sourcing – We operate dedicated procurement functions to manage supplier relationships, establish dual vendor strategies and monitor key suppliers' ability to serve our needs. The functions also engage with Group Business Continuity to perform key supplier risk mapping and assessments. • Inventory – We operate an established "hub and spoke" inventory distribution system, including buffer supplies and use of a globally recognised distribution partner.

The risk management process links directly to the strategic objectives and enabling actions of Colt and is aligned to the annual budget process. This ensures risk related spend is considered, and where necessary, incorporated in the budget. On an ongoing basis both senior management and Directors collectively evaluate the Group-level risk landscape to ensure that the overall risk management process remains aligned to Colt's business objectives and the operating environment.

Treasury policy

The Group operates a centralised Treasury department that reports to the CFO and is accountable to the Board for managing treasury activities in accordance with a framework of treasury policies and procedures approved by the Board. It is an overriding policy that trading in financial instruments for the purpose of profit generation is prohibited, with all financial instruments being used solely for risk management purposes.

Within the policy framework the Treasury department's principal responsibilities are:

- to manage the Group's core funding, liquidity and working capital requirements;
- to ensure the Group has access to a variety of short and longer-term funding options;
- to manage exposure to foreign currency movements;
- to manage exposure to interest rate movements;
- to control and monitor bank credit and counterparty risk; and
- to manage the Group's relationship with banks and rating agencies.

The Group's principal treasury risk exposures are as follows:

Risk	Mitigation
Liquidity risk: That the Group does not have sufficient funds to meet its liabilities.	The Group prepares rolling short-term and medium-term cash forecasts to ensure that it retains sufficient funds to meet its liabilities as they fall due. The Company's investment policies restrict investment of surplus cash in long-term financial investment vehicles.
Foreign exchange risk: The Group's principal revenue, costs, assets and liabilities, including intercompany debt financing were denominated in Euros during 2014. Of the remaining currencies, Sterling is the largest exposure along with the US Dollar.	The Group seeks to match foreign currency assets and liabilities where possible and hedging is considered for significant foreign currency exposures.

Risk	Mitigation
Interest rate risk: Interest is earned on short-term cash deposits at variable as well as fixed rates; changes in interest rates will impact the amount of interest income earned.	The Group seeks to maximise the return earned on surplus cash invested, within the bounds of acceptable counterparty risk management, but does not enter into derivative or other financial instruments to hedge this risk.
Counterparty credit risk: Financial assets which potentially subject the Group to concentration of credit risk consist principally of trade and other receivables, cash and current asset investments. Cash includes short-term and money market deposits as well as liquidity fund investments, all deposited for up to three months.	Cash and short-term investments are invested either in AAA unsecured money market mutual funds or placed on term deposit with approved counterparties. Management believes the concentration of credit risk associated with trade and other receivables is minimised due to distribution over many customers in different countries and in different industries. The Group has not experienced any losses to date on its deposited cash or current asset investments.

Credit rating

Two credit rating agencies, Moody's Investors Service and Standard & Poor's Ratings Services, publish credit ratings for the Group. During the year both Standard & Poor's and Moody's reviewed their ratings, which were maintained at their previous levels.

As at 31 December 2014 and 31 December 2013, the Group's long-term credit ratings provided by these two agencies were as follows:

Rating Agency	Rating 2014	Outlook 2014	Rating 2013	Outlook 2013
Moody's	Ba3	Stable	Ba3	Stable
Standard & Poor's	BB	Stable	BB	Stable

Capital management

The following table summarises the current capital of the Group:

	2014 €m	2013 €m
Cash and cash equivalents	77.4	195.6
Finance lease liabilities	40.9	–
Equity attributable to the owners of the Company	1,519.9	1,511.1
Share capital and share premium	1,407.1	1,405.5

The Board regularly reviews the Group's funding and capital requirements. The Group's long-term policy is to finance the Group centrally using a mixture of equity and debt, accessing both longer-term capital markets and short-term bank finance as circumstances require. The Group's capital structure is reviewed on a regular basis in response to business developments. The Group continues to believe that there are significant growth opportunities for the business and in this context has not declared a dividend in 2014.

In August 2014, the Group put in place a revolving credit facility for €150m with three banks, with an initial term of three years, with extensions available at the Company's option for a further two years. This will provide funds for the Group's ongoing working capital requirements. At 31 December 2014, this facility was undrawn.