

## Risk Management

This section provides an overview of the risks inherent in the business and Wolters Kluwer's approach to risk management and actions to mitigate risks.

Strategic Risks	Operational Risks	Legal & Compliance Risks	Financial & Reporting Risks
<ul style="list-style-type: none"> <li>&gt; Products, markets and competition</li> <li>&gt; Mergers, acquisitions and divestments</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Technological developments</li> <li>&gt; Information security</li> <li>&gt; Business continuity</li> <li>&gt; People and organization</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Compliance</li> <li>&gt; Intellectual property</li> <li>&gt; Claims and insurable risks</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Treasury</li> <li>&gt; Post employment benefits</li> <li>&gt; Tax</li> <li>&gt; Financial reporting</li> </ul>

Wolters Kluwer broadly classifies risks into the following categories: strategic, operational, legal and compliance, financial and reporting. In line with the Amended Dutch Corporate Governance Code, the following risk overview outlines the main risks the company has assessed up to the date of this Annual Report. It is not the intention to provide an exhaustive description of all possible risks. Nor are the risk factors themselves stated in any order of importance.

### Strategic risks

The company aims to achieve its three-year strategy *Maximizing Value for Customers* through focusing on three priorities:

- Deliver value at the point-of-use;
- Expand solutions across processes, customers, and networks; and
- Raise innovation and effectiveness through global capabilities.

### **Products, markets and competition**

Wolters Kluwer focuses on providing professionals with information, software tools and solutions to help them deliver quality results more efficiently and improve their productivity. Most of the markets it serves are relatively stable with a strong and constant need for up-to-date information, workflow software solutions and services, particularly in the rapidly evolving fields of regulation and compliance.

The company serves many of its customers by means of annual subscription-based products and services, with high renewal rates. The subscription-based businesses represent approximately two-thirds of the company's revenues. The ongoing renewal of these subscriptions and contracts has an important impact on the future of the company's business. The company mitigates renewal risks by maintaining regular interaction with its customers through renewal programs, conferences and advisory boards.

In addition, Wolters Kluwer faces competitive challenges from existing and new competitors. In order to maintain growth and sustain its competitive advantage, the company continuously develops new innovative products, providing its customers with state-of-the-art technological solutions. These products are developed in close collaboration with customers, based on multi-generation product development plans. The development and successful implementation of these innovative products are key contributors to successful execution of the company strategy.

Global and regional economic conditions may have a negative effect on especially several cyclical products. These include training activities, advertising, pharma promotional product lines, new product introductions, certain book programs, and lending and corporate formation-related transactions. These activities represent approximately 29% of the company's consolidated revenues. The impact of these economic conditions on the overall portfolio will depend on the severity of the economic slowdown, the countries affected and potential government responses.

High growth economies such as China and India are increasingly important for Wolters Kluwer's growth strategy. Different cultures, legislative systems and required licenses to operate can make successful expansion in these countries challenging. To mitigate the challenges in these economies, the company works closely together with local business partners and investors supported by local management.

Overall, no single individual customer represents more than 1% of Wolters Kluwer's consolidated revenues. The portfolio is spread in terms of markets and geography, with 50% of revenues in North America, 44% of revenues in Europe, 5% of revenues in Asia Pacific and 1% of revenues in the rest of the world.

### ***Mergers, acquisitions and divestments***

The strategic growth objectives of the company are supported by acquisitions. Risks with respect to the acquisitions primarily relate to the integration of the acquisitions, changing economic circumstances, competitive dynamics, retaining key personnel and the ability to realize expected synergies. When acquiring new businesses, Wolters Kluwer carries out a comprehensive due diligence process using internal and external expertise. Besides indemnities and warranties, the company also assesses whether the risks can be mitigated through deal structures such as earn-out agreements to retain management and to assure alignment between the purchase price and the performance of the acquired company. The company has strict strategic and financial criteria for acquiring new businesses and is very selective in where and how to invest. Generally, acquisitions are expected to be accretive to ordinary earnings per share in year one and cover their weighted average cost of capital within three to five years. An acquisition integration plan is agreed to by the Executive Board prior to completing an acquisition. Such plans are actively monitored for at least three years after the acquisitions are completed.

Execution of the company's strategy is also supported by divestment of non-core activities. The ability to successfully divest operations can depend on economic and market circumstances, competitive dynamics, contractual obligations, retention of key personnel, the buyer's ability to realize synergies and other factors. The depressed global economy could lead the company to postpone transactions that cannot be concluded at reasonable terms and conditions. To mitigate risks related to material divestments, the company usually carries out a vendor due diligence and engages external experts for due diligence and execution of the transaction.

### **Operational risks**

#### ***Technological developments***

Electronic platforms and networks are important means of delivering Wolters Kluwer's products and services. The company strives to continuously improve and streamline its IT environment and infrastructure. A number of projects were successfully completed in 2011 creating enhanced global capabilities and next-generation platforms, which in turn are increasing our ability to launch new products and achieve other strategic objectives. ([See page 66 for list of key projects completed](#)).

Even as the company continues to improve its IT environment and performance through multi-year initiatives, new technology related initiatives are inherently complex and subject to many execution risks during the development and implementation phases. A roadmap for consolidation and simplification of IT infrastructure and for implementing more service capabilities to support customers in the cloud has already been set. In addition, efforts on centralizing

IT back office operations have started for more effective management of all the ERP (Enterprise Resource Planning) systems on which the business runs.

The company also relies on the performance of third parties, especially with respect to the outsourcing and offshoring of certain Finance & Accounting activities, software development and maintenance activities, as well as data center services. To manage execution risks by third parties, risk transfer and performance management are governed by detailed operating and service agreements with outside providers. Additionally, oversight boards and program management teams monitor the progress and performance, and financial stability of vendors during the term of these agreements.

#### ***Information security***

The company is also exposed to IT security threats which could compromise the confidentiality, availability and integrity of data and information. The Executive Board approved an enhanced Global IT Security Policy in 2011.

Compliance with all applicable rules and regulations in a changing regulatory environment may require technology changes. Although the company aims to implement such amendment changes to the best of its abilities, temporary delays may occur.

#### ***Business continuity***

The business units have identified risks which could have significant impact on business continuity and developed continuity plans to minimize the impact of those risks.

The company routinely assesses potential threats to the operations which could lead to major incidents and reviews the appropriateness of incident responses and continuity plans.

#### ***People and organization***

The ability of the company to attract talent and retain highly skilled, experienced, and motivated people plays an important part in the continued successful execution of the strategy. The company ensures its ability to attract the appropriate level of talent through a combination of competitive rewards, including market based remuneration, pay for performance, with short-term and long-term incentives aligned with individual and company achievements, and benefits benchmarked against local markets. The company mitigates the loss of personnel through formal talent management programs that incorporate succession planning, company-sponsored learning programs, tuition refund at external universities, and consistently applied performance appraisal systems. Retention is also stimulated through offering opportunities for growth within the company through job posting programs and internal slating programs. The HR executives also monitor employee turnover across different categories, including performing structured exit interviews and

identification of key drivers for leaving. HR and the business managers work together to take appropriate and fast action where needed.

### **Legal and compliance risks**

#### ***Compliance***

The company can be exposed due to non-compliance with laws, regulations or internal policies. Non-compliance could potentially lead to fines, restrictions to carry out certain activities, third party claims and loss of reputation. Compliance is part of the internal control framework of the company, for example through the letters of representation and internal audits. Furthermore, several training programs are currently in place to create awareness about these subjects among employees. In the coming years, the programs will be further extended to other countries with additional topics added to the program.

#### ***Intellectual property***

Wolters Kluwer actively protects its intellectual property rights, which is important to safeguard its portfolio of information, software and services. Intellectual property rights could be challenged, limited, invalidated, circumvented, or infringed. Technological developments make it increasingly difficult to protect intellectual property rights. The company relies on trademark, copyright, patent, and other intellectual property laws to establish and protect its proprietary rights to these products and services. Changes in legislation could have an impact on the ability to protect intellectual property rights.

#### ***Claims and insurable risks***

The company may be exposed to claims by third parties relating to products, services (including Software-as-a-Service) or informational content provided or published by the company. Such claims may be based on legal theories such as alleged negligence, product liability, breach of contract or infringement of third party intellectual property rights. Generally, such claims may be subject to the applicable laws of the jurisdiction in which the product or service was purchased or used, the allegedly improper activity was deemed to have occurred or where the content was provided. They may also involve any applicable laws of the relevant countries in which Wolters Kluwer companies operate.

Wolters Kluwer manages and transfers these risks by striving to produce high quality products, services and content; and by including customary and appropriate disclaimers and limitations of liability in its contracts. Further, the company expects its employees to strictly comply with intellectual property laws and regulations. The company's insurance program may cover certain types of claims exposures.

The company manages a range of insurable risks by arranging for insurance coverage for first party (property damage, business interruption) and third party (casualty, commercial general liability, errors and omissions, directors' and officers', employment practices, and criminal) liability exposures. In addition to its global insurance program, the company also protects against more localized risks, such as automotive and workers compensation, by way of local insurance cover.

To mitigate specifically against property damage and business interruption risks, the company has implemented a centralized worldwide risk control program. Accompanied by insurers and collaborating with business continuity management, company risk managers perform regular loss control visits to key operating company and supplier locations and work with our operating companies to cost effectively implement recommendations for continued improvement.

### **Financial and reporting risks**

#### ***Treasury risks***

As is the case with most international businesses, Wolters Kluwer manages a variety of financial risks, including currency, interest, liquidity, and credit risk. Fluctuations in exchange and interest rates affect Wolters Kluwer's results. It is the company's goal to mitigate the effects of currency and interest rate movements on net income, equity, and cash flow. Whenever possible, the Company tries to do this by creating natural hedges, by matching the currency profile of income and expenses and of assets and liabilities. When natural hedges are not present, Wolters Kluwer strives to realize the same effect with the aid of derivative financial instruments. For this purpose, hedging ranges have been identified and policies and governance are in place, including authorization procedures and limits. The company only purchases or holds derivative financial instruments with the aim of mitigating risks and most of these instruments qualify for hedge accounting as defined in IAS 39. The company does not purchase or hold derivative financial instruments for speculative purposes. In line with IFRS requirements, detailed information on financial risks and policies is provided in [note 24 of the Consolidated Financial Statements](#). Treasury policies on market (currency and interest), liquidity and credit risk are reviewed by the Audit Committee, with quarterly reporting by the Treasury Committee to the Audit Committee on the status of these financial risks.

#### ***Post-employment benefits***

The financial risk of the defined contribution pension plans, which have been arranged by the company in most of the countries, and the state pension plans is limited to the contributions to be paid under these schemes. These contributions may vary over the years, but usually follow the general trends in the respective countries.

The company faces higher risks relating to additional funding required for its defined benefit plans, namely the pension and post-retirement medical plans in the United States and the pension plans in the Netherlands, the United Kingdom, Canada, Australia and Belgium. These plans are affected by the annual developments on the international financial markets and may be further affected by future developments on these markets. The overall impact could be material, although over the past years, the company has mitigated these financial risks by closing some of the defined benefit plans to future accruals, such as the pension plans in North America and the United Kingdom; or by changing the plan, such as moving to an average salary instead of final salary benefit and limiting the yearly increase of pension liabilities in the Netherlands, and implementing a defined contribution-like Health Retirement Savings Account in the United States. Furthermore, the company engages advisors to perform asset liability management studies and advise on the investment strategies for the various pension funds. The net periodic defined benefit plan costs are based on annual actuarial calculations. A 1% decrease of the discount rate would increase the annual defined benefit plan gross service cost by approximately €2 million.

#### **Tax**

Wolters Kluwer operates in numerous jurisdictions and is subject to various levies in these jurisdictions. Most of these taxes are transactional and employee-related and are levied from the legal entities in these jurisdictions. Local management is responsible for the proper handling of these taxes and is supported by corporate staff and external professionals. Risks that may adversely affect the results are changes in corporate tax rates, tax laws, and rulings. As a consequence, not only could current and future profits be at risk, but it is also possible that a deferred tax asset, or part of a deferred tax asset for which realization has become unlikely, could be reversed and taken as a charge to the income statement.

Wolters Kluwer maintains a liability for certain contingencies in line with IFRS accounting standards. The adequacy of this liability is judged on a continuous basis in consultation with external advisors. Reference is made to [note 18 of the Consolidated Financial Statements](#) for additional information about tax and related risks.

Due to the centralization of certain activities in a number of countries (such as research and development, centralized IT, intragroup financing, and corporate functions) costs are also centralized. As a consequence, for tax reasons these costs and/or revenues must be allocated to the beneficiaries. For that purpose, agreements are signed with a large number of entities. Tax authorities review the implementation of these agreements and may reject or adjust the implemented costs and/or revenues.

In addition, Wolters Kluwer regularly reviews its global tax planning with input from cross functional teams, including

representatives from both global and regional finance and tax functions. This process is supplemented with inventory of filing requirements and potential risks by jurisdiction to understand the range and scope of their obligations.

The value of the tax losses and interest carry-forwards is subject to having sufficient profits available within the carry-forward period. There is no absolute assurance that all (net) tax losses and interest carry-forwards can be realized. Valuation allowances of deferred tax asset positions are in place when considered necessary.

#### **Financial reporting risks**

The Executive Board is responsible for internal risk management and controls within Wolters Kluwer. Wolters Kluwer has risk management and internal control systems in place to identify significant risks to which the company is exposed, enable the effective management of these risks, achieve strategic and operational objectives, ensure the reliability of the financial reporting, and comply with relevant laws and regulations. The internal control systems are based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework, which aims at providing a reasonable level of assurance. Consequently, these systems can never provide absolute assurance regarding the achievement of the company's objectives or the reliability of the financial reporting, or entirely prevent material errors, losses, fraud, and violation of applicable laws and/or regulations.

#### **Internal risk management and control systems**

High-quality financial reporting is of the utmost importance for Wolters Kluwer to provide a true and fair view of the company's financial performance and position both for managerial and accountability purposes. In order to assure the continued high quality of financial reporting, the following internal risk management and control systems are in place:

- Hiring and retention policies and practices for key finance professionals throughout the company;
- A standard planning and reporting cycle on a divisional and operational entity level, consisting of an annual Business Development Plan (three-year strategic plan), an annual budget, quarterly forecasts and monthly financial reports;
- Periodic business reviews in which divisional and operating company management discuss the progress against plan and actions to mitigate business risks with the Executive Board.
- A Risk Committee facilitates the internal process of enterprise risk management. The Committee meets every quarter and aims at getting oversight of the main risks and controls within the company;
- Standard financial and non-financial procedures and policies including the Insider Trading Code, Risk Manual, Company Values and Business Principles, Accounting Manual, Internal Audit Department Manual, Mergers &

Acquisitions Manual, and Whistleblower Policy, as well as Letters of Representation signed quarterly by all divisional and operating company CEOs and CFOs and senior corporate staff members. Internal audits, planned and carried out globally, based on risk assessments to ensure compliance with policies and procedures, evaluate effectiveness of established controls, and ensure that existing controls provide adequate protection against actual risks. Since 2009, the internal audit department has been using TeamMate, a Wolters Kluwer ARC Logics product.

- Reporting and monitoring control issues arising from management reviews, internal audits, and external audits and status of remediating the issues to the Audit Committee on a quarterly basis.

#### ***Internal Control Framework***

The Wolters Kluwer Internal Control Framework (ICF) consists of approximately 100 key controls, designed to ensure that the results of the business are adequately reflected in its internal and external financial reporting. The company employs approximately 25 internal control officers, who are located in the main operating entities. They play an important role in tailoring the key controls to the business processes in their respective operating entities, testing the key controls, and reporting the outcome of testing to management and internal and external auditors. Where needed, action plans are designed and implemented to address important risks. Wolters Kluwer endeavors to include acquisitions in the ICF within one year after the acquisition date. To keep the framework robust, a financial reporting risk assessment was introduced into the ICF. The internal audit department performs a quality review on the design, execution, documentation, and conclusions of the key controls testing of the ICF on a regular basis. Test results are discussed periodically with the Executive Board and the Audit Committee. In addition to monitoring the controls and test results through ARC Logics, a Wolters Kluwer product, the tool was expanded to track the business continuity plans.

The company continues to improve its risk management and control systems. In 2011, the general IT controls framework was updated to reflect the requirements of the enhanced Global IT Security Policy. In the coming years, the company will give high priority to improving design and effectiveness, further integrating risk management and control systems into its daily operations, tailoring the key controls to the risks associated with the business processes within the operating entities, and adjusting these controls as business processes change. Testing of the key controls will also expand, aimed both at assurance and process optimization.