



PHILOSOPHY

LETTER FROM THE CHAIRMAN

The first edition of CBN's Philosophy Booklet was published in 2003 and circulated with our annual report. More than 4,000 copies have now been distributed. Over the intervening years, we have made many improvements at CBN and we have prospered accordingly. Employment now exceeds 1,000 worldwide. Our customer base, products offered, markets served, and technologies utilized have all improved and expanded. I believe that our Philosophy is directly related to this success.

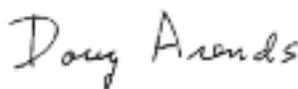
This updated, second edition presents the material in a way that better facilitates discussions as I've found that conducting work-related discussions in small groups is the best way to teach the Philosophy. It allows us to illustrate that acting morally is practical and is the foundation on which great companies and careers are built. The design and photos have been changed, quotations added, and there is a removable "tent" card that summarizes the principles. The content, like our Philosophy, remains fundamentally the same. Changes in wording have been made where required to clarify the meaning and usage of various terms.

The 7 core principles that are the foundation of our Philosophy and the means to achieving our values are: Reason,

Integrity, Honesty, Independence, Justice, Productivity, and Pride. The first part of the Booklet explains these principles and why they are of crucial importance to CBN. The latter part, *Applying the Fundamental Concepts*, illustrates how the principles apply to some of our more important management practices.

We want to spark debate at all levels in the organization about how to better incorporate the core principles into all of our activities, based on the belief that to do so will make CBN and each of our lives better. Each of these principles is linked to the others and they need to be practiced as an integrated set.

Practicing the principles is the best way that I know of to create a successful, self-sufficient CBN in which we can all flourish and work in an atmosphere of co-operation and benevolence. Success is never guaranteed and we still have to perform competently, but if we follow the principles to the best of our ability, our future looks awfully bright and interesting.



Douglas R. Arends
Chairman

February 2008

FUNDAMENTAL CONCEPTS

CANADIAN BANK NOTE'S VISION

To make the world a safer place to live in and to do business in by being the technological leader in the supply of solutions aimed at preventing the fraud associated with using secure documents and systems.

CANADIAN BANK NOTE'S MISSION

Provide our **CUSTOMERS** with superior, secure documents, software systems, and hardware devices that will stop document fraud and related criminal activity.

Create a place where our **EMPLOYEEES** can learn, grow, and be fulfilled in their work.

Optimize long-term return to our **SHAREHOLDERS** by delivering above average returns on shareholders' equity. Ensure that each CBN Business Division has a clear, specific statement of mission supporting this financial objective.

Conduct our business affairs in a principled, ethical manner according to our 7 **CORE PRINCIPLES**.

CANADIAN BANK NOTE'S PURPOSE

Our ultimate purpose is to create and maintain an economically viable company that is competitively strong and delivers above average financial returns.

The ultimate purpose must be measured economically; as to survive, Canadian Bank Note needs to be able to stand on its own two feet financially. We must generate the cash to pay employees and suppliers and for the new equipment and facilities to keep us competitive. The source of all our revenues and shareholder value is our customers, and to get and keep customers requires providing the best products and services that we are capable of supplying. Outstanding products require outstanding employees. To attract and retain the right employees requires that we reward them financially and provide an environment in which they can learn and grow.



CANADIAN BANK NOTE'S VALUES

We value what is important to us and we fight for our values because we know that they are essential for our success and happiness. In broad terms, our values are embodied in the statements of our Vision, Mission, and Purpose. More specifically, our values are expressed in terms of our product, market, profit, organizational, and other goals.

How we achieve our values is through following the 7 core principles that we have chosen. We have selected time-enduring principles that can be clearly understood and serve as the basis for all of our actions. These principles are consistent with each other and practicing one necessitates all the others. Our focus on principles grows from our belief that ideas matter and that an individual's character is of critical significance.

Principled action is important in achieving our values at Canadian Bank Note.

CANADIAN BANK NOTE'S

SEVEN CORE PRINCIPLES

THE MEANS TO OUR ENDS

REASON

To achieve our goals requires that we think clearly and make good choices. We must size up situations, solve problems, make decisions, and provide for contingencies. In other words, we must think logically and be focussed on reality. The design of our products and processes must be thought through in great detail so that our customers can rely on them. To keep our customers, our products must meet their specifications and perform better than those of our competitors.

We must recognize the importance of individual employees who stand out as thinkers. We all benefit from their brilliance. We must also recognize the importance of teamwork and specialization. Many tasks require more than one person to be successfully accomplished.

Our focus on reason does not mean that we should not be passionate about our work. Emotion provides the motivation to accomplish many tasks. However, it is important that this emotion comes from sound reasoning based on a solid understanding of the facts and not on hollow wishes and conflicting goals. The right emotions are those that arise from well thought-out goals and values, and flow from the self-confidence that results from knowing that we are following the right and just course of action.

Rudyard Kipling in his famous poem "If" captures well the balance between reason and emotion. "If you can keep your head when all about you are losing theirs and blaming it on you...you'll be a Man, my son!" (The full text of this poem can be found on page 21.) Achieving a sense of control over our lives and business increases our self-esteem and results in positive, motivating emotions.

We should not accept that our ability to think is fixed at birth by our IQ. To the contrary, there is much evidence that we can improve our reasoning ability by training and by taking the effort to think. There is also much truth in the saying "Use it or lose it."

INTEGRITY

Integrity means acting in accordance with our beliefs and principles. It means keeping our promises to others but it requires more; it mandates being true to ourselves and to what we stand for, to our convictions and to our values. Integrity means following through on our commitments to deliver high quality products on time and it means meeting deadlines and budgets for projects.

Practicing integrity requires confidence—confidence in our ability to do the right thing and in our ability to perform.

HONESTY

Clear thinking requires access to facts as they are, not as we wish or pretend them to be. If we hide from the facts, we will never make the changes that continuous improvement necessitates. Honesty requires a focus on reality and a passion for getting at the facts. Sergeant Friday in the *Dragnet* series is famous for saying, “Just give us the facts ma’am, nothing but the facts.” Honesty means not faking reality. Honesty above all requires courage because facing the facts is not always pleasant and can meet with the disapproval of those who hear them.

People will not deal with us if they cannot believe what we say. Business and personal success is based on being able to tell the truth—say what you mean and mean what you say.

Facts must be understood in a context and as we are not omniscient we can always make honest mistakes. When we do, we must correct the errors. Nevertheless, we should always courageously face the world as it is.

Honesty must be one of the pillars of our success at CBN, so that those with whom we deal, both inside and outside of CBN, know that we speak the truth.

INDEPENDENCE

Each of us is responsible for our actions and our character, and thereby for our successes and our failures. At CBN, we must strive to continuously improve, to do better than we have in the past, and to surpass our competitors. Doing better requires creative ideas and these can only come from individuals who think for themselves, and strive to always understand the world for themselves. Working in groups and on teams is the only way to get some work accomplished but even then ideas do not come from groups, they come from the individuals on the team.

As individuals and as a company, we must trail-blaze and be leaders in thought and action. Just because the crowd says it's so, doesn't make it so.

JUSTICE

To be just is to be fair. If CBN is to prosper, fairness has to be the cornerstone supporting all of our relationships, be they with other employees or with individuals and organizations dealing with CBN, such as customers and suppliers.

Employees who are treated fairly are motivated to give their best and to stay with CBN. Treating employees fairly requires that they be evaluated individually and rewarded objectively based on their performance and adherence to our values. We need to find ways to recognize and reward appropriately those who contribute more.

At CBN we evaluate based on essentials such as competency, performance, and character, and not on non-essentials such as race, sex, nationality, etc.

PRODUCTIVITY

Productivity measures the value that each of us contributes to the results of CBN. Each of us must contribute more in value than it costs to have us on the payroll. Ultimately, our economic value is determined by our customers. What our customers are willing to pay depends on how the customer values our products and services compared to those offered by our competitors.

Productivity requires that we continually improve our work and supply our customers with outstanding competitive value. Knowing how productive we are requires measurement. Profitability and return on shareholders' equity are good measures of productivity since they are powerful indicators of our competitiveness. We need to be willing to be measured and compared, as keeping score is a necessary part of doing better work.

Hard work and creativity are essential ingredients to being more productive. We need to know our strengths and contribute according to our abilities. Specialization improves productivity by expert employees focusing on the work they do best. All of us need to recognize the need for a variety of different skills to produce our products. This cannot happen without extensive co-operation and teamwork.

PRIDE

Pride is the emotional reward that we get for living by our principles. In this sense, pride occurs as a result of practicing the other six principles. If we practice integrity and stay true to our word, or if we improve the production process, we feel proud of ourselves and of CBN.

According to Aristotle, there is a complimentary view of pride in which pride precedes all of the other principles. To be proud (not arrogant) means to value yourself or CBN enough to want to make improvements in your character or in CBN, i.e., to be morally ambitious. The improvements are accomplished by practicing the other six principles. Our pride in CBN makes us want CBN to act more fairly, to be more honest and to have the best possible reputation with our customers.

Each of us must perform our work in a manner so as to be able to be justly proud of what we have accomplished. CBN must be the kind of organization with which each employee and customer can be pleased to be associated.

CORPORATE CODE

We will continually strive to meet or to exceed our customers' expectations by delivering quality products on time at a competitive price. We want to be the best in the world in our field.

Our greatest asset is our people. Employee relations are to be founded in an atmosphere of openness, trust and co-operation with the guiding moral principle to be the fairness of any action or decision. We will allow our employees to contribute as individuals and to be involved in the decisions that relate to their work and working conditions. Each employee should know what he or she is expected to do and how what he or she does fits into the overall operation.

Training of our people is important so that we will have the knowledge to respond to changing markets and technologies. Where possible, a person should be familiar with more than one job or at least as many aspects as possible of the same job.

A high level of productivity and co-operation with fellow employees is to be expected from all employees; as well as commitment to the Company, its customers, suppliers and shareholders.

Assessment of employee performance will be based on results on the job and not on considerations of age, sex, religion, or race.

Stability of employment, job safety, health protection, environmental considerations, and pensions are important matters to all employees and are to be given serious consideration in any business venture of the Company.

Reason, integrity, honesty, independence, justice, productivity, and pride in our work are to be basic principles guiding the organization. Any business undertaking, which compromises our principles, will not be undertaken.

Healthy profits and growth are necessary for our future and these profits are to come through application of our principles—profit through principle.

We value our position in the community and will be involved as is appropriate to maintain the interests of our employees and our business.

*Reason,
the faculty that
identifies and integrates
the material provided by
the senses, is man's
basic tool of survival.*

Ayn Rand

IMPORTANCE OF HAVING A POSITIVE ATTITUDE

We are optimistic about our future and approach our work with a positive attitude. At all times we have a firm focus on reality, reason, and facts and so believe that we are capable of achieving both success and happiness. We do not believe that “realism” requires pessimism. On the contrary, precisely because our goals are based on and consistent with reality, we fully expect to accomplish them.

IMPORTANCE OF PRINCIPLES TO OUR BUSINESS ACTIVITIES

Decisions need to be made every day correctly and quickly. There is no time for a debate each time a decision has to be made as to the right principles to use. We have to know what we stand for thoroughly in advance and be able, on demand, to apply our principles in a variety of situations.

The principles that we have selected to guide our decision-making are broad generalizations that have implications for our personal, as well as our business lives. In order to make these principles more real, *the remainder of this booklet* will outline conclusions that can be drawn from their application to important areas of our business.

The list of business areas is not exhaustive nor have we said the last word on each of the topics.

Please send your e-mail comments to principles@cbnco.com.



APPLYING THE FUNDAMENTAL CONCEPTS

ACCOMPLISHING OUR PURPOSE

The key to maximizing CBN's probability of remaining both independent and prosperous over the long term is to create superior earnings growth, without sacrificing the fundamental quality and long-term competitiveness of our business, and without taking unreasonable risk.

While being fundamentally efficient and cost-conscious is critical, not investing for the future is long-term suicide, as it destroys our capability to compete.

The intelligent process to obtaining superior earnings growth is to grow revenues by providing superior quality products and services produced on competitive equipment while systematically enhancing our margins, improving our efficiency, expanding our profitable product offerings, and maximizing the effectiveness of our marketing activities.

CUSTOMER INTIMACY

- Our goal is to create WIN/WIN RELATIONSHIPS.
- Our customers are our PARTNERS.
- “You can tell we want your business.”
- “It is easy to do business with CBN.”
- “Respect the individual, value the relationship.”

We will absolutely never, ever, take advantage of anyone, nor do we want to do business with those who will take advantage of us. Our customers are long-term partners and should be treated accordingly. One of the attributes of partnerships is that both partners must keep their agreements. We keep our agreements and expect our partners to do likewise.

CANADIAN BANK NOTE
LIMITED

COMMERCE



CANADIAN BANK NOTE'S

MANAGEMENT CONCEPT

- Hire excellent people
- Train them well
- Give them an appropriate level of authority and responsibility
- Expect a high level of achievement
- Reward their performance

Our concept is to operate a disciplined organization that encourages as much entrepreneurial activity as is possible within the security confines of our industry. In order to execute this concept, we must have extremely competent individuals who thoroughly understand CBN's Philosophy and who are experts in their field of technical expertise.

By having individuals who are leading experts in their field, we can afford to have less costly control systems and be more responsive in meeting the needs of our customers.

CANADIAN BANK NOTE'S

MANAGEMENT STYLE

- Participative
- Team-oriented
- Fact-based
- Rational
- Objective

Our management process, by intention, is designed to be participative and team-oriented. We work hard to create consensus. When people are involved in the decision process, better information is available to make decisions. The participant's understanding of the decision is greater and, therefore, execution is better.

However, there is a risk in participative decision-making; the decision process can become a popularity contest. Therefore, our decision process is disciplined. Our decisions will be made based on the facts using reason and logic. The best objective decision will be the one that is enacted.

IDEAS:

- ▶ SUP
- ▶ TPM
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KT Line A Improvement

Object Increase Productivity
Line A by 12% over 2 yrs

Situati

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stor

• Presentation



CANADIAN BANK NOTE'S EMPLOYEE SELECTION

- Purpose
- Rationality
- Self-esteem
- Character

Consistent with our values, we seek to hire individuals who have a sense of purpose for their lives, i.e., they believe that their lives matter and that they can accomplish something meaningful through their work. We are looking for individuals of good character who are rational and have a high level of personal self-esteem. People with strong personal self-esteem get along better with others because they are at peace with themselves.

CANADIAN BANK NOTE'S COMMITMENT TO EMPLOYEES

We will do our best to:

- COMPENSATE employees fairly in relation to internal equity and market-comparable pay-practices, and in relation to their performance.
- Provide a comprehensive and market competitive BENEFIT program.
- Create a place where employees can LEARN and GROW to become more productive workers and better people.
- TRAIN employees so they are competent to do the work asked of them.
- EVALUATE and RECOGNIZE performance objectively, fairly and consistently, based on the individual's contribution to the accomplishment of our mission and adherence to our values.
- Treat each employee as an INDIVIDUAL with dignity and respect.



CANADIAN BANK NOTE'S

COMMITMENT TO EDUCATION

Competitive advantage is largely in the minds of our employees. We are committed to making a substantial investment in employee education to create a “knowledge-based learning organization” founded on the premise that knowledge properly applied is the source of superior performance.

We believe in systematized learning founded on Aristotle’s concept that “excellence is an art won by training and habituation.” The goal is for each employee to be an expert in performing his or her role, by mastering all aspects of the work.

Each individual should perform to his or her full capabilities.

IMPORTANCE OF

TEAMWORK

While independent thought and strong personal goals are critically important, much of our work is accomplished within teams. Each of us must consistently act to achieve the agreed-upon objectives of the team, with respect for our fellow employees, while acting in a mutually supportive manner.

Our work at CBN is so complex that it requires an integrated effort among many people to accomplish important tasks. While we are looking for self-motivated and independent thinkers, these individuals must recognize that almost nothing at CBN can be accomplished without the help of their team members. One of the responsibilities of leadership in our organization is to ensure that each individual is recognized based on their contribution to the success of the total team. We need outstanding individuals working together to create an outstanding team.



if
by
Rudyard Kipling

If you can keep your head when all about you
Are losing theirs and blaming it on you,
If you can trust yourself when all men doubt you,
But make allowance for their doubting too;
If you can wait and not be tired by waiting,
Or being lied about, don't deal in lies,
Or being hated, don't give way to hating,
And yet don't look too good, nor talk too wise;

If you can dream—and not make dreams your master;
If you can think—and not make thoughts your aim;
If you can meet with Triumph and Disaster
And treat those two impostors just the same;
If you can bear to hear the truth you've spoken
Twisted by knaves to make a trap for fools,
Or watch the things you gave your life to, broken,
And stoop and build 'em up with worn-out tools;

If you can make one heap of all your winnings
And risk it on one turn of pitch-and-toss,
And lose, and start again at your beginnings
And never breathe a word about your loss;
If you can force your heart and nerve and sinew
To serve your turn long after they are gone,
And so hold on when there is nothing in you
Except the Will which says to them: 'Hold on!'

If you can talk with crowds and keep your virtue,
Or walk with Kings—nor lose the common touch,
If neither foes nor loving friends can hurt you,
If all men count with you, but none too much;
If you can fill the unforgiving minute
With sixty seconds' worth of distance run,
Yours is the Earth and everything that's in it,
And—which is more—you'll be a Man, my son!

CANADIAN BANK NOTE'S
SEVEN CORE PRINCIPLES:
THE MEANS TO ACHIEVING OUR VALUES



*Throughout the centuries
there were men
who took first steps,
down new roads,
armed with nothing but
their own vision.*

Ayn Rand

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COMPANY, LIMITED