



# Eneco, at the heart of society

Annual Report 2012 Eneco Holding N.V.



## Control

# Risk management Eneco Group

Risk management is essential for the realisation of our strategic ambitions. We identify and mitigate the risks that may impede the achievement of our goals, which enhances our chances for success.

The Board of Management is responsible for the risk management of the company as a whole. It has delegated this responsibility to each of the business management teams of the underlying segments. The managers concerned are supported in this responsibility by functions such as safety and compliance ("second line"). The overall coordination lies with the finance department. Internal audit carries out additional audits ("third line") and reports the results to the Board of Management and the Audit Committee.

### Risk management framework

The main components of the risk management framework are:

#### ECRS

The COSO model dating from 2004 is the worldwide standard for Enterprise Risk Management. Therefore, this model has been selected as the basis for Eneco's internal risk management and control system, which goes by the name Eneco Control & Risk System (ECRS). The first version of the ECRS was introduced in 2005. Each year, the ECRS is adapted to keep up with the latest developments with respect to risks, business developments and external influences.

The Eneco Control and Risk System (ECRS) consists of a risk assessment methodology, a set of control measures and a methodology that management can use to determine the effectiveness of the control measures (see In Control statement).

#### Financial control framework

Eneco applies a financial control framework that defines the main financial restrictions on the strategy. These restrictions include minimum requirements for the ratios for solvency and cash flow in relation to net debt, using a credit rating of around A (Standard and Poor's) as the guideline.

#### Stress tests

Eneco applies stress tests to its financial forecasts to include the impact of risks in the evaluation of the financial robustness of the strategy. In addition to obtaining insight into the possible effects of these risks, measures are defined to control the risks.

#### Audit Risk Committee

Each management level has its own Audit Risk Committee: at Board of Management level and at segment level (senior management teams). The risk assessments and the status of control measures and mitigating activities are discussed periodically by these ARCs. The Audit Committee of the Supervisory Board monitors the adequate functioning of the risk management activities as a whole.

#### Risk tolerance

Management is aware of the risk tolerance of the company and the limits that must be observed in business operations. Enterprise-level risk limits have been translated into various specific policy principles and guidelines that apply within Eneco in areas such as safety, trade mandates, authorisations and the code of conduct.

Our risk tolerance is categorised by the types of risk distinguished by Eneco:

#### Safety

The construction and operation of production facilities is a central aspect of our strategy. These activities lead to safety risks. In this respect, we apply the principle of "zero tolerance". Accidents resulting in absence from work are considered to be significant incidents and more serious incidents (hospitalisation, fatal accident) are regarded as critical or unacceptable.

#### Financial

Eneco pursues a growth and transformation strategy that includes substantial investments in new and existing activities.

The strategy is translated into a ten-year strategic financial rolling forecast that is updated each quarter on the basis of the latest insights. Our financial risk tolerance is derived from the financial control framework. Risks that can result in exceeding or not meeting tolerance limits defined in the financial control framework form an important part of the risk management framework. Limits are exceeded or not met when the annual profit or cash flow are € 20 million or more above forecast or when the annual balance sheet total is € 100 million or more below forecast.

### Integrity

An important risk, in the form of unethical or fraudulent behaviour of employees, is the integrity risk. Eneco can only play its part properly if the highest standards of conduct are applied. The Eneco Code of Conduct and the underlying guidelines define desired conduct and how to act with integrity. Considerable attention is paid to integrity awareness of employees during work meetings and workshops. There is an integrity reporting centre and employees can also contact one of the confidential counsellors for the adequate and confidential handling of integrity incidents. A baseline measurement was carried out in 2012 with respect to how employees experience integrity.

### Reputation

A good and reliable reputation is essential to our existence. Negative attention is considered to be a top risk.

The risk of not achieving our strategic goal, which is the realisation of a sustainable and reliable energy supply, is also classified as a reputation risk. Not meeting the reliability requirements with respect to our network management activities or supply activities is ranked as a top risk. This also applies to the inability to fulfil our sustainability commitments to WWF in connection with the Climate Savers initiative.

In addition to obtaining insight into the possible effects of these risks, we have determined control measures for these risks.

### In Control statement

Since 2007, the Board of Management of Eneco Holding N.V. issues an In Control statement. This is also the case for 2012.

As a company with social responsibility, we adhere to the initial scope of the Dutch Corporate Governance code relating to internal control; in other words, an adequate and effective implementation of all the objectives of the Eneco Control & Risk System (ECRS). We do not, therefore, make use of the possibility offered by the Corporate Governance Monitoring Committee to limit the scope to financial reporting risks only.

The Board of Management is aware of its responsibility for the internal control of Eneco. The Board of Management has applied the Eneco Control & Risk System as an instrument to guarantee that the realisation of strategic, operational and financial objectives is monitored, reporting is reliable and legislation and regulations are complied with. On the basis of the results of the

self-assessments that were carried out by the different segments in 2012, the Board of Management is of the opinion that the internal control system is adequate and functioned effectively in 2012.

The inherent limitations of each risk management and control system must, however, be taken into account. We will therefore never be able to absolutely guarantee that we will achieve our company objectives or that no material errors, losses, fraud or breaches of legislation and regulations will occur.

### Forward looking statement

The Board of Management will incorporate Enterprise Risk Management in greater detail in 2013 using the Eneco Control & Risk System. The Board of Management has no reason to assume that the Eneco Control & Risk System will not function properly in 2013.