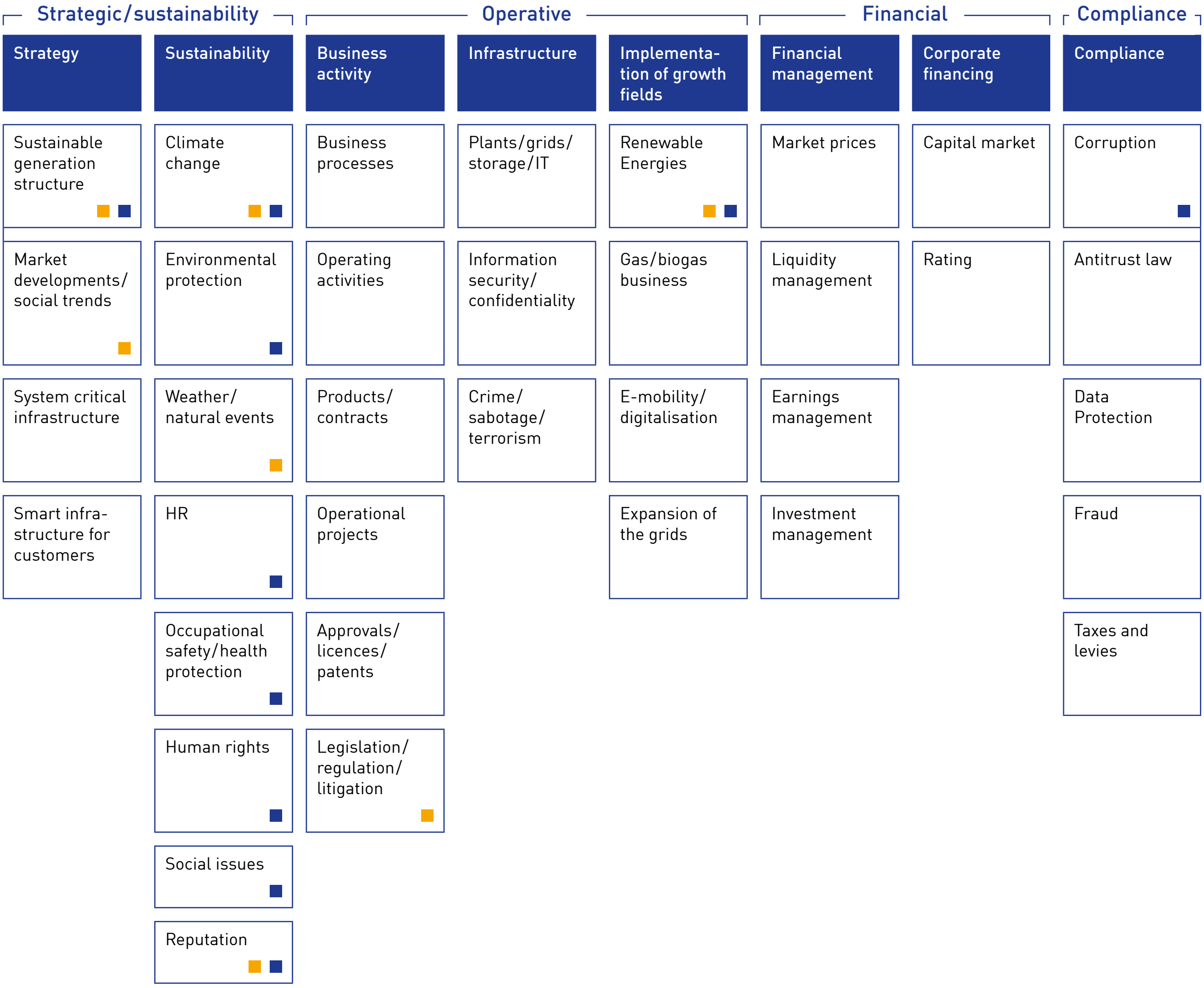
Report on opportunities and risks

Principles of the integrated opportunity and risk management system

Opportunity and risk map



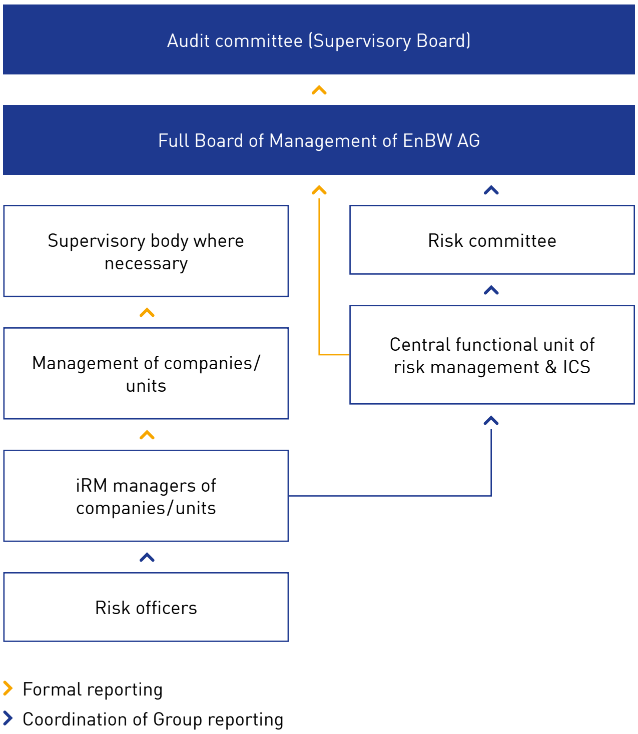
■ Task Force on Climate-related Financial Disclosures (TCFD) ■ Corporate social responsibility (CSR)

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, we define 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 well-known throughout the Group is utilised. The risk map is used to explicitly consider possible opportunities and risks that affect the sustainable orientation of our company.

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, from p. 139) are also taken into account. In addition, the iRM process is also subject to ongoing development within the scope of digitalisation.

Structure and processes of the integrated opportunity and risk management system

Structure and process of the iRM system



The structures and processes of the iRM are well-known throughout the Group. 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 units/companies – is responsible for clarifying relevant issues from various Group perspectives, as well as for determining selected top opportunities/risks.

The iRM is tested annually by the Group auditing department with a focus on different main themes each year and the results of the test are then presented to the Supervisory Board in the form of a so-called effectiveness report. 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. In the process, they are allocated to one of seven relevance categories on the basis of quantitative and qualitative criteria for each of the four dimensions: strategic/sustainability, operational, financial and compliance.

The opportunities and risks are evaluated within the medium-term planning period. As long as a financial evaluation of the opportunities and risks is possible, they are allocated to relevance classes 0 to 4 if they have a value in the range from less than €0.2 million up to less than €50 million within the medium-term planning period. From relevance class 5 and above and with a probability of occurrence of over 50%, the opportunities and risks are generally included in the Group report on opportunities and risks. This corresponds to €50 million within the medium-term planning period. The top risks/opportunities and the 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), the retained cash flow or the adjusted retained cash flow, the net investment or the adjusted net investment (with any associated impact on the internal financing capability) and the net debt are considered. Alongside these financial effects, opportunities and risks can also have impacts on the other key performance indicators (p. 43 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. 100) 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	Operative	Financial	Compliance
	Achievement of strategic targets, sustainability targets, e.g. climate protection, environmental protection, reputation	Achievement of business targets, functional processes, retaining added value, customer/external effects	Achievement of financial targets, generally in accordance with medium-term planning or approved (project) budgets	Compliance with legal/official regulations and internal regulations
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
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 reporting level

Structure and processes of the accounting-related internal control system

Principles

An accounting-related internal control system (ICS) has been 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 the level of the individual companies and at a 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.

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 with 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 key companies, 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. The ICS officer at Group level assists the companies/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, and with the 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 companies/units, significant items in the financial statements and processes including their associated control measures.

The defined processes and controls are recorded in a central documentation system. The effectiveness of the various control activities is then assessed. If any control weaknesses are identified, their effect on the financial statements is evaluated. The results are reported at both company or unit level and at Group level. Furthermore, the Group auditing department performs ICS reviews as part of its risk-oriented audit planning.

Non-financial declaration

As part of the non-financial declaration, we closely analyse the related opportunities and risks in the areas of compliance, social engagement and procurement, as well as in the customers and society, employees and environment goal dimensions. In order to guarantee that the requirements for a non-financial declaration are fulfilled, the established iRM methods and the associated process are used. 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, from p. 139). You can find further information on this subject on p. 122.

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 one of the individual issues. 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 task of the compliance management system, which comprises regular risk assessments of this type. Risks related to fighting corruption and bribery are addressed on p. 49 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. 53 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. 59 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. An increase in civil society activity in this context can in turn result in an increase in reputational risks. We are in constant contact with representatives from civil society and keep them informed about the advances made and challenges faced in all sustainability topics (p. 60 f.).

In preparation for future (liquid) gas contracts, we carried out further (preliminary) assessments of the sustainability and compliance of producers from different countries as part of the process for auditing business partners. No material human rights risks were identified in the supply chain for the USA as a potential source of supply. We identified no issues in connection with other producers either that would necessitate a more in-depth analysis.

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, the Reputation Index (p. 81). 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, from p. 139) and product options, as well as through processes more oriented to the customer. EnBW also continued to expand its range of sustainable energy industry services and energy solutions in 2019 and targeted its sales activities in this direction (p. 81 f).

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. 83 f.).

Occupational safety: Risks generally exist in the areas of occupational safety and health protection in our business activities. We counter 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. We also view these measures as an opportunity to preserve the capacity of our 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 for companies controlled by the Group and LTIF overall (p. 86 f.) in the employees goal dimension.

Environment goal dimension

Expansion of renewable energies: Risks generally exist in the approval and auction process. These risks can result in delays to the further expansion of renewable energies. 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. 87 f.).

Climate protection: Risks generally exist in the area of environmental protection due to the operation of power generation and transmission plants with possible consequences for the air, water, soil and nature. The importance of climate protection is taken into account in, for example, the key performance indicator CO_2 intensity (Glossary, from p. 139) (p. 88 f.).

We counter these risks using, amongst other things, an environmental management system certified according to DIN EN ISO 14001:2015, which has been established at key subsidiaries (p. 87). We take 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. We counter these risks using comprehensive organisational and procedural measures to reduce their impact. We ensure that the risks posed by crisis and emergency situations are mitigated quickly, effectively and with a coordinated approach through regular crisis management exercises and other measures. Through our diverse range of activities in the areas of environmental, nature and species protection, we also utilise the opportunity – beyond our 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. 81).

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 a negative impact especially 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. 41 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 through 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. 81 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, from p. 139) 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 is placed on sustainability aspects – especially climate protection targets – and they will be anchored more deeply in the risk evaluation process in future. Therefore, we have closely examined the significance of sustainability and climate protection themes for the business model and aim to implement measures and set targets to orientate our risk management system even more towards climate-related risks (p. 33 and 87).

Opportunity and risk position

The diagram on the following page 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 how EnBW can employ control measures to exploit the opportunities or to counteract the risks.

The individual evaluations of the top opportunities/risks tell us – based on the relative level of opportunity/risk – what effects they could have with a high probability of occurrence on our key performance indicators in the finance goal dimension: adjusted EBITDA, internal financing capability, ROCE and net debt. The risks are depicted after the implementation of the risk limitation measures.

The following opportunities and risks were new in 2019:

- Obligation to pay EEG cost allocations (Glossary, from p. 139) for the company's own and jointly owned power stations
- Obligation to pay EEG cost allocations for leasing models
- Obligation to pay EEG cost allocations for dismantling
- Phase-out of coal power: early decommissioning of power plants

Top opportunities/risks as of 31/12/2019

Top opportunities/risks

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
11 Obligation to pay EEG cost allocations for the company's own and jointly owned power stations
12 Obligation to pay EEG cost allocations for leasing models
13 Obligation to pay EEG cost allocations for dismantling
14 Phase-out of coal power: early decommissioning of power plants

Cross-segment | Sales | Renewable Energies | Generation and Trading | New opportunity/New risk

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

Our company faces general **risks from legal proceedings due to our 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, the state capital and EnBW are 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 court hearings are expected to be held in March 2020. Therefore, there continues to be a risk in 2020 of losing the water grid without receipt of adequate compensation.

Financial opportunities and risks

1 **Market prices of financial investments:** The financial investments managed by the asset management system (Glossary, from p. 139) are subject to opportunities and risks due to price changes and other valuation changes as a result of the volatile financial market environment (p. 72). 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 €335.5 million in the reporting year (previous year: €-38.5 million). Through corresponding effects, this could have either a positive and negative impact in 2020 and 2021 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. On the reporting date for the annual financial statements of the Group in 2019, the discount rate stood at 1.1% in comparison to the previous year (1.8%). The future development of interest rates could have a positive impact in the low four-digit million euro range or a negative impact in the low to mid three-digit million euro range on the development of net debt in 2020 and 2021. Against the background of the expected development of interest rates in future, we currently identify an increased level of opportunity and a lower level of risk.

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. 72 f.). The risk of margin payments is increasing primarily as a result of rising trading volumes and greater volatility on the energy market. These effects could have a total positive or negative impact in the mid three-digit million euro range on net debt in 2020 and 2021, as well as an indirect impact on the key performance indicator ROCE via capital employed and on internal financing capability via the adjusted net investment. 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 we derive 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. 49 f.

In addition, there are antitrust risks in the sales activities of some subsidiaries that could result in fines and damaged 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. These risks exist 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. In the future, there will still be pressure on prices and a willingness amongst customers to switch suppliers. 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. 41 ff.). Alongside the traditional supply of electricity and gas, we see good opportunities here also for offering our 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. 81 ff.). The EnBW subsidiaries Plusnet and NetCom BW should grow together and play an even stronger role on the market in the future. We believe that this is also an important step in the expansion of sustainable infrastructure and should achieve corresponding earnings contributions for our company. This could have both a positive or negative impact in the low single-digit million euro range on the key performance indicator adjusted EBITDA in 2020 and 2021 and thus an indirect impact on the key performance indicator internal financing capability via the adjusted retained cash flow and on the key performance indicator ROCE via the adjusted EBIT. 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, from p. 139) 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 2019, there was a surplus in the low three-digit million euro range on the EEG bank account of our subsidiary TransnetBW. Due to the EEG cost allocations (Glossary, from p. 139) defined for 2020, we anticipate that the bank account balance will tend to fall in 2020 and 2021.

Renewable Energies segment

Strategic opportunities and risks

5 **Political and economic environment in Turkey:** We have 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. We continue to monitor these developments very closely, especially because we have 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. We are still in regular contact with the German embassy, the German Consulate General, our partner Borusan and other German companies active in Turkey so that we will be able to identify any negative developments as early as possible and respond in good time. This risk could have an effect on the key performance indicator ROCE in 2020 and 2021. We currently identify a low level of opportunity and risk in this area.

Financial opportunities and risks

6 **Fluctuations in wind energy yield:** There is a general opportunity or risk for wind power plants due to wind energy yield fluctuations because the amounts of electricity generated by them are subject to variations in the mean annual wind speed. These fluctuations naturally grow as we acquire more and more wind turbines. 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, these wind fluctuations could naturally have both a positive or negative impact in the high double-digit million euro range on the key performance indicator adjusted EBITDA in 2020 and 2021 and thus an indirect impact on the key performance indicator internal financing capability via the adjusted retained cash flow and on the key performance indicator ROCE via the adjusted EBIT. Following the expansion of our wind portfolio with the addition of the wind turbines at EnBW Hohe See and EnBW Albatros, we currently identify an increasing 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 2019, 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 these 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. The availability of nuclear power plants could have a negative effect in the low single-digit million euro range and a positive effect in the low double-digit million euro range on the key performance indicator adjusted EBITDA in 2020 and 2021, and thus an indirect impact on the key performance indicator internal financing capability via the adjusted retained cash flow and on the key performance indicator ROCE via the adjusted EBIT. We currently identify a rather higher level of opportunity in this area.

8 **Operation and dismantling of nuclear power plants:** For long-term major projects such as the remaining operation and dismantling of a nuclear power plant, there is a general risk that delays and additional costs may arise over the course of time due to changed framework conditions. The following issues can arise, amongst other things: delays to approvals, an increase in the amount of preparation work required for dismantling, developing buffer zones and retrofitting work and bottlenecks in the supply of the necessary resources. In addition, there is an opportunity to make cost savings due to synergies over time and also due to learning effects for subsequent dismantling activities. There could be opportunities in the mid double-digit million euro range and risks in the high double-digit million euro range that have an effect on the development of net debt in 2020 and 2021. We currently identify a balanced level of opportunity and risk in this area.

Financial opportunities and risks

9 **Hedging:** 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 2019 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 both a positive or negative impact in the low double-digit million euro range on the key performance indicator adjusted EBITDA in 2021, and thus an indirect impact on the key performance indicator internal financing capability via the adjusted retained cash flow and on the key performance indicator ROCE via the adjusted EBIT. We currently identify a balanced level of opportunity and risk in the area of hedging (Glossary, from p. 139) 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 at www.enbw.com/report2019-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, from p. 139), through the sale of system services (Glossary, from p. 139) and through placements on the spot and intraday trading platforms (Glossary, from p. 139). 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, from p. 139) could have both a positive or negative impact in the mid double-digit million euro range on the key performance indicator adjusted EBITDA in 2020 and 2021, and thus an indirect impact on the key performance indicator internal financing capability via the adjusted retained cash flow and on the key performance indicator ROCE via the adjusted EBIT. We currently identify a low level of risk and opportunity that is dependent on the development of market prices.

11 **Obligation to pay EEG cost allocations for the company's own and jointly owned power stations:** Both for its own power plants, including nuclear power plants, and for power plants in joint ownership, EnBW AG utilises the exemption from EEG cost allocations (Glossary, from p. 139) for end usage for the respective share of the power plants. There are a number of different arguments that suggest that the German Federal Network Agency and the transmission system operators could define the role of the operator differently. Possible back payments for EEG

cost allocations in previous years could have a negative impact in the low three-digit million euro range in 2020 and a negative impact in the high double-digit million euro range in 2021 on the key performance indicator adjusted EBITDA and thus an indirect impact on the key performance indicator internal financing capability via the adjusted retained cash flow and on the key performance indicator ROCE via the adjusted EBIT. We currently identify an increased level of risk in this area.

12 **Obligation to pay EEG cost allocations for leasing models:** Certain virtual slices of power plants were leased to third parties in the past. EnBW as the operator and the third party as the co-operator have assumed up to now that, due to this leasing relationship, the third party was the plant operator at the relevant site according to the EEG and was permitted to consume electricity in the spatial context of their plants free of EEG cost allocations. In general, there is a risk with these leasing models that the transmission system operators will demand back payment for the EEG cost allocations. Possible back payments for EEG cost allocations in previous years could have a negative effect in the mid double-digit million euro range in 2020 on the key performance indicator adjusted EBITDA and thus an indirect impact on the key performance indicator internal financing capability via the adjusted retained cash flow and on the key performance indicator ROCE via the adjusted EBIT. We currently identify an increased level of risk in this area.

13 **Obligation to pay EEG cost allocations for dismantling:** In the existing planning of the dismantling costs for nuclear power plants, it was assumed that the so-called "self-supply entitlement" can be used for the electricity supplied to the blocks during the post-operation and dismantling stages. Therefore, the costings for the consumption of electricity do not contain any EEG cost allocations. There is a risk that the self-supply entitlement cannot be applied, which will result in increased dismantling costs. This could have a negative effect in 2020 and 2021 on the net debt in the low three-digit million euro range. We currently identify an increased level of risk in this area.

14 **Phase-out of coal power: early decommissioning of power plants:** The version of the Coal Phase-out Act adopted by the German cabinet and its framework parameters (plans for operators regarding replacement power plants and decommissioning) are open to varying interpretations with respect to the phase-out path. In general, the later decommissioning of brown coal power plants will mean that hard coal power plants are shut down more quickly and thus even new hard coal power plants will be removed from the grid earlier. The German government does not plan to provide compensation for any power plants decommissioned after 2027. We currently identify an increased level of risk in this area.

No opportunities or risks relevant to the report have been eliminated in comparison to the previous year.

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 and long-term in nature and more difficult to measure. They 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			Strategic performance indicators				Non-financial performance indicators						
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	●	●	●				●							○
11 Obligation to pay EEG cost allocations for the company's own and jointly owned power stations	●	●	●				●							
12 Obligation to pay EEG cost allocations for leasing models	●	●	●				●							
13 Obligation to pay EEG cost allocations for dismantling														
14 Phase-out of coal power: early decommissioning of power plants	○	○	○				○	○	○					○

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

● Direct effect
○ Potential/long-term 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 for companies controlled by the Group/LTIF overall
M Installed output of RE and share of generation capacity accounted for by RE
N CO_2 intensity

Overall assessment by the management

The risk situation for our company increased further in 2019. However, we also identify increased potential for opportunities at the same time. 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 legislation 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 expansion of renewable energies is thus subject to factors that are just as difficult to plan for, as the latest developments in the area of energy generation from coal power plants demonstrate. 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, we believe that there are opportunities in a diverse range of customer-oriented measures such as innovative energy solutions, as well as in the areas of electromobility and telecommunications. 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.

No risks currently exist that might jeopardise the EnBW Group as a going concern.

Opportunity and risk position 2019