Report on opportunities and risks

Principles of the integrated opportunity and risk management system

Opportunity and risk map

Strategic/sustainability		Operative			Financial		Compliance
Strategy	**Sustainability**	**Business activity**	**Infrastructure**	**Implementation of growth fields**	**Financial management**	**Corporate financing**	**Compliance**
Sustainable generation structure	Climate change	Business processes	Plants/grids/storage/IT	Renewable Energies	Market prices	Capital market	Corruption
Market developments/social trends	Environmental protection	Operating activities	Information security/confidentiality	Gas/biogas business	Liquidity management	Rating	Antitrust law
System critical infrastructure	Weather/natural events	Products/contracts	Crime/sabotage/terrorism	E-mobility/digitalisation	Earnings management		Data protection
Smart infrastructure for customers	Personnel	Operational projects		Expansion of the grids	Investment management		Fraud
	Occupational safety/health protection	Approvals/licences/patents					Taxes and levies
	Human rights	Legislation/regulation/litigation					
	Social issues						
	Reputation						

■ Task Force on Climate-related Financial Disclosures (TCFD) ■ Corporate social responsibility (CSR)

The integrated opportunity and risk management system (iRM) of EnBW is based on the internationally established COSO II framework as a standard for risk management systems that span entire companies. The iRM 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 through adequate accounting provisions, as well as measures for managing risk tolerance. For this purpose, EnBW defines an opportunity/risk as an event that might cause a potential over-attainment/non-attainment of strategic/sustainability, operational, financial and compliance goals in the future. The iRM process also takes into account the guidelines for a non-financial declaration. In order to identify and categorise opportunities and risks, the opportunity and risk map that is anchored throughout the Group is utilised. The risk map is used to explicitly consider possible opportunities and risks that affect the sustainable orientation of EnBW. As well as focusing on the fulfilment of the requirements for a non-financial declaration, the recommendations of the Task Force on

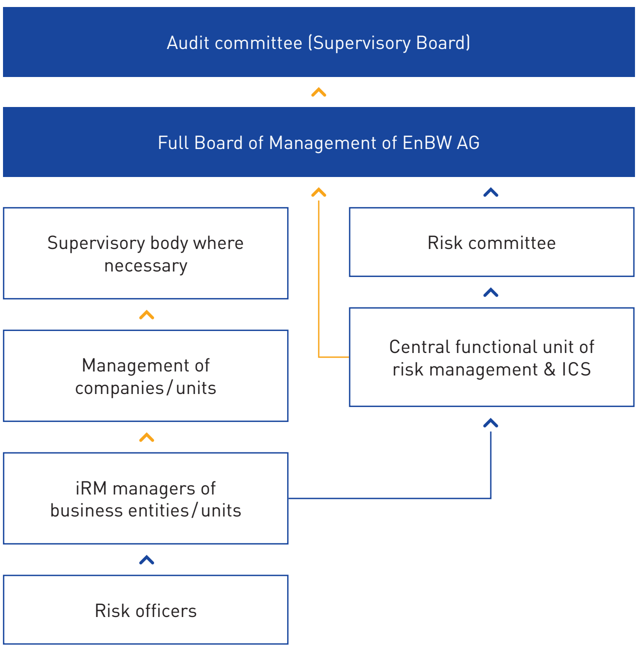
Climate-related Financial Disclosures (TCFD) (Glossary, p. 155) were also taken into account. In addition, the efficiency of the entire iRM processes and reporting was increased further. Amongst other things, this involved further improving the technical aspects of reporting and optimising the process for identifying and evaluating opportunities/risks. In addition, the iRM process was also subject to ongoing development within the scope of digitalisation.

Structure and processes of the integrated opportunity and risk management system

The structures and processes of the iRM 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 the top opportunities/risks.

The iRM is regularly checked by the Group auditing department and the results of the audit are presented to the Supervisory Board.

Structure and processes of the iRM system



> Formal reporting
> Coordination of Group reporting

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/sustainability, operational, financial and compliance.

The opportunities and risks allocated to relevance class 5 or higher and with a probability of occurrence of over 50% 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.

The probability of occurrence is split into six levels:

iRM levels for the probability of occurrence

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

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), the retained cash flow or the adjusted retained cash flow and net investment (with any associated impact on the internal financing capability) are considered. Alongside these financial effects, opportunities and risks can also have impacts on the other key performance indicators (p. 51 ff.), which are discussed with those responsible in the specialist areas.

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. 114) and evaluated with the aid of the iRM relevance filter. Alongside the key performance indicators in the finance and strategy goal dimensions, these effects can also have an impact on the key performance indicators in the customers and society, employees and environment goal dimensions. Any impact on the areas of compliance, social engagement and procurement is also examined in the process.

Relevance filter for classifying opportunities and risks

	Strategic/sustainability Achievement of strategic targets, sustainability targets, e.g. climate protection, environmental protection, reputation	Operative Achievement of business targets, functional processes, retaining added value, customer/external effects	Financial Achievement of financial targets, generally in accordance with medium-term planning or approved (project) budgets	Compliance Compliance with legal/official regulations and internal regulations	Reporting level
Relevance class 0	None	None	None	None	Company, business and functional unit
Relevance class 1	No relevant impact on the achievement of strategic/sustainability targets	› One operational target for an internal department/area is not achieved › Short-term negative impact on a relevant process without a material effect on the maintenance of operations	≤ €0.2 million	Breach of legal/official regulations and/or internal regulations with minor negative consequences for the department/area (trivial breaches)	Company, business and functional unit
Relevance class 2	The ability to achieve the strategic/sustainability targets of the company/business units/functional units is negatively impacted	› Several operational targets for an internal department/area are not achieved › Short-term negative impact on a relevant process with maintenance of operations negatively impacted	≥ €0.2 million (relevance threshold for small companies/business units)	Breach of legal/official regulations and/or internal regulations with negative consequences for the department/area	Company, business and functional unit
Relevance class 3	One strategic/sustainability target for the company/business units/functional units is not achieved	› One operational target for the company/business units/functional units is not achieved › Long-term negative impact on one/multiple relevant process(es) with maintenance of operations severely impacted	≥ €1 million (relevance threshold for medium-sized companies/business units)	Breach of legal/official regulations and/or internal regulations with negative consequences for the company/business units/functional units	Company, business and functional unit
Relevance class 4	Several strategic/sustainability targets for the company/business units/functional units are not achieved	› Several operational targets for the company/business units/functional units are not achieved › The value added of the company/business units/functional units is massively disrupted	≥ €5 million (relevance threshold for large companies/business units)	Breach of legal/official regulations and/or internal regulations with serious negative consequences for the company/business units/functional units	Company, business and functional unit
Relevance class 5	One strategic/sustainability target for the EnBW Group is not achieved	› One key operational target for the EnBW Group is not achieved › The value added is massively disrupted across the company/business units/functional units	≥ €50 million (relevance threshold for functional units and EnBW Group)	Breach of legal/official regulations and/or internal regulations with negative consequences for the EnBW Group	Group
Relevance class 6	Several or all strategic/sustainability targets for the EnBW Group are not achieved	› Several or all operational targets for the EnBW Group are not achieved › Value added throughout the whole Group is massively disrupted	≥ €250 million	Breach of legal/official regulations and/or internal regulations with serious negative consequences for the EnBW Group	Group

Non-financial declaration

As part of the non-financial declaration, EnBW closely analyses the opportunities and risks for compliance, social engagement, procurement, the customers and society goal dimension, the employees goal dimension and the environment goal dimension. In order to guarantee that the requirements for a non-financial declaration are fulfilled, the iRM established across the Group and the associated process are used. From relevance class 5 and a probability of occurrence of over 50%, opportunities and risks are also reported externally. In this context, the iRM also identifies opportunities and risks relating to climate protection and thus provides important impetus for the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (Glossary, p. 155). You can find further information on this subject on p. 136.

Structure and processes of the accounting-related internal control system

Principles

Alongside the internal control system (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 are 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 individual cases, the effectiveness of the ICS can be impaired by unforeseeable changes in the control environment, fraud or human error.

Structure

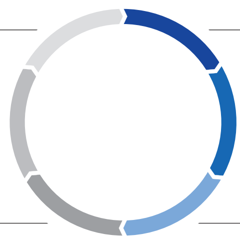
The accounting-related ICS at EnBW is organised at both a centralised and decentralised level. All important business entities, business units and functional units have an ICS officer. These officers monitor the effectiveness of the ICS and evaluate any control weaknesses that may arise. A report on 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. During the Group consolidation process, the rigorous implementation of the four-eye principle is observed, while random samples and deviation analyses improve quality. 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, as well as the operational effectiveness of the processes. 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.

Risks associated with the non-financial declaration

The non-financial declaration describes, amongst other things, the fundamental opportunities and risks connected with the EnBW business model and the activities based upon it that could have a possible impact on any individual issue. Material individual risks with a very high probability of a serious negative impact in relation to any of the following issues do not exist at EnBW.

Compliance

The observance of relevant legal regulations and internal company rules forms the basis of our business activities. Managing compliance risks at EnBW (with a main focus on corruption, antitrust and data protection risks) is the responsibility of the compliance management system, which comprises regular risk assessments of this type. Risks related to fighting corruption and bribery are addressed on p. 57 f. in a cross-segment manner.

Social engagement

There are no risks in the area of social engagement. In fact, we take our social responsibility for civic and social engagement seriously (p. 61 f.).

Procurement

Sustainable procurement – purchasing: In the area of procurement, risks cannot be excluded due to increasing levels of complexity and the large number of suppliers. Purchasing utilises an active risk management system, counters procurement risks and implements the necessary measures for safeguarding against and avoiding risk. These risks are managed using defined processes and, in this context, especially through the pre-qualification process (p. 69 f.).

Raw materials procurement – coal and gas: In the area of raw materials procurement and thus in the associated supply chain, there are above all potential human rights risks. Respect for human rights is ensured using a multi-stage auditing process as part of the procurement process – with all existing and potential suppliers being regularly subjected to a screening process. Other measures that form part of the assessment are carried out in direct cooperation with the compliance department. In coal mining, there are possible human rights risks related to the working and living conditions of people in the coal mining regions. Increasing civil society activity in this context can in turn increase reputational risks. EnBW is in constant contact with representatives from civil society and keeps them informed about the advances made and challenges faced in all sustainability topics (p. 70 f.).

In preparation for future (liquid) gas contracts, EnBW has carried out further preliminary human rights assessments as part of the audit of business partners. No material human rights risks were identified in the supply chain for the USA as a potential supply country, while further in-depth analyses may be required for other business partners.

Customers and society goal dimension

Reputation: All opportunities and risks, as well as non-financial issues, can have a positive or negative impact on reputation and thus on the key performance indicator Reputation Index (p. 94). The reputation management department thus identifies opportunities and risks related to reputation, develops measures to protect and improve reputation, advises the Board of Management and management and provides recommendations for action.

Customer proximity: Risks exist especially in connection with the still high level of competitive pressure both from direct competitors within the energy industry and, to an increasing extent, competitors from other sectors that have already entered the energy market or will do so shortly. This is associated with the risk of a negative impact on the customer base and sales volumes. Opportunities exist above all through the provision of a broader range of customer-specific products and services such as offering hardware bundles (Glossary, p. 152) and product options, as well as through processes more oriented to the customer. EnBW will also continue to expand its range of sustainable energy industry services and energy solutions in 2019 and will target its sales activities in this direction (p. 112).

Employees goal dimension

Employee commitment: Due to competition on the job market, there is a risk when recruiting employees that the company will not be able to secure a sufficient number of employees with the necessary qualifications and expertise in the relevant target groups. In addition, this risk is exacerbated by demographic trends and the stricter conditions facing the energy industry. 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. 96 ff.).

Occupational safety: Risks generally exist in the areas of occupational safety and health protection in our business activities. The EnBW Group counters these risks using comprehensive organisational and procedural measures, such as workplace-specific hazard analyses, to protect employees as well as possible against any adverse consequences. 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. 100 f.).

Environment goal dimension

Expansion of renewable energies: In relation to the expansion of renewable energies, there is a general risk posed by the auction process and thus the sluggish expansion of onshore wind power. Due to the fact that the auctions are held on equal terms, we continue to expect a high level of competition. We measure the expansion of renewable energies with our key performance indicator “installed output of renewable energies (RE) and the share of the generation capacity accounted for by RE” (p. 102).

Climate protection: Risks generally exist in the area of environmental protection due to the operation of power generation and transmission plants and the possible consequences for the air, water, soil and ozone layer. The importance of climate protection is taken into account in, amongst other things, the key performance indicator CO_2 intensity (Glossary, p. 152) (p. 103).

EnBW counters these risks using, amongst other things, an environmental management system certified according to DIN ISO 14001, which has been established at key subsidiaries (p. 101). EnBW takes the safety of the population and the protection of the environment very seriously. In this context, risks also exist due to external circumstances, such as extreme weather conditions. These risks are countered by EnBW using an emergency and crisis management system that has been implemented throughout the Group and includes comprehensive organisational and procedural measures. 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. Through its diverse range of activities in the areas of environmental, nature and species protection, EnBW also utilises the opportunity – beyond its core activities – to make a substantial contribution to improving environmental protection. Thanks to the positive public perception of these activities, they can also have a positive impact on our key performance indicator Reputation Index (p. 94).

At the same time, EnBW also faces potential risks due to the ongoing process of climate change. For example, more frequent extreme weather conditions leading to highly fluctuating water levels or limits being placed on emissions locally could have an especially negative impact on the operation of power plants and thus the security of supply (electricity grids). The operation of hydropower plants can be restricted by both a lack of or also an abundance of water. The output from thermal power plants that must be cooled could possibly be impacted by temperature limits on discharged water. Increasing volatility in the availability of wind, water and sun presents challenges in terms of planning certainty for the operation of power plants and the sale of volumes of electricity (p. 49 ff.). For this reason, the top opportunity/top risk wind fluctuations has been reported since the Integrated Annual Report 2016, although these opportunities/risks have no material effect on non-financial issues. In addition, there is uncertainty due to increasing environmental restrictions for the realisation of projects for sustainable energy generation and for the operation of power plants. These risks are managed and mitigated in internal processes using targeted control measures.

Alongside changes in physical climate parameters and other developments relating to or governed by environmental factors, regulatory guidelines and changes in the market also flow into the risk evaluation process. However, there are also opportunities such as changing customer needs (p. 94 ff.) and an increasing demand for climate-friendly products such as e-mobility. These opportunities and risks are regularly and systematically identified Group-wide. The first recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) (Glossary, p. 155) have been implemented and are communicated in the report on opportunities and risks. Building on the revision of the risk map in 2016, special focus will be placed on sustainability aspects – especially climate protection targets – and they will be anchored more deeply in the risk evaluation process in future.

Opportunity and risk position

Top opportunities / risks as of 31/12/2018

The 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 indicates whether EnBW can employ control measures to exploit the opportunities or to counteract the risks.

On the basis of the individual evaluation of the top opportunities/risks, it is clear – based on the relative level of opportunity/risk – what effects they could likely have on the adjusted EBITDA, adjusted EBIT, capital employed, retained cash flow or adjusted retained cash flow and net investment. The risks are depicted after the implementation of the risk limitation measures.

No new material opportunities and risks emerged in 2018.

Details on the top opportunities/risks, as well as other opportunities/risks relevant to the report, and their potential effects on the relevant performance indicators are listed in the following section.

Cross-segment opportunities and risks

EnBW faces general **risks from legal proceedings** due to its contractual relationships with customers, business partners and employees. To a lesser extent, we are also conducting legal proceedings relating to topics in the area of corporate law. For this purpose, adequate accounting provisions are made or, in the event of a probability of occurrence of < 50%, adequate contingent liabilities. As a consequence, there is also an opportunity of positive effects on earnings if these provisions can be reversed once again. In addition, various court cases, official investigations or proceedings and other claims are pending against EnBW. The probability of these actions being successful is, however, considered very low and thus they are not reported under contingent liabilities and other financial obligations.

In connection with these types of legal proceedings, we also recognise the **water concession risk in Stuttgart**. In the court proceedings dealing with the takeover of the water grid after the water concession in the state capital Stuttgart expires, EnBW is still striving to reach an amicable settlement. The court proceedings have been suspended several times, namely from January 2015 until the end of 2016 and from April 2018 until the end of January 2019, to give the parties the opportunity to reach an amicable settlement. Unfortunately, it was not possible to reach such an agreement due to a difference of opinion on the valuation. The next negotiations are expected to be held in September 2019. Therefore, there continues to be a risk in 2019 of losing the water grid without receipt of adequate compensation.

Strategic opportunities and risks

Participation models (previously the top opportunity/risk "Participation models and divestitures"): Opportunities and risks exist due to surplus or reduced revenue, as well as time delays, in the investment and divestiture portfolio. The majority of the planned divestitures have now been implemented. Opportunities and risks exist for the years 2019 and 2020 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.

Financial opportunities and risks

1 **Market prices of financial investments:** The financial investments managed by the asset management system (Glossary, p. 152) are subject to opportunities and risks due to price changes and other valuation changes as a result of the volatile financial market environment (p. 84). A significantly higher amount of securities allocated to the dedicated financial assets must, since 2018, be measured at fair value through profit or loss in accordance with IFRS 9. The fluctuation in the value of these securities is recognised in profit or loss and stood at €-38.5 million in the reporting year. Through corresponding effects, this could have both a positive and negative impact in 2019 and 2020 on net debt in the low to mid three-digit million euro range. For 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.

2 **Discount rate applied to pension provisions:** There is a general opportunity and risk due to any change in the discount rate applied to the pension provisions because the present value of the pension provisions falls when the discount rate increases and increases when the discount rate falls. At the end of 2018, the discount rate remained unchanged from the previous year at 1.8%. The future development of interest rates could have a positive impact in the low three-digit million euro range or a negative impact in the low four-digit million euro range on net debt in 2019 and 2020. Against the background of the expected development of interest rates in future, we currently identify a balanced level of opportunity and risk in this area.

3 **Liquidity:** Due to unforeseeable developments, especially margin payments, unused project funds or tax issues as well as financial market crashes, the Group's liquidity planning is subject to uncertainty that could lead to deviations between actual payments and planned payments. In general, there is also a risk of additional liquidity requirements if the rating agencies downgrade the credit rating of EnBW (p. 87). The risk of margin payments is increasing primarily as a result of rising trading volumes, increasing market prices and greater volatility on the energy market. Overall, these effects could have an indirect positive or negative impact in the mid three-digit million euro range on the key performance indicator ROCE in 2019 and 2020. We currently identify a balanced level of opportunity and risk in this area.

Compliance opportunities and risks

Compliance risk assessments focus, in particular, on assessing risks and defining appropriate preventative measures in the compliance risk areas of corruption, antitrust law and data protection.

Risks for which EnBW derives measures for fighting corruption and bribery primarily exist in sales activities relating to local authority/political business when dealing with public officials. Important preventative measures, especially training and advisory services, are described on p. 57 f.

In addition, there are antitrust risks in the sales activities of some subsidiaries that could result in fines and damage reputation and also have significant strategic implications. This risk is countered by the joint preventative measures of the compliance and legal departments.

The incorrect handling, or illicit disclosure or use, of personal data poses data protection risks. This risk exists in view of the digital transformation of many business activities. Advisory and awareness services and process controls are in place to guarantee adherence to legal data protection requirements in the Group. Company-specific measures are coordinated via the compliance and data protection department.

Sales segment

Financial opportunities and risks

4 **Competitive environment:** There is a risk that the continued tense competitive situation for all EnBW brands in the electricity, gas and energy solutions business could have a negative effect on the customer base, sales volumes and price levels. There is still a willingness amongst customers to switch suppliers and the pressure on prices remains. 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 (p. 48 ff.). Alongside the traditional supply of electricity and gas, EnBW sees good opportunities here also for offering its customers innovative energy solutions in the areas of energy technology in the home, e.g. with products such as photovoltaic storage systems, the area of corporate energy efficiency and also electromobility (p. 94 ff.). The aim is to generate corresponding earnings contributions for EnBW. This could result in both a positive or negative effect in 2019 and 2020 on the key performance indicator adjusted EBITDA in the low single-digit million euro range. We currently identify a low level of opportunity and risk in this area.

Grids segment

Strategic opportunities and risks

Recognition of costs for high-voltage direct current (HVDC) transmission technology: TransnetBW plans to set up new connections using high-voltage direct current transmission technology (HVDC) (Glossary, p. 153) with other transmission system operators. A regulation stipulating the use of underground cabling also applies to the SuedLink project. In both projects, there are currently general risks of potential delays and additional costs, as well as a low level of risk that the necessity for these transmission lines might no longer be confirmed in a new Network Development Plan.

Financial opportunities and risks

Year-end balance on the EEG bank account: The 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 deficit or surplus on the account balance can have a temporary positive or negative effect on the calculation of the net debt of EnBW, respectively. As of the reporting date on 31 December 2018, there was a surplus in the mid three-digit million euro range on the EEG bank account of our subsidiary TransnetBW. Due to the EEG cost allocations (Glossary, p. 153) defined for 2019, we anticipate a positive value for the bank account for 2019.

Renewable Energies segment

Strategic opportunities and risks

5 **Political and economic environment in Turkey:** EnBW has been commercially active in Turkey for many years in the expansion of energy generation from wind power and hydropower. In the past few years, the economic and political framework conditions in Turkey have deteriorated noticeably. EnBW is continuing to monitor these developments very closely, especially because it has a duty of care for those employees working in Turkey. There has been an increased security risk for a number of years, although no immediate risk to local employees can currently be identified. EnBW is still in regular contact with the German embassy, the German Consulate General, our partner Borusan and other German companies active in Turkey so that it will be able to identify any negative developments as early as possible and respond in good time.

Financial opportunities and risks

6 **Fluctuations in wind energy yield:** There is a general opportunity or risk for wind power plants due to wind fluctuations because 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 in our planning, wind reports were created. In addition, measurement campaigns are being carried out up to the end of 2020 to evaluate wind speeds. Nevertheless, wind fluctuations could by their nature have a positive or negative effect on the key performance indicator adjusted EBITDA and on the key performance indicator internal financing capability in the low double-digit million euro range in 2019 and 2020. We currently identify a generally lower level of opportunity and risk in this area.

Generation and Trading segment

There are general risks associated with the operation and dismantling of nuclear power plants.

During the dismantling of nuclear power plants, there is an additional risk of a delay in the return of waste to the local **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.

At the end of 2018, the remaining provisions held by EnBW were revalued as part of the regular examination of the discount rate and escalation rate. Due to changes in these kinds of assumptions in the future, we currently identify a low level of opportunity and risk for the remaining **nuclear provisions**. Depending on market developments and the framework conditions related to the Energiewende, there is a general risk of a negative impact on earnings due to **impairment losses on power plants and impending losses for onerous contracts for electricity procurement agreements**.

Operative opportunities and risks

7 **Availability of nuclear power plants:** There is a general risk that exogenous and endogenous factors will 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 positively or negatively impact the operating result. In the first half of 2019, the risk of a temporary shutdown of KKP 2 will increase due to the upgrading of the reactor building crane. The availability of the nuclear power plants could have a positive or negative impact in the low double-digit million euro range in 2019 and a positive impact in the low single-digit million euro range or a negative impact in the low double-digit million euro range in 2020 on the key performance indicator adjusted EBITDA and the key performance indicator internal financing capability. We currently identify a relatively low level of opportunity and risk in this area.

8 **Operation and dismantling of nuclear power plants:** At the two power plant blocks GKN I and KKP 1, there is a possibility of delays and additional costs due to an increase in complexity and expenses during the dismantling and disposal process. Deadlines and costs are being permanently monitored and controlled within a strategic dismantling project. This could result in opportunities and risk with an effect on the net debt in the mid double-digit million euro range in 2019 and 2020. We currently identify a relatively low level of opportunity and risk in this area.

Financial opportunities and risks

9 **Hedging** (Glossary, p. 153)**:** When selling generated electricity volumes, EnBW is exposed to the risk of falling electricity prices and the risk of the unfavourable development of fuel prices in relation to electricity prices. The concept underlying our hedging strategy not only limits risk but also seeks to exploit opportunities. The hedging instruments utilised in 2018 were forwards, futures and swaps. The EnBW Group has exposure to foreign exchange risks from procurement and the hedging of prices for its fuel requirements, as well as from gas and oil trading business. This could have a positive effect in 2020 on the key performance indicator adjusted EBITDA and on the key performance indicator internal financing capability in the mid double-digit to low three-digit million euro range. We currently identify a high level of opportunity for 2020 in the area of hedging due to increasing fuel and CO_2 prices. Further information can be found in the section "Accounting for financial instruments" in the notes to the consolidated financial statements (www.enbw.com/report2018-downloads).

10 **Power plant optimisation:** Following the conclusion 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 (Glossary, p. 153), through the sale of system services (Glossary, p. 154) and through placements on the spot and intraday trading platforms (Glossary, p. 154). However, regulatory interventions continue to have a strong influence. In particular, fluctuating revenues from system services and volatility on the forward and spot markets (Glossary, p. 153, 154) could have a positive or negative effect on the key performance indicator adjusted EBITDA in 2019 and 2020 in the low double-digit million euro range. We currently identify a low level of risk and opportunity 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:

Unplanned shutdown of GKN II: The maintenance work has been completed. This risk – which was reported during the course of the year – thus no longer exists.

Link to the key performance indicators

The top opportunities/risks can have an impact on our key performance indicators, whereby the effects on the non-financial key performance indicators are potential in nature and have thus been shown less boldly in the following diagram. In the past financial year, these links were not monitored individually.

Linking the top opportunities / risks with the key performance indicators

Key performance indicators: Financial performance indicators (A–C); Strategic performance indicators (D–G); Non-financial performance indicators (H–N)

	Top opportunities / risks	A	B	C	D	E	F	G	H	I	J	K	L	M	N
1	Market prices of financial investments														
2	Discount rate applied to pension provisions														
3	Liquidity			●											
4	Competitive environment	●	●	●	●				○	○	○	○			
5	Political and economic environment in Turkey			●					○						
6	Fluctuations in wind energy yield	●	●	●			●								○
7	Availability of nuclear power plants	●	●	●				●	○						
8	Operation and dismantling of nuclear power plants	●	●	●				●							
9	Hedging	●	●	●				●							
10	Power plant optimisation	●	●	●				●							○

Cross-segment (1, 2, 3)
Sales (4)
Renewable Energies (5, 6)
Generation and Trading (7, 8, 9, 10)

● Direct effect
○ Potential effect

A Adjusted EBITDA
B Internal financing capability
C ROCE

Total share of adjusted EBITDA:
D "Customer proximity" / Sales
E Grids
F Renewable Energies
G Generation and Trading

H Reputation Index
I EnBW / Yello Customer Satisfaction Index
J SAIDI (electricity)
K Employee Commitment Index (ECI)

L LTIF
M Installed output of RE and share of generation capacity accounted for by RE
N CO_2 intensity

Overall assessment by the Group management

The risk situation for the EnBW Group increased slightly in 2018. Changes to the framework conditions for the entire sector of energy companies are continuing. Uncertainties with respect to risk potential and payment flow have reduced. Due to higher fuel prices and a recovery in the CO_2 prices, 2018 was thus also characterised by an upwards trend in electricity prices. EnBW still faces numerous factors that pose a danger to planning certainty and thus the achievement of its economic targets, and that have high risk potential, such as regulatory requirements and laws dealing with sustainable energy generation. This has far-reaching consequences for the operating business of the EnBW Group and places a burden on its earnings potential.

The persisting competitive and market risks could influence the operating result, financial position and net assets. At the same time, the Energiewende offers a multitude of opportunities to develop new models for future business segments. We will resolutely pursue these with our revised post 2020 strategy – which is based on the EnBW 2020 strategy that has been successfully implemented up to now. For example, the EnBW Group believes there are opportunities in a diverse range of customer-oriented measures such as innovative energy solutions in the areas of energy technology, e.g. photovoltaic storage systems, corporate energy efficiency and electromobility. The commercial development of environmentally friendly and CO_2-efficient energy solutions will be resolutely pushed forward. The implementation of our post 2020 strategy aims to secure the future viability of the company and tap into this potential for growth.

Some risks that exist or existed for EnBW have reduced or been eliminated during the course of 2018. However, additional risks have also emerged or were exacerbated. No risks currently exist that might jeopardise the EnBW Group as a going concern.

Opportunity and risk position 2018