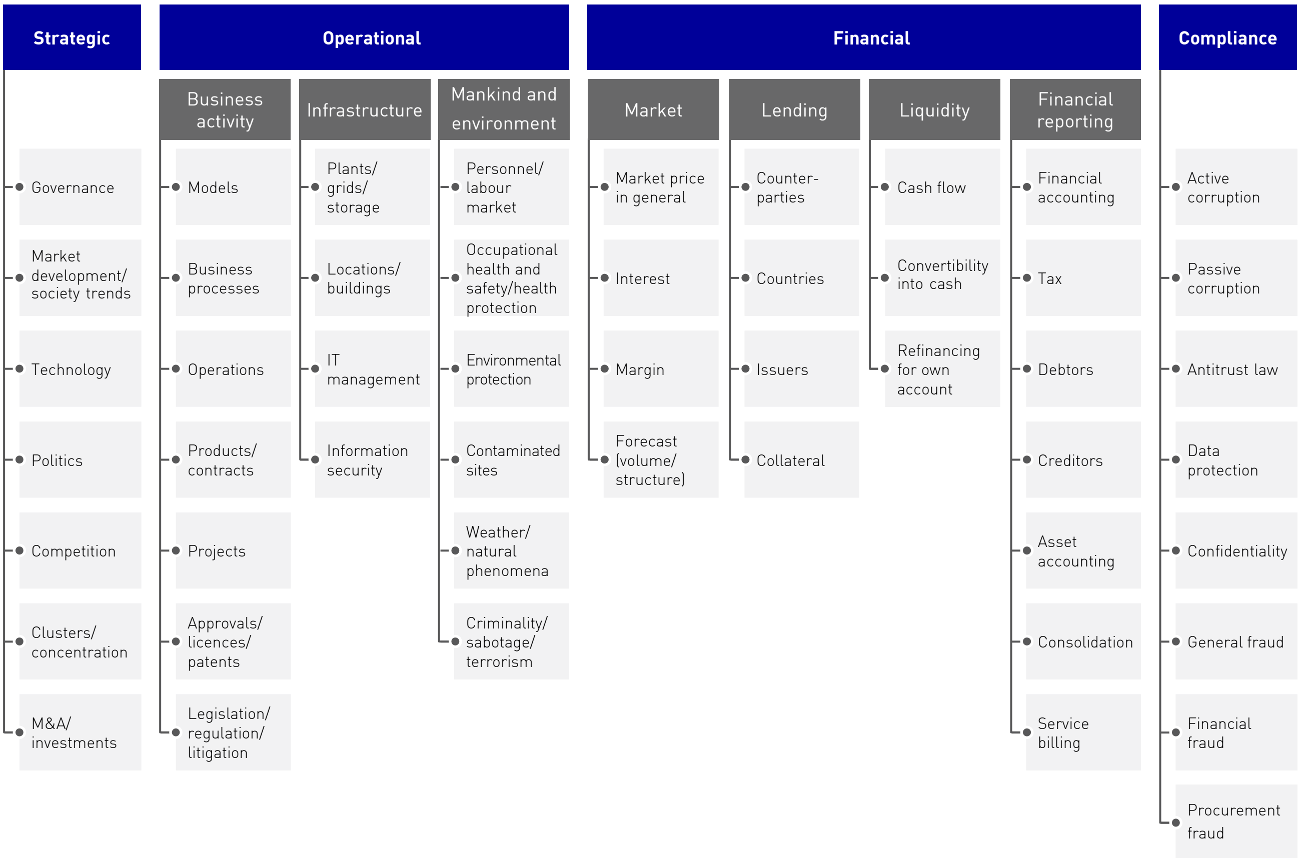
Report on opportunities and risks

Principles of the integrated opportunity and risk management system

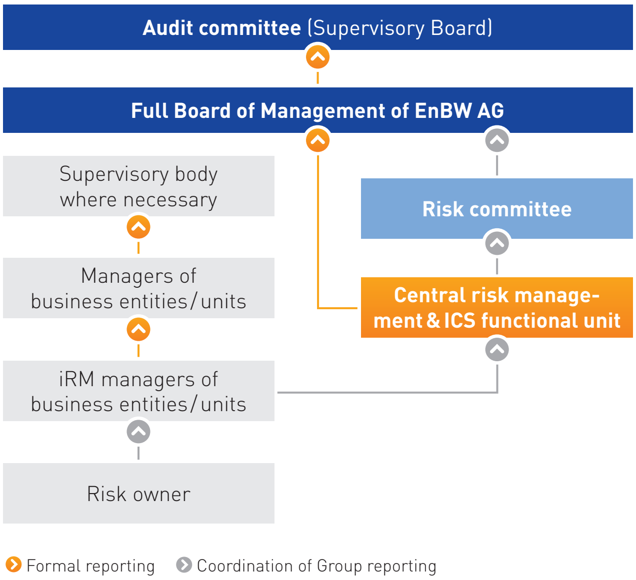
The integrated opportunity and risk management system (iRM) is based on the internationally established COSO II framework standard for risk management systems that span entire companies. The iRM system aims, through a holistic and integrated approach, to effectively and efficiently identify, evaluate and manage opportunities and risks (including monitoring) and report on the opportunity/risk position, as well as to ensure the appropriateness and functionality of related processes. Risk management involves measures for avoiding, reducing or transferring risk, as well as measures for managing or tolerating risk in the financial statements. EnBW defines an opportunity/risk as an event that might cause a potential over-attainment/non-attainment of strategic, operational, financial and compliance goals in the future. In order to identify and categorise opportunities and risks, the opportunity and risk map that is anchored throughout the Group is utilised.

Opportunity and risk map



Structure and processes of the integrated opportunity and risk management system

Structure and processes of the iRM system



The structures and processes of the iRM system are anchored throughout the Group in all relevant business entities, business units and functional units. The central Risk Management & ICS functional unit is responsible for specifying methods, processes and systems for the whole Group, determining the opportunity and risk position of the Group and for reporting. The central steering body is the risk committee, which – with the involvement of specially selected business units/entities – is responsible for clarifying relevant issues from various Group perspectives, as well as for determining selected top opportunities/risks.

iRM relevance filter

Relevance class	Effects on the strategic, operational, financial or compliance goals
0	None
Area/departmental level	
1	Very low
2	Low
Business entity/unit level	
3	Medium
4	High
Group reporting level	
5	Very high
6	Significantly

For the purposes of evaluation, all opportunities and risks are firstly assessed with the help of the iRM relevance filter before and after consideration has been taken of both implemented and envisaged management instruments. The relevance class is determined in each case based on quantitative and qualitative criteria for each of the four dimensions: strategic, operational, financial and compliance.

In this process, the probability of occurrence is firstly defined based on six levels.

iRM levels for the probability of occurrence

Description	Level for the probability of occurrence
Very low	0–10%
Low	10–30%
Medium	30–50%
High	50–70%
Very high	70–90%
Almost certain	90–100%

The opportunities and risks allocated to relevance class 5 "Very high" or above are generally included in the Group report on opportunities and risks. Insofar as a financial evaluation is possible, this corresponds to a value of €50 million within the medium-term planning period. Long-term opportunities and risks that are of particular importance are then added. The reports are submitted on a quarterly basis in standardised form. In the case of any significant changes, a special report is immediately issued.

Those opportunities or risks relevant to the Group report on opportunities and risks are generally evaluated in relation to the current planning period using quantitative methods (e.g. scenario techniques and distribution functions) for the purpose of stochastic modelling. Any possible effects on the adjusted EBITDA, the adjusted EBIT and the capital employed (with any associated impact on the ROCE) and the retained cash flow or net investment (with any associated impact on the internal financing capability) are considered. Alongside these financial effects, opportunities and risks can also have an impact on the other key performance indicators (p. 29 ff.).

Any opportunities and risks with a probability of occurrence of up to 50% are subject to an individual review to determine whether they should be taken into account in the next planning session. Opportunities and risks with a probability of occurrence of over 50% are generally taken into account in the planning process and, as far as possible, appropriate accounting measures are taken in the consolidated financial statements in accordance with IFRS.

Alongside the top opportunities/risks, there are a wide variety of other opportunities and risks facing the Group that are allocated to relevant risk categories on the opportunity and risk map (p. 80) and evaluated with the aid of the iRM relevance filter. These items could also have an effect on the key performance indicators in the financial, strategy, customers and society, employees and environment goal dimensions. As a result of their relatively minor level of relevance in comparison to the top opportunities/risks, they are not, however, listed in the external report for reasons of clarity.

The process of harmonising the iRM and the annual Compliance Risk Assessment (CRA) was pushed forward in 2016. In particular, synergies were achieved in the joint assessment of risks, as well as in reporting. Significant results from the CRA will be presented in the report on opportunities and risks from this financial year onwards (p. 85).

The iRM is regularly checked by the Group Auditing Department and a report presented to the Supervisory Board.

Non-financial reporting (CSR Directive)

As part of future non-financial reporting, EnBW expects from the 2017 financial year to report in greater detail on the opportunities and risks relating to non-financial aspects. The processes within the iRM are currently being revised for this purpose.

Structure and processes of the accounting-related internal control system

Principles

Alongside the ICS that is anchored within the company's business processes via the iRM, an accounting-related ICS was established at EnBW that is designed to ensure proper and reliable financial reporting. In order to guarantee that this ICS is effective, the appropriateness and functionality of the Group-wide control mechanisms are tested regularly at an individual business entity and Group level. If any existing weaknesses are identified in the control system and considered relevant to the financial statements, they are promptly remedied. This accounting-related ICS methodology is based on the COSO II standard – an internationally accepted framework for internal control systems.

Once the control mechanisms have reached a standardised and monitored degree of maturity, and no material control weaknesses can be identified, the accounting-related ICS is deemed to be effective. The materiality of control weaknesses is measured as the probability of occurrence and the extent to which there could be a potential misstatement in connection to those financial statement items concerned. The accounting-related risk management system defines measures for identifying and assessing risks that jeopardise the preparation of compliant financial statements as part of the accounting-related ICS.

Despite having established an ICS, there is no absolute certainty that it will attain its objectives or that it will be complete. In exceptional cases, the effectiveness of the ICS can be impaired by unforeseeable changes in the control environment, fraud or human error.

Structure

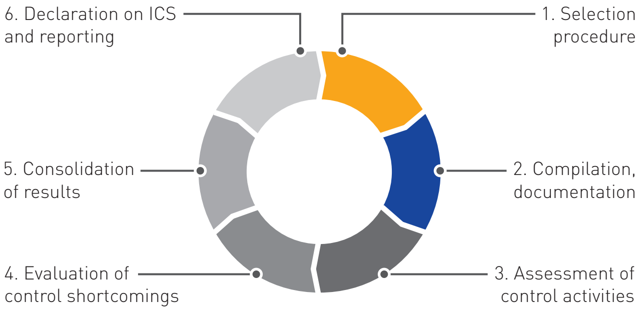
The accounting-related ICS at EnBW is organised at both a centralised and decentralised level. All important business entities, business units and functional units have an ICS officer. These officers monitor the effectiveness of the ICS and evaluate any control weaknesses that may arise. A report on the effectiveness of the ICS is prepared on an annual basis, which is approved by the management of the business entity or unit. The ICS officer at Group level assists the business entities/units with the implementation of standardised procedures and also consolidates collected data.

Processes

Standardised procedures ensure completeness and consistency in the preparation of the financial statements and financial reporting. The accounting-related ICS defines controls designed to ensure compliance with the accounting policies used by the Group, as well as procedures and deadlines for the individual accounting and consolidation processes. An annual control cycle monitors whether the documentation is up to date and also checks the appropriateness and functionality of the controls. In addition, it identifies and evaluates any control weaknesses that may arise.

A risk-based selection process defines relevant business entities/units, significant items in the financial statements and processes including their associated control measures. This selection process is based on quantitative and qualitative risk indicators.

Phases of accounting-related ICS



The defined processes and controls are recorded in a central documentation system. The effectiveness of the various control activities is then assessed. This includes analysing whether the control activities are generally appropriate for the purpose of reducing the risk of erroneous financial reporting. In addition, regular monitoring of the implementation of the controls and their documentation is carried out to review the functionality of the defined controls. If any control weaknesses are identified, their effect on the financial statements is evaluated. The results are reported at both a business entity or unit level and at a Group level. Furthermore, the Group Auditing Department performs ICS reviews as part of its risk-oriented audit planning.

Opportunity and risk position

The following diagram illustrates how the opportunity and risk position is reported to the Board of Management and the audit committee of the Supervisory Board. The arrangement of the top opportunities/risks in the quadrants represents whether EnBW employs control measures to exploit the opportunities or to counteract the risks. On the basis of the individual evaluation of the top opportunities/risks and a subsequent quantitative aggregation of data, the diagram illustrates how these themes correlate with each other and what effects they could have – based on the relative level of opportunity/risk at a high probability of occurrence – on the adjusted EBITDA, retained cash flow, net investment, adjusted EBIT and capital employed. The risks are depicted after the risk limitation measures have been implemented.

Top opportunities / risks as of 31/12/2016

The following important opportunities and risks emerged in 2016:

- **Fluctuations in wind energy yield:** The amount of energy generated by wind power plants is subject to fluctuations in the availability of wind. In order to take these fluctuations into account, wind reports are created. Changes in wind conditions could result in opportunities and risks for EnBW.
- **Shutdown and early inspection of KKP 2:** During routine checks on Block 2 of the Philippsburg nuclear power plant (KKP 2), damage to ventilation system brackets in the area of the emergency core cooling systems was identified.
- **Climate protection:** EnBW identifies opportunities and risks in the area of climate protection using a systematic, Group-wide measurement and evaluation system. The risks include, amongst other things, extreme weather conditions that could have an impact on the operative business and thus on the security of supply (electricity grids). However, there are also opportunities such as changing customer requirements and an increasing demand for climate-friendly products such as e-mobility.

Further details about the top opportunities/risks presented in the diagram and their potential effects on the relevant performance indicators are listed in the following section.

Cross-segment opportunities and risks

Strategic opportunities and risks

1 **Participation models and divestitures (in previous year: Divestitures):** Based on past experience, our participation and divestiture portfolio is subject to uncertainties with respect to the realisation of reduced or surplus revenue, as well as to time delays for the completion of these transactions. The majority of the planned divestitures have now been implemented. Opportunities and risks exist for the years 2017 and 2018 that could have an impact on net investment and thus on the key performance indicator internal financing capability, insofar as the actual income from the participation models and divestitures does not meet our medium-term planning goals. We currently identify a balanced level of opportunity and risk in this area.

Operative opportunities and risks

2 **Improvements in efficiency:** The overall goal for savings through the programme of measures for efficient structures and processes was increased to €650 million by 2020, against the background of continuously lower market prices and the associated drop in earnings. Savings of €317 million had so far been achieved by the end of 2016. Due to the rapid implementation of the measures, this presents an opportunity for 2017 and 2018 in the low double-digit million euro range

with a positive effect on the key performance indicator adjusted EBITDA and thus also on the key performance indicator internal financing capability. For the 2019 financial year, there is both an opportunity and a risk in the low double-digit million euro range that the associated organisational and restructuring projects will either exceed or not be able to fully realise the planned efficiencies for adjusted EBITDA. Once the conditions for implementing the planned improvement in earnings have been established, this risk will be reduced accordingly.

EU sanctions against Russia: In the Generation and Trading segment, these sanctions could have a negative impact on existing business relations with Russian companies. In the Grids segment, it is not possible to completely exclude the risk that EnBW will no longer be able to supply gas due to an extended interruption in the delivery of gas from Russia. In the Sales segment, there is an increasing risk of default by German companies that are active in the Russian Federation due to a possible drop in sales and also the possible risk of shortfalls in electricity and gas deliveries as a result of corresponding cutbacks in production. In terms of the financial assets of EnBW, the broad level of diversification means that there is currently a very low probability at most of an increase in the risk of default on isolated bonds from German, Austrian and Russian issuers that form part of the overall portfolio of EnBW.

Legal risks: With respect to our contractual relationships with customers, business partners and employees, EnBW is currently engaged in some legal proceedings and other legal disputes. To a lesser extent, we are also conducting legal proceedings relating to topics in the area of corporate law. Adequate accounting provisions have been made for these risks in coordination with the specialist departments concerned and the legal department. As a consequence, there is also an opportunity of positive effects on earnings if the provisions made for these legal risks can be released once again. A risk to the amount of €16.0 million, which is reported under contingent liabilities and other financial obligations, exists for claims legally made against EnBW where it is predicted that the counterparty has little chance of winning the case. In addition, various court cases, official investigations or proceedings and other claims are pending against EnBW. The chances of these actions being successful is, however, considered to have a very low probability and thus they are not reported under contingent liabilities and other financial obligations.

Personnel risks: There is a risk that the EnBW will not have a sufficient number of employees at its disposal with the necessary qualifications or skills. When recruiting in the relevant target groups, for example, this risk is primarily due to competition from other companies on the labour market. In addition, this risk is exacerbated by demographic developments and the stricter conditions facing the energy industry. On the basis of ongoing analyses, we receive information on areas in particular need of action. We believe that regular anonymous employee surveys, from which we derive the Employee Commitment Index (ECI) as a key performance indicator, are an important tool for seizing opportunities early in the areas of employee development and employee loyalty (p. 64 ff.).

Health, Safety, Security, Environment – HSSE:

- **Health and occupational safety:** In order to appropriately mitigate risks in the areas of occupational safety and health protection and to protect employees optimally against any adverse consequences, the EnBW Group utilises a comprehensive set of organisational and procedural measures such as workplace-specific risk analyses. EnBW also views these measures as an opportunity to preserve the capacity of its employees to do their work and to maintain the position of EnBW as an attractive employer. Occupational safety is measured in the form of the key performance indicator LTIF within the employees goal dimension (p. 65 ff.).
- **Safety:** Those risks caused by exogenous and endogenous factors are counteracted by EnBW using an emergency and crisis management system that has been implemented throughout the Group and includes comprehensive organisational and procedural measures. Despite this functioning management system, it is not possible to completely prevent crisis and emergency situations occurring (as well as any associated damage). EnBW ensures that the risks posed by crisis and emergency situations are mitigated quickly, effectively and with a coordinated approach through the use of regular crisis management exercises and other measures. All of these measures also have, for example, a positive effect on the key performance indicator supply reliability (SAIDI) in the customers and society goal dimension (p. 63).
- **Environmental protection:** Risks in the area of environmental protection are countered by EnBW using an environmental management system certified according to ISO 14001 (p. 67 ff.). Through its numerous activities for the protection of the environment, nature and species, EnBW also aims to take advantage of the opportunities to have a positive impact on the key performance indicator Reputation Index in the customers and society goal dimension (p. 63 and 67 f.).
- **Climate protection:** EnBW identifies opportunities and risks in the area of climate protection using a systematic, Group-wide measurement and evaluation system – selected opportunities and risks will be regularly presented in future in the report on opportunities and risks. In particular, regulatory guidelines and market changes, as well as changes to physical climate parameters and other climate-induced or climate-related developments flow into the risk evaluation process. The further development of the reporting of climate-related opportunities and risks is based on findings that have so far come from the working group of the Financial Stability Board (FSB), the Task Force on Climate-related Financial Disclosures (TCFD). In addition, the focus is being placed on providing more in-depth detail in areas relating to the business model, strategy and performance indicators (p. 13 f. and 22 ff.). The risks include, amongst other things, extreme weather conditions that could have an impact on the operative business and

thus on the security of supply (electricity grids). However, there are also opportunities such as changing customer requirements and an increasing demand for climate-friendly products such as e-mobility. In the environment goal dimension, the aspect of climate protection is illustrated by the key performance indicator CO_2 intensity (p. 67 f.).

Financial opportunities and risks

3 **Market prices of financial investments:** The financial investments managed by the asset management system are exposed to price changes and other loss risks as a result of the volatile financial market environment (p. 54). If these risks lead to a significant or prolonged decline in the fair value of these assets, this must be recognised in the form of impairments on those securities affected. In the 2016 financial year, impairment losses totalled at €133.3 million (previous year: €35.2 million). In terms of the market prices for financial investments, we currently identify an equal level of opportunity and risk due to the increased volatility on the financial markets. Through corresponding effects, this could have both a positive and negative impact in 2017 and 2018 on net debt in the mid three-digit million euro range. Due to the implementation of the law of reorganising responsibility for nuclear waste management, a significant cash outflow is expected in 2017, which will lead to a reduction in the opportunities and risks.

4 **Discount rate applied to pension provisions:** At the end of the 2016 financial year, the discount rate was 1.9%, which was down 0.4 percentage points on the rate at the end of the previous year (2.3%). This resulted in the present value of the defined pension benefit obligations increasing by €463.3 million. The uncertain future development of interest rates with its impact on pension provisions may have either a positive or negative effect on the net debt. While monitoring interest rate assessments and interest rate developments, we currently identify a high level of opportunity and medium level of risk in this area. This could have both a negative or also a positive effect in the low three-digit to low four-digit million euro range on net debt in 2017 and 2018.

Impairment risks: For equity investments that are to be stated at market value using share prices, a risk of impairment exists if there is a negative trend in share prices. In contrast, there is a possible opportunity that the value of these investments will increase due to positive developments in share prices.

Rating: We identify a general risk that the rating agencies may downgrade the credit rating of EnBW if the economic and political conditions deteriorate further or EnBW cannot fulfil the expectations of the agencies (p. 56).

Compliance opportunities and risks

The Compliance Risk Assessment focuses, in particular, on assessing risks and defining corresponding preventative measures in the compliance risk areas of corruption, antitrust law and data protection.

Latent corruption risks, which can be found primarily in sales and local authority/political business activities, are combated by the Group through intensive awareness campaigns, approval processes and system controls. Antitrust violations, particularly within the sales activities of some Group companies, pose the risk of fines and also significant strategic implications and damage to reputation. These risks are counteracted with comprehensive preventative measures by the Legal and Compliance Departments. The incorrect handling and illicit disclosure or use of personal data pose data protection risks for EnBW AG. The risks are increasing due to the transformation of our business activities, as well as a raised level of awareness for this subject due to new legislation. Advisory and awareness services and process controls are in place to guarantee adherence to legal data protection requirements in the Group.

Sales segment

Financial opportunities and risks

5 **Competitive environment:** The continued tense competitive situation in the electricity, gas and energy solutions business could have a negative effect on the customer base, sales volumes and price levels. The willingness of customers to switch suppliers and the pressure on prices remain high. The EnBW 2020 strategy also covers the development and expansion of system solutions and complete solutions that are specifically tailored to the various customer segments. Alongside the traditional supply of electricity and gas, EnBW also sees good long-term opportunities for offering its customers additional innovative energy solutions in the areas of energy technology in the home, such as with the product EnBW solar+, corporate energy efficiency or also e-mobility. The aim is to generate corresponding earnings contributions for EnBW. We currently identify a low level of opportunity and risk in this area. Therefore, this could result in a positive effect in the low double-digit million euro range in 2017 and either a positive or negative effect in 2018 on the key performance indicator adjusted EBITDA.

Grids segment

Strategic opportunities and risks

High-voltage DC (HVDC) transmission technology projects: Our transmission system operator (TSO), TransnetBW, plans to set up new HVDC transmission technology with other TSOs. New dates for the commissioning of the ULTRANET and SuedLink projects have been published by the Federal Network Agency. A regulation stipulating the use of underground additionally also applies to the SuedLink project. In both projects, there is currently a generally high risk of potential delays and additional costs, as well as the risk that the necessity for these transmission lines might no longer be confirmed in a new Network Development Plan.

Operative opportunities and risks

Water concession in Stuttgart: In the court proceedings dealing with the takeover of the water concession, the City of Stuttgart and EnBW are still striving to reach an amicable settlement. The responsible chamber of the Regional Court had presented a proposal to both sides in January 2015 to be used as the basis for the settlement negotiations. The court proceedings had been suspended so far for the duration of these negotiations. The City of Stuttgart has since resumed the proceedings. Therefore a general risk of losing the concession without receipt of adequate compensation continous in 2017.

Financial opportunities and risks

Year-end balance on the EEG bank account: As of the reporting date on 31 December 2016, a net surplus in the mid three-digit million euro range existed on the EEG bank account of our subsidiary TransnetBW GmbH. This EEG bank account is a separately managed bank account in accordance with section 5 of the German Compensation Mechanism Ordinance (AusglMechV) and is thus kept separate from other areas of activity. In accordance with AusglMechV, a surplus or deficit on the account balance can have a temporary positive or negative effect on the calculation of the net debt of EnBW, respectively. Due to the EEG cost allocations defined for 2017, we anticipate a positive value for the liquidity reserves for 2017.

Renewable Energies segment

Financial opportunities and risks

6 **Fluctuations in wind energy yield:** Wind power plants and the amounts of electricity generated by them are subject to fluctuations in the mean annual wind speed. In order to take these wind fluctuations into account, wind reports were created. In this regard, we currently identify a balanced low level of opportunity and risk in the low double-digit million euro range in 2017 and 2018, which will have an impact on the key performance indicator adjusted EBITDA and the key performance indicator internal financing capability. This top opportunity or top risk is kept under observation because it is only possible to influence the wind fluctuations affecting existing power plants to a very minor extent.

Generation and Trading segment

The adoption of the law of reorganising responsibility for nuclear waste management means that, following the payment of the corresponding provisions and an additional risk premium, the operators are no longer responsible for the (pre-)financing of the search for and surveying of the final storage sites or for the sites themselves. Following notification of the law by the European Commission and payment of the risk premium by EnBW, the risk relating to final storage will no longer exist. In this context, the risks relating to final storage, intermediate storage and changes to interest rates on nuclear provisions will no longer be reported as a top opportunity/risk.

Strategic opportunities and risks

Final storage: The costs for identifying storage sites must be borne by the companies generating nuclear power such as EnBW. Therefore, the possibility cannot be excluded that the costs for finding final storage sites and constructing the final storage itself could have negative effects after 2018 on net debt and an associated impact on the key performance indicator internal financing capability.

Intermediate storage: As a result of the planned transfer of nuclear fuel rods from Obrigheim to Neckarwestheim, there is a risk, on the one hand, of delays to the implementation of the project and, on the other hand, of the possible failure of the project. In addition, there is a risk of a delay in the return of waste to the intermediate storage facilities with possible additional costs as a result of the waste being stored for a longer period of time in Great Britain and France, as well as the risk of further costs for approval and authorisation procedures.

Changes to interest rates on nuclear provisions: The discount rate and the inflation rate are key factors influencing the present value of nuclear provisions. A reduction in the discount rate will have a negative effect on the level of net debt, while an increase in the discount rate could have a corresponding positive effect on net debt. Following the adoption of the law of reorganising responsibility for nuclear waste management, the remaining provisions held by EnBW were re-evaluated with shorter maturities. As of the reporting date, the weighted discount rate for the remaining nuclear provisions held by EnBW was 0.5%. Inflation stood at 1.4%. We currently identify a low level of opportunity and risk in this area. There is both an opportunity and also a risk of an effect in the low three-digit million euro range on net debt in 2017 and 2018.

Operative opportunities and risks

7 **Availability of nuclear power plants (in previous year: Availability of power plants):** Exogenous and endogenous factors have an influence on the availability of power plants. We strive to counter these risks using preventive measures. Depending on their duration, interruptions to the operation of the power plants can significantly impact the operating result. We currently identify a relatively low level of opportunity and risk in this area. In 2017 and 2018, this could result in both a positive (2018) or also negative effect (2017 and 2018) on the key performance indicator adjusted EBITDA in the single to double-digit million euro range and on the key performance indicator internal financing capability.

Shutdown and early inspection of KKP 2: During routine checks on Block 2 of the Philippsburg nuclear power plant (KKP 2), damage to ventilation system brackets in the area of the emergency core cooling systems was identified. KKP 2 was thus removed from the grid to investigate the cause of the damaged brackets, repair the affected brackets and inspect all comparable brackets at the site. At the same time, the inspection work originally planned for the summer of 2017 is also completed.

Operation and dismantling of nuclear facilities: There are possible opportunities and risks in a wide range of different areas that could have an impact on the key performance indicators in the finance goal dimension. These include the risk of missed deadlines due to delays in receiving approval for transport and storage, as well as risks from delays to dismantling projects due to a change in conditions or planning premises. This is offset by opportunities arising from the potential to accelerate the completion of the work.

Nuclear fuel rod tax: After the nuclear fuel rod tax for the years 2011 to 2014 was announced, EnBW submitted lawsuits for each year to the Freiburg Finance Court on the basis that the tax breached German constitutional and European law. The European Court of Justice (ECJ) decided in its ruling of 4 June 2015 that the nuclear fuel rod tax does not contravene European law. The ruling by the German Federal Constitutional Court is independent of the ruling by the ECJ because it is examining whether the tax is compatible with German constitutional law. The ruling is expected in the first half of 2017. If the German Federal Constitutional Court decides in favour of EnBW and judges the nuclear fuel rod tax to be unconstitutional, it would need to be repaid to EnBW. EnBW had paid €1.44 billion in nuclear fuel rod tax as of 31 December 2016.

Moratorium lawsuit: EnBW AG filed a lawsuit at the Regional Court in Bonn against the Federal State of Baden-Württemberg and the Federal Republic of Germany on 23 December 2014 for the payment of damages by liability of public authorities. The background to the lawsuit is the order issued by the Ministry for the Environment of Baden-Württemberg on the request of, and in agreement with, the German Federal Ministry for the Environment for the temporary three-month suspension of operations at GKN I and KKP 1 in the aftermath of the events at Fukushima. It was legally established by the Federal Administrative Court that the identical order issued in that state was unlawful. The lawsuit filed by EnBW was rejected by the Regional Court in Bonn on 6 April 2016. EnBW has appealed against this verdict at the Higher Regional Court (OLG) in Cologne. EnBW submitted the notice of appeal in August 2016. It cannot be excluded that this lawsuit will be withdrawn as part of an agreement between the sector and the German government in connection with the reorganising of responsibilities for the disposal of nuclear waste.

Financial opportunities and risks

8 **Hedging:** Despite its hedging strategy, when selling generated electricity volumes, EnBW is exposed to the long-term risk of falling electricity prices and the risk of the unfavourable development of fuel prices in relation to electricity prices. The concept underlying the hedging strategy also involves the exploitation of opportunities and the limitation of risks. The hedging instruments utilised in 2016 were forwards, futures and swaps. The EnBW Group has exposure to foreign exchange risks from procurement and hedging of prices for its fuel requirements, as well as from gas and oil trading business. Where hedging is concerned, we currently identify a low level of risk for 2018. This could result in a negative effect on the key performance indicator adjusted EBITDA in the single to double-digit million euro range and on the key performance indicator internal financing capability. Further information can be found in the section "Accounting for financial instruments" in the notes to the consolidated financial statements (www.enbw.com/report2016-downloads).

9 **Margin payments:** As a result of unfavourable developments on the market, margin requirements for stock market transactions and bilateral margin agreements can lead to short-term cash outflows. These are settled again at the latest when the underlying future and forward transactions are fulfilled. This liquidity risk is constantly monitored using stress tests. As a result of fluctuating prices and higher volumes on the wholesale market, there is the potential for higher margin payments. Slightly higher electricity prices and falling CO_2 prices led to additional temporary cash outflows. In this context, we currently identify a medium level of risk and a higher level of opportunity. As a result, this could have corresponding effects in 2017 and 2018 in the mid three-digit million euro range that may have a positive or negative impact on the key performance indicator ROCE.

Impairment losses and provisions for onerous contracts (in the previous year: Electricity procurement agreements and power plants): EnBW also made impairment losses on power plants in the 2016 financial year and increased its provisions for onerous contracts for electricity procurement agreements which no longer cover costs. Depending on the development of the markets and the changing general conditions associated with the Energiewende, there is a risk of further negative impacts on earnings. In addition, there is the risk of further impairment losses arising after an examination of the profitability of conventional power plants – which could result in the early decommissioning of individual plants.

10 **Power plant optimisation:** Following the closure of the hedging of generation activities, the Trading business unit will manage the further deployment of the power plants. This is being carried out as part of power plant optimisation on the forward market, through the sale of system services and through placements on the spot and Intraday trading platforms. In particular, falling revenues from system services and low volatility on the forward and spot markets, as well as the associated increase in leverage, could have a positive or negative effect on the key performance indicator adjusted EBITDA in 2017 and 2018 in the low double-digit million euro range. In addition, regulatory interventions continue to have a strong influence. We currently identify a low level of opportunity and risk that is dependent on the development of market prices.

Compared with the previous year, the following opportunities and risks were either eliminated or will no longer be included in the Group reporting due to their low level of relevance:

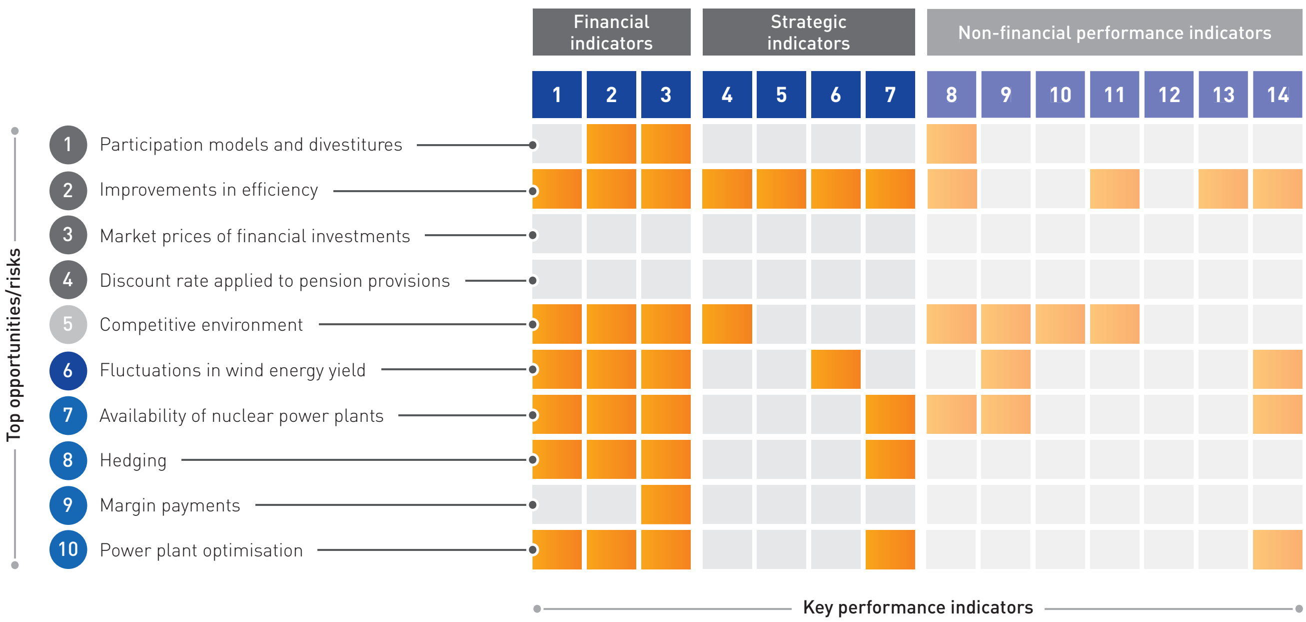
- **EWE/VNG claims for damages:** The arbitration proceedings between EWE Aktiengesellschaft (EWE) and EnBW were terminated by mutual agreement. This risk thus no longer exists.

- **Availability of power plants - KKP 2:** Block 2 of the Philippsburg power plant (KKP 2) has been back online since 1 June 2016 following the completion of its annual inspection. Testing and maintenance work was carried out at the plant, while fuel elements were replaced and a number of technical projects were implemented. The risk of the unscheduled unavailability of KKP 2 thus no longer exists. Remaining risks are presented under the new risk title "Availability of nuclear power plants".
- **Company pension scheme:** The pending legal proceedings relating to the reorganisation of the company pension scheme at EnBW have now been decided in favour of EnBW. This risk no longer exists because the final judgements became legally binding in February 2017.
- **Commission to examine the financing of the phase-out of nuclear power:** This risk no longer exists following the adoption of the law of reorganising responsibility for nuclear waste management, which has fixed the size of the risk premium for financing the nuclear disposal and the accounting practices for the remaining nuclear provisions.

Link to the key performance indicators

Linking the top opportunities/risks with the key performance indicators illustrates any possible effects they may have on our key performance indicators. The effects on the non-financial key performance indicators are potential in nature. In the past financial year, these links were not monitored individually.

Linking the top opportunities/risks with the key performance indicators

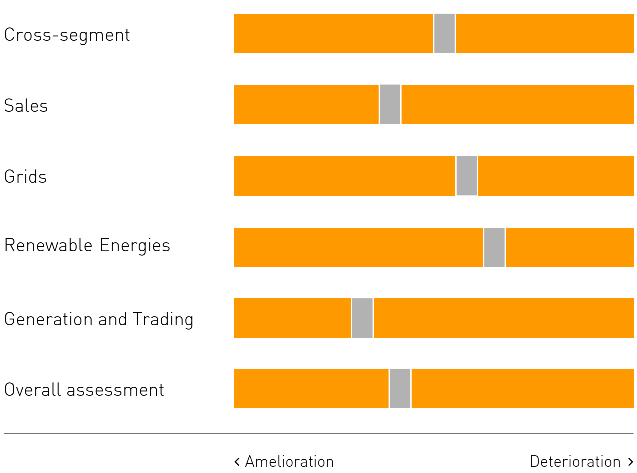


- Cross-segment
- Sales
- Renewable Energies
- Generation and Trading

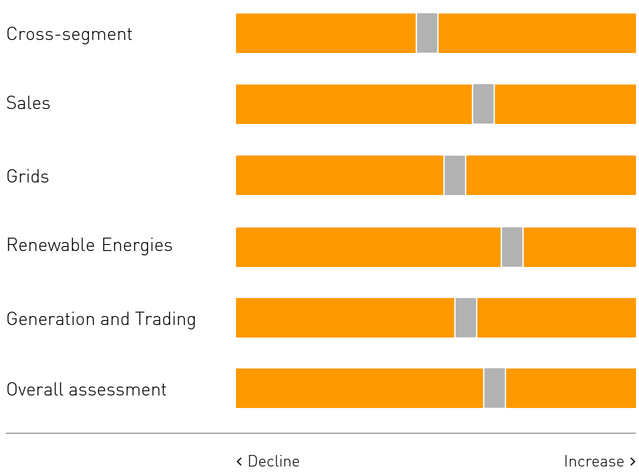
1 Adjusted EBITDA
2 Internal financing capability
3 ROCE
4 Share of overall adjusted EBITDA accounted for by "Customer proximity"/Sales
5 Share of overall adjusted EBITDA accounted for by Grids
6 Share of overall adjusted EBITDA accounted for by Renewable Energies
7 Share of overall adjusted EBITDA accounted for by Generation and Trading
8 Reputation Index
9 EnBW/Yello Customer Satisfaction Index
10 SAIDI (electricity)
11 Employee Commitment Index (ECI)
12 LTIF
13 Installed output of RE and share of generation capacity accounted for by RE
14 CO_2 intensity

Overall assessment by the Group management

Development of the risk situation in 2016



Development of the opportunity situation in 2016



The risk situation for the entire energy industry also remained tense in 2016. Framework conditions are changing continuously as a consequence of the Energiewende in Germany. As a result, in particular, of the continuing low market prices and the persistently unfavourable expectations regarding medium-term electricity prices, the overall risk situation faced by EnBW will remain tense with regards to 2017. Numerous factors jeopardise the achievement of our economic goals. The political decision to phase out nuclear energy in Germany, as well as the amendment to the E German Renewable Energies Act 2017 that regulates the level of feed-in remuneration, reduces planning certainty and harbours great potential for risk in the future. This has resulted in far-reaching consequences for the operating business of the EnBW Group and has had a negative effect on earnings. The persisting competitive and market risks could influence the operating result, financial position and net assets of the EnBW Group. The decision to implement the law of reorganising responsibility for nuclear waste management places a significant strain on the liquidity situation of EnBW.

At the same time, the Energiewende offers a multitude of opportunities to develop new models for future business segments, which we are resolutely pursuing through our EnBW 2020 strategy. EnBW is developing a diverse range of customer-oriented measures such as innovative energy solutions in the areas of energy technology, for example with the product EnBW solar+, corporate energy efficiency and e-mobility. Furthermore, EnBW is resolutely pushing forward the commercial development of environmentally friendly and CO_2-efficient energy solutions. The implementation of our EnBW 2020 strategy aims to secure the future viability of the company and tap into this potential for growth.

Although some risks were reduced or eliminated during the course of 2016, additional risks for EnBW have either emerged or were exacerbated. No risks currently exist that might jeopardise the EnBW Group as a going concern.